

Annual Report 2018/2019

Contents

Letter from the Chairman of the Board of Managing Directors	5
Report of the Supervisory Board	7
Overview	7
Topics of the Supervisory Board plenary meeting	7
Activities of the Committees	8
Audit of the annual financial statements and consolidated financial statements	9
Review and approval of the dependent company report	10
Review of the combined separate non-financial report	10
Personalia – Supervisory Board	11
Personalia – Board of Managing Directors	11
Combined Management Report for the Financial Year 2018/19	12
1. Basic information on the Group	13
2. Economic report	15
Macroeconomic and industry-specific conditions	15
Significant events in the period under review	16
Net assets, financial position and results of operations.....	18
Financial and non-financial performance indicators	22
3. Risk report	24
Risk management organisation	24
Regulatory capital resources and risk-bearing capacity	25
Risk strategy	28
Counterparty default risk.....	29
Liquidity risk	36
Market price risk.....	37
Non-financial risks.....	39
Strategic risks	43
Business risk.....	43
Participation risk.....	44
Overall assessment of the risk situation	44
4. Report on opportunities	45
5. Outlook	46
Future general economic conditions	46
Net assets	47
Liquidity situation	47
Leverage ratio	48
Results of operations	48
Overall assessment	48
6. Disclosures in accordance with section 312 AktG	49
7. Corporate Governance Declaration	50

Combined Annual Financial Statements of the Group and IKB Deutsche Industriebank AG for the Financial Year 2018/19	51
Consolidated balance sheet as at 31 March 2019	52
Balance sheet of IKB Deutsche Industriebank AG as at 31 March 2019	54
Consolidated income statement for the period from 1 April 2018 to 31 March 2019	56
Income statement of IKB Deutsche Industriebank AG for the period from 1 April 2018 to 31 March 2019	58
Consolidated cash flow statement	60
Notes on the consolidated cash flow statement	62
Notes to the combined annual financial statements of the Group and IKB Deutsche Industriebank AG	63
Applied accounting principles	63
(1) Preparation of the annual financial statements and consolidated financial statements.....	63
(2) Changes in presentation and measurement.....	63
(3) Consolidated group.....	64
(4) Consolidation methods.....	65
Accounting policies	66
(5) Receivables.....	66
(6) Provisions for possible loan losses.....	66
(7) Securities.....	67
(8) Securities repurchase and lending transactions.....	68
(9) Equity investments and investments in affiliated companies/tangible assets/ intangible assets/other assets.....	68
(10) Lease assets.....	68
(11) Deferred taxes.....	69
(12) Excess of plan assets over post-employment benefit liability.....	69
(13) Liabilities.....	69
(14) Provisions.....	70
(15) Contingent liabilities and other obligations.....	71
(16) Extraordinary result.....	71
(17) Derivatives.....	71
(18) Currency translation.....	72
Notes on the balance sheet	73
(19) Structure of maturities of selected balance sheet items by remaining term.....	73
(20) Foreign-currency assets.....	73
(21) Repurchase agreements.....	74
(22) Receivables from affiliated companies and other investees and investors.....	74
(23) Fixed assets.....	75
(24) Subordinated assets.....	77
(25) Negotiable securities.....	78
(26) Disclosures on investment funds.....	78
(27) Leases.....	79
(28) Other assets.....	79
(29) Prepaid expenses.....	80
(30) Deferred tax assets.....	80
(31) Excess of plan assets over post-employment benefit liability.....	80
(32) Liabilities to affiliated companies and other investees and investors.....	81
(33) Foreign-currency liabilities.....	81
(34) Other liabilities.....	82
(35) Deferred income.....	82
(36) Pension provisions.....	82
(37) Subordinated liabilities.....	82

(38) Fund for general banking risks.....	83
(39) Development of capital.....	83
(40) Contingent liabilities and other obligations.....	90
(41) Other financial obligations.....	90
(42) Off-balance sheet transactions	91
Notes on the income statement	93
(43) Income by geographical market.....	93
(44) Income and expenses from leases	93
(45) Extraordinary income and expenses.....	93
(46) Other operating expenses.....	94
(47) Costs of loss absorption.....	94
(48) Income taxes.....	94
(49) Income from profit transfer agreements.....	94
(50) Administrative and brokerage services for third parties	95
(51) Other operating income.....	95
(52) Effects of significant changes in the consolidated group on the income statement	95
Other disclosures	97
(53) Consolidated group as at 31 March 2019.....	97
(54) List of shareholdings as at 31 March 2019	98
(55) Significant shares in voting rights	99
(56) Disclosure of auditor's fees	99
(57) Related party transactions	100
(58) Transfer of collateral for own liabilities and contingent liabilities	100
(59) Forward transactions.....	100
(60) Derivative financial instruments not recognised at fair value.....	101
(61) Unrealised gains and losses	101
(62) Remuneration of the Board of Managing Directors	103
(63) Remuneration of the Supervisory Board.....	103
(64) Remuneration of the Advisory Board	104
(65) Loans extended to members of executive bodies and the Advisory Board.....	104
(66) Average number of employees for the year (calculated on the basis of full-time employees)	104
(67) Legal disputes	104
(68) Significant events after 31 March 2019.....	105
(69) Executive bodies	105
Independent auditor's report.....	107

Letter from the Chairman of the Board of Managing Directors

Ladies and Gentlemen,

IKB has continued to sharpen its profile as a corporate bank over the past financial year. We expanded our loan book with the high-end German Mittelstand, disposed further non-core activities, separated from legacy issues and made significant cost savings. This is all the more encouraging as general conditions were challenging. Sustained low interest rates, strict regulation and intense competition for mid-cap clients have been seen for some time and this is now being compounded by the slowdown in the German economy.

The volume of new business with our mid-cap clients remained stable at € 3.6 billion and we continue to ensure an appropriate risk/return profile. Every new loan must be profitable in its own right. Due to our strong expertise in the public programme loan business, we increased the share of public programme loans to 37% of our total new business volume.

Internationally successful medium-sized companies are particularly affected by current trade policy disruption and are more restrained when making investment decisions. We have taken the increasing economic risks into account with a more cautious earnings outlook for the next few years resulting in a € 44 million write-down of deferred tax assets so that we are showing a consolidated net result of € -41 million for the 2018/19 financial year.

Nevertheless, we continued to improve our equity position. As of 31 March 2019, the fully loaded CET 1 ratio amounted to 12.1% for the IKB Group, the leverage ratio (fully loaded) amounted to 7.2%. The bank has a solid capital base and regards itself well prepared for future banking supervisory projects.

Applying the internal ratings-based approach (IRBA) for the first time also contributed to improve the equity position. BaFin approved the use of the IRBA for the corporate rating at IKB a few months ago. This means that it is no longer necessary to use the standard approach to risk-weight calculation, and instead use our internal client rating. The application of the IRBA resulted in a reduction of risk-weighted assets and led to an increase in our regulatory capital ratios.

By streamlining the liabilities, we completely closed the chapter on debtor warrants. Remaining obligations of € 180 million were repurchased in the second half of the financial year. There are therefore no more debtor warrant claims, which had originally amounted to € 1.15 billion.

There is also good news in terms of the disputed tax issue before the Düsseldorf Fiscal Court. This was finally ruled in our favour and the Düsseldorf tax authorities reimbursed us € 162 million for the corporation tax, solidarity surcharge and interest. This decision also means that IKB is no longer at risk of having to pay trade tax and related interest.

After years with very low risk costs, in which we generated income through releases of risk provisions, we have now returned to a certain degree of normality in which risk provisioning represents an expense item. The ratio of non-performing loans, in accordance with the EBA definition, remained a very low 1.4% as of 31 March 2019.

Nonetheless, our results also show that the bank must continue to work hard to achieve sustainable profitability in the long run. In terms of costs, we reduced administrative expenses by 10%. Our aim is to achieve further savings through ongoing cost-cutting and optimisation measures.

IKB will continue on its path of growth in the Mittelstand business. We focus on credit and structuring advisory services, as well as developing financing solutions for our customers which do not use our balance sheet. This includes supporting companies to use the capital markets, for example by issuing promissory notes or bonds.

We see significant potential in the use of public programme loan schemes for medium-sized companies, in particular with regard to financing innovation and energy efficiency investments. IKB intends to take advantage of these opportunities to support economic, social and environmental sustainability.

Our close customer relationships are key to sustainable success. An appropriate risk/return ratio will continue to be key to IKB's lending policy in the coming financial year. Offering comprehensive advice and tailored financing solutions, it is our aim to help strengthen medium-sized companies in Germany.

Düsseldorf, June 2019

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

Dr Michael H. Wiedmann

Report of the Supervisory Board

In the financial year 2018/19, the Supervisory Board fulfilled the duties and obligations incumbent upon it in accordance with law, regulations, Articles of Association and its by-laws. The Supervisory Board supervised management by the Board of Managing Directors and advised it on the management of the company. The Supervisory Board was involved in all decisions of fundamental importance to the bank.

Overview

In its supervisory and advisory activities, the Supervisory Board received regular, timely and comprehensive reports from the Board of Managing Directors, in both oral and written form. The Board of Managing Directors informed the Supervisory Board of the business operations and the economic and financial development of the IKB Group and IKB AG. Other focal points of regular reporting were the general development of IKB and the development of the Group's risk situation. Furthermore, the Supervisory Board addressed Group planning and the actual development of business in the financial year 2018/19.

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.

A total of 27 meetings of the Supervisory Board and its committees were held. Where necessary, individual resolutions were passed by circular between meetings. The Chairmen of the Supervisory Board and the Board of Managing Directors also consulted regularly on key developments and decisions. If members of the Supervisory Board were unable to attend the meetings, they were absent with valid excuse.

Topics of the Supervisory Board plenary meeting

The Supervisory Board held five meetings in the financial year 2018/19. Regular meetings were held in June, September, November and March. The Supervisory Board also convened in September, following the Annual General Meeting for the financial year 2017/18, for a constitutive meeting. At all regular Supervisory Board meetings in the financial year 2018/19, the Supervisory Board was able to form a detailed opinion on the general development of the bank based on written and oral reporting by the Board of Managing Directors. In this respect, the Board of Managing Directors also provided the Supervisory Board with explanations concerning the development of business volume and result of the Group. Furthermore, the Board of Managing Directors examined in detail the development in the individual business segments and reported on the capital position, financial situation including taxes and Group risk. The Supervisory Board was continuously informed by the Board of Managing Directors about the regulatory capital position of the IKB Group and the status of material legal disputes.

At its meeting convened to review the annual financial statements in June 2018, the Supervisory Board examined inter alia the annual financial statements, consolidated financial statements and the dependent company report and the non-financial report prepared for the first time by the Board of Managing Directors for the past financial year 2017/18. The Board of Managing Directors also gave a comprehensive written and oral explanation of the risk situation of the IKB Group including the recovery indicators defined in the recovery plan. Group Internal Audit and the Chief Compliance Officer gave their respective annual reports for

the 2017/18 financial year. Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft ("EY"), Stuttgart, 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 2018 with the combined management report and dependent company report, and the combined non-financial report for the financial year 2017/18. 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 and against the combined non-financial report. The report of the Supervisory Board for the financial year 2017/18 was also approved. Further topics included the determination of the target agreements for the members of the Board of Managing Directors and the verification of target achievement and corresponding determination of the variable remuneration for the individual members of the Board of Managing Directors for the financial year 2017/18, as well as the verification and decision on the granting of the retained variable remuneration for the members of the Board of Managing Directors for past financial years.

At its following quarterly meetings, the Supervisory Board deliberated respectively on the business development and Group risk including the recovery indicators stipulated in the recovery plan and also addressed in this context the regulatory capital position, especially with respect to the further supervisory requirements. The meetings in each case also addressed the quarterly Group Internal Audit report. The Board of Managing Directors informed the Supervisory Board on all 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. Both business and risk strategy of IKB and Group planning were also subject of the Supervisory Board meetings in the reporting period. Remuneration matters were topics on the agenda as well such as the Report of the Remuneration Officer and the implementation of the new German Remuneration Ordinance for Institutions 3.0. The Supervisory Board also dealt with quantitative and qualitative medium-term HR planning.

In addition, the Supervisory Board dealt with the Annual General Meeting of IKB in September 2018 and adopted the respective resolution proposals of the Supervisory Board to the Annual General Meeting. The Supervisory Board dealt in particular with the proposed resolutions for the forthcoming elections to the Supervisory Board.

IKB's Advisory Board, which was formed to provide business advice and a close exchange of content on economic and economic policy issues, was also newly appointed or reappointed until the end of the 2021/22 financial year. The Supervisory Board also adopted a new version of the rules of procedure of the Advisory Board.

Finally, the Supervisory Board also dealt with the non-financial statement to be submitted by the Board of Managing Directors and decided not to have a voluntary external audit of the non-financial report for the 2018/19 financial year carried out.

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 held ten meetings, the Remuneration Control Committee held four meetings, the Nomination Committee held three

meetings and the Risk and Audit Committee held six meetings in the 2018/19 financial year, one of which was held jointly with the Supervisory Board Executive Committee.

The Supervisory Board Executive Committee essentially prepared the meetings of the Supervisory Board and focused on business development and the strategic orientation of the bank and the Group. In addition to the business and risk strategy, the sales strategy was also intensively discussed in this financial year. In addition, several meetings focused on the further restructuring of the Bank's liabilities side, which the Supervisory Board Executive Committee dealt with intensively before resolutions were passed. The Supervisory Board Executive Committee also discussed and passed resolutions on the sale of IKB's main building in Düsseldorf and other management measures requiring approval, such as various resolutions on large exposures. In addition, the Supervisory Board Executive Committee deliberated on the preparation of the Annual General Meeting held in the financial year.

The activities of the Risk and Audit Committee focused on monitoring accounting procedures, the efficiency of the internal control system, risk management, the internal audit system, risk strategy and compliance as well as the audit of the financial statements. The Committee deliberated on the preparation of the annual financial statements and the consolidated financial statements and the appointment of the auditor. The Risk and Audit Committee commissioned the auditor to carry out the audit and concluded the fee agreement with him. One focus was on reviewing the independence of the auditor in the course of which the Committee reviewed the audit fees and decided on a catalogue of permissible non-audit services (pre-approval catalogue) valid for one year, the provision of which by the auditor is possible without the further prior consent of the Risk and Audit Committee. Finally, the Risk and Audit Committee also dealt with the non-financial report 2018/19 as part of the audit of the annual and consolidated financial statements.

The Remuneration Control Committee addressed the bank's remuneration systems, especially that of the Board of Managing Directors as well. The focus here was on the adjustment of the remuneration system for the Board of Managing Directors to the requirements of the Remuneration Ordinance for Institutions 3.0. The Remuneration Control Committee also prepared the resolutions of the Supervisory Board relating to remuneration, had the Remuneration Officer explain the Remuneration Control Report, and furthermore addressed the annual review of the adequacy of the principles of the remuneration system for the members of the Board of Managing Directors.

The Nomination Committee discussed the proposals to the Supervisory Board regarding the election of Supervisory Board members by the Annual General Meeting on 5 September 2018. In addition, as part of the annual evaluation of the Board of Managing Directors and Supervisory Board, it also dealt with the joint guidelines of the EBA and ESMA on the assessment of the suitability of management body members and key function holders. The Nomination Committee furthermore fulfilled the duties incumbent upon it according to Section 25 d (11) KWG [German Banking Act].

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

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

Audit of the annual financial statements and consolidated financial statements

Acting on the proposal of the Supervisory Board, the Annual General Meeting appointed E&Y as auditors for the annual financial statements and the consolidated financial statements and for any reviews or any audits of the interim financial statements resp. interim consolidated financial statements and the interim management report resp. interim Group management report for the first half of the financial year 2018/19 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 2019. E&Y audited the annual financial statements of IKB AG and the Group and the combined management report for IKB AG and the Group and issued unqualified audit opinions. Examination of and deliberation on the annual financial statements, the consolidated financial statements and the relevant combined management report and the related written audit reports of E&Y for the financial year 2018/19 by the Risk and Audit Committee and the plenary meeting of the Supervisory Board took place on 12 resp. 13 June 2019. The auditors participated in these deliberations. At the meeting of the Supervisory Board on 13 June 2019, they reported on the key findings of their audit, including findings in respect of the internal control and risk management system relating to the accounting process of the bank, answered questions and provided additional information. There were no circumstances which gave reason to doubt the impartiality of the auditors. The auditors furthermore informed the Supervisory Board of all additional services provided by them in connection with the audit.

The Supervisory Board approved the result of the audit of the financial statements at its meeting held on 13 June 2019. According to the result of the Supervisory Board's own reviews of the annual financial statements and the consolidated financial statements and the combined management report, no objections were raised. The Supervisory Board approved the annual financial statements and the consolidated financial statements of 3 June 2019, prepared by the Board of Managing Directors, at its meeting on 13 June 2019. The annual financial statements have, therefore, been adopted.

Review and approval of the dependent company report

The report on business relationships with affiliated companies for the financial year 2018/19 (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 12 resp. 13 June 2019, first the Risk and Audit Committee and then the Supervisory Board also deliberated on and reviewed the dependent company report. The members of the Supervisory Board resp. Committees received both the dependent company report and the related audit report of the auditors in good time before the respective meeting, enabling them to address the respective contents intensively. 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 13 June 2019, they reported on the result of their audit and were available to answer questions. The Supervisory Board approved the result of the dependent company report at its meeting on 13 June 2019.

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

Review of the combined separate non-financial report

At the meetings on 12 resp. 13 June 2019, the members of the Risk and Audit Committee and the Supervisory Board also discussed and reviewed the combined separate non-financial report for the 2018/19 financial year, which was prepared by the Board of Managing Directors. They received the report in good time before the respective meeting. Based on the final result of the Supervisory Board's own examination of the combined separate non-financial report for the 2018/19 financial year, no objections were raised.

Personalia – Supervisory Board

On the side of the shareholders, Benjamin F. Dickgießer and Dr Claus Nolting, whose terms of office each ended at the close of the Annual General Meeting on 5 September 2018 were re-elected to the Supervisory Board by resolutions of the Annual General Meeting on 5 September 2018. Dr Nolting was re-elected as Deputy Chairman of the Supervisory Board and Chairman of the Risk and Audit Committee in the constituent meetings of the Supervisory Board and the Risk and Audit Committee following the Annual General Meeting. As Deputy Chairman of the Supervisory Board, Dr Nolting is again a member of the Supervisory Board Executive Committee, the Remuneration Control Committee and the Nomination Committee. Mr Dickgießer was re-elected as a member of the Supervisory Board Executive Committee, the Risk and Audit Committee, the Remuneration Control Committee and the Nomination Committee.

On the side of the employees, Mr Sven Boysen was re-elected and Mr Jörn Walde was elected for the first time to the Supervisory Board during the re-election of employee representatives at the close of the Annual General Meeting 2018. At the same time, the regular term of office of the employee representative Bernd Klein ended. At the Constitutive Meeting of the Supervisory Board Mr Boysen was elected as member of the Remuneration Control Committee, Mr Walde as member of the Risk and Audit Committee, and Nicole Riggers as member of the Nomination Committee.

The Supervisory Board thanked Mr Klein for his many years of service on the Supervisory Board.

Personalia – Board of Managing Directors

In the period under review, there were no changes in the composition of the Bank's Board of Managing Directors. By resolution of the Supervisory Board of 14 June 2018, Dr Michael H. Wiedmann was reappointed as member and Chairman of the Board of Managing Directors until 31 January 2020. Dr Jörg Oliveri del Castillo-Schulz was re-elected until 31 January 2020, and Dirk Volz until 30 November 2019. Dr Michael H. Wiedmann (Chairman), Mr Claus Momburg, Dr Jörg Oliveri del Castillo-Schulz and Mr Dirk Volz therefore continue to be members of the Board of Managing Directors.

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

Düsseldorf, 13 June 2019

The Supervisory Board



Dr Karl-Gerhard Eick

Chairman

Combined Management Report for the Financial Year 2018/19

1. Basic information on the Group

The business model of IKB Deutsche Industriebank AG (“IKB” as a synonym for the Group and “IKB AG” for the individual company) is focused on medium-sized companies, which it supports by loans and offering capital market and advisory services. In addition to providing financing from its own resources, IKB specialises in giving customers access to public programme loan schemes and to bank-independent refinancing via the capital markets. Since its formation in 1924, IKB has enjoyed a close relationship with German companies and entrepreneurs as an independent private bank with a particular focus on long-term financing for high-growth companies and ambitious projects. The Bank’s business model is built upon these long-standing, stable customer relationships and a pronounced understanding of the topics that matter to medium-sized companies.

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

In its customer business, IKB concentrates on credit and structuring advisory services (including capital market products). The integrated business strategy of regional sales, industry groups and product groups ensures solutions-oriented, high-quality support for customers. In its target customer segment, IKB has succeeded in expanding its new business and also acquiring new customers. IKB’s target customers predominantly come from the German upper midmarket and are often fast-growing companies that IKB expects to increase their sales in the next few years and whose activities have already been internationalised.

IKB has a sales network of locations that covers all regions of Germany and neighbouring areas of Western Europe. Acquisition financing business for Western Europe is operated from Germany. Germany is currently the most important market for IKB by some distance.

IKB held a share of the market for long-term corporate loans to the German manufacturing industry of 3.3% as at 31 December 2018. IKB’s market share for relevant KfW subsidy programmes was 11.8% as at the same date. IKB’s strongest competitors are the major universal banks and selected larger institutions from the public banking sector. In terms of acquisition finance, IKB works together with private equity companies.

IKB also develops financing solutions for its customers that do not affect its balance sheet. This firstly includes guiding companies onto the capital market, for example by issuing promissory notes or bonds.

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

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

As part of the supervisory review and evaluation process (SREP), banks’ business models and governance are being assessed and an economic review of the level of required capital and liquidity is being conducted on an individual basis. Based on an individual assessment of the respective bank, the supervisory authorities can then impose specific requirements in terms of capital resources in particular. The guiding principle behind the SREP is to ensure that the supervisory authorities are always comprehensively informed and hence can intervene at an early stage in the event of a deterioration in a bank’s situation. Banks’ restructuring and settlement ability is also being continuously monitored and new asset-side and liability-side structuring requirements are being imposed, e.g. in the form of a “bail-in” ratio. The significantly heightened 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 giving rise to a considerable burden that can also affect banks' business models. One example is the highly complex and, in some cases, contradictory target system for overall bank management that has arisen and will continue to arise from the various regulations. There are many diseconomies of scale for smaller banks. Regulatory requirements now affect almost all areas/processes and are interwoven throughout the entire structural and procedural organisation. Accordingly, the Bank's business model will depend to a large extent on a high degree of cost discipline, particularly when it comes to implementing regulatory provisions, the optimisation of risk-weighted assets and the anticipation of potential future regulations. Other important factors include IT security and the establishment of an IT architecture that is suitable to ensure flexible and timely reporting for the banking authorities in particular.

2. Economic report

Macroeconomic and industry-specific conditions

The global economy has lost momentum since early summer of last year. At the same time, sentiment among companies and consumers, which had peaked at the beginning of 2018, deteriorated considerably. Political conflicts, such as the ongoing trade disputes and the possibility of a no-deal Brexit, have taken their toll on the confidence of economic players. Economic momentum also slowed in China, and concern over the world's most important economic driver grew. There were also cyclical factors. In many economies, the recovery was already at an advanced stage and real gross domestic product (GDP) had exceeded production potential.

The US was one of the few major economies where real GDP growth in 2018 was higher than in 2017 at 2.9%. Fiscal stimuli, such as the comprehensive tax reform at the beginning of the year in particular, are believed to have played a major part in this. Events in the UK continue to be defined by Brexit. It is still uncertain when and how the UK plans to leave the EU.

The economy of the euro area remains highly dependent on exports, and the downturn in global demand has therefore hit its economic performance particularly hard. GDP growth slowed to 1.8%. In addition, there was substantial uncertainty stemming from the Brexit process, budget policy concerns in a handful of euro countries and rising nationalist trends in several EU countries, all of which weighed on economic confidence. Despite weaker economic momentum, the labour market continued to develop well, with unemployment in the euro area declining further.

The loss of momentum on the German economy was particularly sharp and abrupt in the summer of last year. GDP growth for 2018 as a whole amounted to 1.4%. In addition to the weaker global economic situation, problems such as the diesel scandal, the debate over bans on vehicles and major difficulties with the new worldwide harmonised light vehicles test procedure (WLTP) emissions standard contributed to lower further growth. The stagnation or marginal drop in economic output in the second half of 2018 meant the German economy had to start 2019 with absolutely no tailwind (statistical surplus of zero).

Real growth of 4.2% in equipment investment for 2018 as a whole outperformed the growth rates of the previous boom years. Although investment momentum slowed over the course of the year, the rise in production capacity through to the final quarter still indicates good investment activity.

In light of the weaker economy, many central banks have revised their monetary policy. After raising its prime rate in December 2018, the US Federal Reserve (Fed) left its interest rate corridor at 2.25% to 2.5% in January 2019. In view of the development of the world economy and the financial markets, not to mention modest inflationary pressure, it has announced that it will now be taking a patient tack.

While the European Central Bank (ECB), as previously announced, has suspended net bond purchases since the start of 2019, its Governing Council responded to the decline in economic growth by further easing monetary policy at its meeting in March 2019. It has thus extended its forward guidance on central bank interest rates, and now assumes that they will remain at their current level until at least after the end of 2019. This has also extended the period over which the ECB will be reinvesting the redemption proceeds from the bonds it acquired. It also resolved targeted longer-term refinancing operations. These are intended to help maintain the favourable lending conditions for banks, and will therefore again comprise a subsidy element. At the same time, they make it easier for banks to satisfy their liquidity requirements.

Despite the expansionary monetary policy in the euro area, there was still no significant recovery in credit growth. There were ongoing differences in terms of credit development in the member states: In Italy and Spain, the volume of loans for companies declined as against with the previous year, whereas the volume in Germany and France continued to rise. While the rates of default on corporate loans remained at a very low

level, especially in Germany, and banks were able to keep their loss allowances very low as well, interest rates on new loans remain stubbornly stable on account of the ECB's highly expansionary monetary policy, which is continuing to squeeze banks' profit margins. Surveys also indicate that lending standards for companies in Germany are generally being eased because the competition among banks is still highly intensive. Restructuring measures and regulatory requirements continued to weigh on banks' financial performance.

Significant events in the period under review

Dissenting view of the tax authorities

A final and substantive ruling on the disputed tax issue relating to section 8c of the German Corporate Income Tax Act (KStG) that was pending before the Düsseldorf Fiscal Court has now been issued. The tax authorities reviewed and accepted IKB's request to apply the exception known as the restructuring clause that was reintroduced by the 2018 German Tax Act. Corresponding tax amendment notices have been issued. This resulted in total income of around € 162 million in the 2018/19 financial year, around € 112 million of which was recognised as tax income and around € 50 million of which as other operating income. Background information and further comments can be found under "Legal risk" in "section 3. Risk report".

Changes in the Group

Sale of leasing companies

On 28 and 29 June 2017, IKB entered into an agreement on the sale of the IKB Leasing Group to PEAC Holdings (Germany) GmbH, a subsidiary of an investment fund administered by HPS Investment Partners, LLC ("HPS"). It was agreed that the purchase price would not be disclosed. The transaction was completed on 28 February 2018. Prior to closing, IKB Leasing Finance IFA S.A., Bucharest, Romania, and IKB Leasing S.A., Bucharest, Romania, as well as IKB Leasing SR, s.r.o., Bratislava, Slovakia, were spun off from the IKB Leasing Group and transferred to IKB companies. All the shares in IKB Leasing Finance IFA S.A., Bucharest, Romania, and IKB Leasing S.A., Bucharest, Romania, were sold to companies of the BNP PARIBAS LEASING Group in the financial year on 8 June 2018. The deal was closed on 27 November 2018. The business operations of IKB Leasing SR, s.r.o., Bratislava, Slovakia, were also sold and transferred to SG Equipment Finance Czech Republic s.r.o., Bratislava branch, Slovakia, on 1 October 2018. Forfeited lease receivables are still held to a certain extent. By selling the IKB Leasing Group in the 2017/18 financial year and its two non-German leasing companies in the current financial year, IKB is pressing ahead with its strategy of focusing on its core business with high-end midmarket companies.

Streamlining of the investment portfolio

IKB continued to streamline its investment portfolio in the financial year 2018/19:

- Tempelhofer Hafen GmbH & Co. KG was dissolved effective 31 December 2018.
- equiNotes Management GmbH was dissolved effective 31 December 2018.
- Feldmühleplatz 1 Verwaltungsgesellschaft mbH was merged with ISTOS Beteiligungsverwaltungs- und Grundstücks-Vermietungsgesellschaft mbH by way of merger agreement dated 5 July 2018 and thus ceased to exist.
- By way of spin-off and agreement dated 17 September 2018 and 8 November 2018, IKB Invest GmbH transferred a total of seven insolvent equity investments and the limited partnership contribution in TVM

IV GmbH & Co. KG, i.L. to IKB NewCo 1 GmbH. IKB NewCo 1 GmbH was subsequently disposed of by way of share purchase and transfer agreement dated 22 November 2018.

- IKB Grundstücks GmbH was merged with IKB Deutsche Industriebank AG by way of merger agreement dated 29 November 2018 and thus ceased to exist.
- IKB Grundstücks GmbH & Co. Objekt Holzhausen KG was dissolved without liquidation and absorbed by IKB Deutsche Industriebank AG.
- IKB Grundbesitzgesellschaft Frankfurt GmbH & Co. KG was dissolved without liquidation and absorbed by IKB Deutsche Industriebank AG.

Sale of office building in Frankfurt/Main

IKB Grundbesitzgesellschaft Frankfurt GmbH & Co. KG sold an office building in Frankfurt/Main by way of an agreement dated 24 April 2018. The purchase price was paid in late May 2018. The sale resulted in a double-digit € million gain on disposal at Group level and at IKB Grundbesitzgesellschaft Frankfurt GmbH & Co. KG. The transfer of ownership took place on 29 June 2018.

Sale of IKB head office in Düsseldorf

IKB Grundbesitzgesellschaft Düsseldorf GmbH & Co. KG, Düsseldorf, has sold IKB AG's head office in Düsseldorf. The purchase agreement was signed on 29 November 2018 and the property was transferred on 1 March 2019. Both the company and the Group generated a mid-double-digit € million gain on disposal.

Strategic repurchase of debtor warrants

IKB is party to debtor warrants that were agreed in connection with debt waivers by creditors in 2008/09 and required repayment when the financial situation improves as contractually defined. IKB bought back the remaining debtor warrant claims with a nominal value of € 180 million in the financial year. There are therefore no more debtor warrant claims.

Legally relevant events

Profit participation certificates

Since July 2016, investors have threatened legal action and, in some cases, asserted claims for information that have been rejected by IKB. In some individual cases, agreements on the suspension of the statute of limitations have been concluded without the acknowledgement of any legal obligation in order to prevent measures suspending the statute of limitations.

Lawsuits with a total value in dispute of € 117 million had been filed against IKB as at the end of March 2019. IKB considers the claims asserted to be unfounded and expects them to be unsuccessful. This assessment was confirmed by two first instance rulings by the Düsseldorf Regional Court.

Personnel changes

Supervisory Board

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

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

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

Board of Managing Directors

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

Net assets, financial position and results of operations

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, selective lending by IKB and a tough competitive situation, the new business volume of the Group and IKB AG was stable year-on-year at € 3.6 billion in the 2018/19 financial year (after adjustment for new equipment leasing business in the previous year). The share of public programme loan business of both the Group and IKB AG grew by five percentage points to 37%.

Results of operations

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

IKB generated a consolidated net loss after taxes of € 41 million in the financial year 2018/19 (previous year: consolidated net loss of € 170 million). IKB AG reported a net loss after taxes of € 44 million as at the balance sheet date (previous year: net loss of € 296 million).

By contrast, the earnings forecast in the 2017/18 annual report that was maintained throughout the year anticipated slightly positive consolidated net income and a balanced result for IKB AG.

The ongoing deterioration of economic performance and the downward adjustment of forecasts for Germany in the second half of the 2018/19 financial year indicate a further slowdown in economic activity. This was taken into account by a reduction of the forecast consolidated net income in the planning period and therefore a write-down in profit or loss on deferred tax assets for both the Group and IKB AG of € 44 million.

The early repurchase of the remaining claims from debtor warrants in the second half of the financial year was offset in profit or loss by an unexpected tax refund including interest of € 162 million. The repurchase extinguished all liabilities subject to a condition precedent in connection with debtor warrants.

In the past financial year, the operating result, excluding net other income, which is composed of net interest and lease income, net fee and commission income, administrative expenses and income from net risk provisioning, amounted to € 1 million (previous year: € 73 million) for the Group and € 63 million (previous year: € 84 million) for IKB AG. The decline is essentially due to a reduction in income from net risk provisioning to an expense of € 36 million (previous year: income of € 34 million) for the Group and an expense of € 35 million (previous year: income of € 42 million) for IKB AG. This was offset at IKB AG by the rise in net interest income to € 247 million (previous year: € 212 million) as a result of higher investment income. Other factors significantly influencing the results of operations in the Group were net interest and lease income of € 193 million (previous year: 213 million), the net fee and commission income of € 37 million (previous year: € 39 million) in the Group and € 38 million (previous year: € 39 million) at

IKB AG and administrative expenses, lower again compared to the previous year, of € 192 million (previous year: € 213 million) in the Group and € 187 million (previous year: 209 million) at IKB AG.

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 amounted to € 193 million in the period under review, as expected lower than the previous year: € 213 million. At € 247 million, net interest income at IKB AG exceeded both the forecast amount and the prior-year figure of € 212 million.

In the Group and at IKB AG, the positive development in net interest income from derivatives was more than offset by the reduction in interest from securities and lower income from the reversal of interest neutralisation.

The rise in net interest income at IKB AG is due to higher income from investments. This income rose to € 65 million (previous year: € 5 million) as a result of the sale of IKB's headquarters in Düsseldorf by IKB Grundbesitzgesellschaft Düsseldorf GmbH & Co. KG, Düsseldorf, in particular. In the Group, the income from the sale of the administrative building is reported as extraordinary income in net other income.

Net fee and commission income

At € 37 million in the Group and € 38 million at IKB AG, net fee and commission income was slightly lower than the previous year's figures (Group and IKB AG: € 39 million). As demand on the market was still muted in the financial year 2018/19 and new business merely matched the previous year's level as a result, the net fee and commission income could not be increased in the period under review as forecasted.

Administrative expenses

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

As expected, administrative expenses were reduced by a further € 21 million in the Group to € 192 million (IKB AG: by € 22 million to € 187 million).

The drop in administrative expenses is essentially due to the decline in personnel expenses (Group: by € 18 million to € 99 million; IKB AG: by € 15 million to € 97 million). The reduction is the result of continued cost-cutting and optimisation measures.

Other administrative expenses and depreciation and write-downs of intangible and tangible assets decreased by € 2 million to € 94 million at Group level (IKB AG: by € 7 million to € 90 million). In addition to expenses for protection funds, consulting costs were also significantly reduced by project portfolio optimisation. The decline in other administrative expenses was lower in the Group than at IKB AG as the sale of ikb Data caused IT expenses to rise while at the same time reducing personnel expenses.

Net other income

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

The net expense in net other income declined by € 75 million to expenses in the amount of € 106 million (IKB AG: by € 146 million to expenses in the amount of € 172 million). This is due to the following influencing factors:

The strategic early repurchase of debtor warrants resulted in an extraordinary expense of € 162 million.

The capitalisation of interest in connection with the refund of taxes (corporation tax and solidarity surcharge) as a result of the recognition by the tax authorities of the retroactive reinstatement of the restructuring clause of section 8c KStG led to other operating income of € 50 million in the reporting period.

The Group generated extraordinary income of € 58 million from the sale of IKB's headquarters in Düsseldorf and the IKB branch building in Frankfurt. At IKB AG, some of the corresponding income was reported in net other income (€ 13 million) while some was reported in net interest income as the profit distribution by the subsidiary.

In particular, the strategic closing-out of derivatives transactions in the banking book resulted in net expenses of € 152 million (IKB AG: € 152 million) after expenses of € 105 million in the previous year (IKB AG: € 104 million).

The sale of long-term investments resulted in net income of € 137 million (IKB AG: € 129 million) after net income of € 128 million (IKB AG: € 104 million) in the previous year.

Interest on pension obligations resulted in expenses of € 35 million (IKB AG: € 35 million) in the reporting period after € 29 million in the previous year (IKB AG: € 28 million).

The performance of the assets outsourced under contractual trust arrangements (CTA) resulted in net income of € 4 million (IKB AG: income of € 4 million) in the reporting period after net expenses of € 3 million in the previous year (IKB AG: net expenses of € 3 million net).

At IKB AG, the distribution of free reserves by IKB Lux Beteiligungen S.à.r.l., Munsbach, Luxembourg, resulted in an expense from the write-down on the carrying amount of the company of € 15 million.

Net risk provisioning

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

Net risk provisioning comprises depreciation and write-downs of receivables, specific securities and additions to loan loss provisions. Income from net risk provisioning declined by € 70 million compared to the 2017/18 financial year to an expense of € 36 million (IKB AG: by € 77 million to an expense of € 35 million).

Negative income from net risk provisioning was incurred in the past financial year after positive income from net risk provisioning had been reported in previous years as a result of high reversals. In particular, the negative income from net risk provisioning was due to the fact that the net reversals of general allowances for certain latent default risks failed to offset the net additions to specific valuation allowances on account of the deterioration of the economic situation.

Taxes

Tax income amounted to € 64 million (IKB AG: € 65 million) in the reporting period after € 63 million tax expense (IKB AG: € 62 million tax expense) in the previous year. Income of € 112 million from the refund of taxes paid in previous years (corporation tax and solidarity surcharge) as a result of the recognition by the tax authorities of the retroactive reinstatement of the restructuring clause of section 8c KStG was partially offset by the write-down expenses on deferred tax assets in profit or loss of € 44 million.

Net income

Owing to the necessary write-down of deferred tax assets in the reporting year, it was not possible to report slightly positive net income in the Group and a balanced result at IKB AG as had been forecasted in IKB's 2017/18 annual report. A consolidated net loss of € 41 million was reported in the financial year 2018/19 (IKB AG: net loss of € 44 million) as against a consolidated net loss of € 170 million in the previous year (IKB AG: net loss of € 296 million).

Net assets

The Group's total assets declined by € 1.1 billion in the period under review, amounting to € 16.1 billion on the reporting date (IKB AG: reduction of € 1.2 billion to € 16.7 billion).

The Group's gross credit volume, which also includes off-balance sheet business (see also section 3. "Risk report"), fell from € 19.8 billion to € 19.0 billion (IKB AG: from € 20.5 billion to € 19.4 billion) as at the reporting date, and essentially comprises medium-term and long-term loans to banks, loans to customers, bonds, asset derivatives in the non-trading book and guarantees.

Assets

Receivables from banks in the Group declined by € 1.3 billion to € 1.3 billion at the reporting date (IKB AG: from € 2.3 billion to € 1.3 billion), largely as a result of lower overnight deposits with the central bank.

The Group's receivables from customers amounted to € 9.8 billion, slightly higher than the previous year's figure of € 9.7 billion and therefore in line with the adjusted forecast. The only slight increase is essentially due to consistently muted demand for credit on the market in the 2018/19 financial year, selective lending by IKB and continuing tough competition. IKB AG's receivables from customers decreased slightly by € 0.3 billion to € 10.7 billion, as a result in particular of the repayment of intragroup loans.

In the context of ongoing asset portfolio management, bonds and other fixed-income securities increased by € 3.9 billion to € 4.0 billion (IKB AG: by € 3.9 billion to € 4.0 billion).

Equity and liabilities

Liabilities to banks decreased by € 0.1 billion to € 7.4 billion at Group level (IKB AG: by € 0.1 billion to € 7.3 billion), particularly due to repayments of a long-term ECB refinancing programme coupled with a simultaneous increase in public programme loans.

Liabilities to customers fell by € 0.7 billion to € 5.7 billion (IKB AG: by € 0.6 billion to € 5.9 billion), essentially as a result of lower customer deposits and promissory note loans.

Securitised liabilities in the Group declined by € 0.3 billion year-on-year to € 0.4 billion. The figure for IKB AG decreased by € 0.3 billion to € 0.9 billion.

Subordinated liabilities were stable year-on-year at € 0.8 billion in the Group and € 0.8 billion at IKB AG.

The fund for general banking risks is unchanged year-on-year at € 0.6 billion.

Equity

Despite the consolidated net loss, the Group's equity rose by € 8 million from € 822 million to € 830 million as a result of the addition of minority interests on account of the first-time consolidation of Valin Mittelstand Senior Debt Fund S.A., Luxembourg (IKB AG: reduction in equity from € 911 million to € 867 million due to the net loss).

When calculating regulatory own funds, the fund for general banking risks in the amount of € 0.6 billion is taken into account as common equity tier 1 capital.

Unrealised gains and losses have arisen in the past financial year and recent financial years from financial instruments in the banking book in the form of securities, from derivatives and from the refinancing of the credit book without matching maturities as a result of changes in market interest rates, exchange rates and credit ratings. Unrealised losses could lead to a lower level of net interest income or losses on disposal in future financial years. The fair value measurement of the banking book in accordance with IDW RS BFA 3 did not result in any provisioning requirements as at 31 March 2019.

Financial position

The funding mix means that IKB's liquidity position is stable and refinancing is generally achievable at more favourable conditions than in the previous periods. In addition to earmarked and other secured refinancing, IKB is accepting revolving deposits from corporate clients and retail customers and being selective when it comes to new lending business.

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

Overall assessment

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

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

Financial and non-financial performance indicators

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

Regulatory tier 1 ratio

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

As at 31 March 2019, the CET 1 ratio amounted to 12.1% for the IKB Group and 13.4% for IKB AG (for details see section 3. "Risk report"). As forecast in the 2017/18 annual report, the regulatory capital ratios increased moderately as a result of the application of the IRB approach in particular. This meant that IKB maintained its common equity tier 1 ratio at a high level and exceeded the statutory minimum requirement (CRR) of 4.5% for the CET 1 ratio plus a capital conservation buffer of 2.5% and the additional SREP capital requirement.

Leverage ratio

The leverage ratio compares the largely unweighted total of balance sheet and off-balance sheet transactions with regulatory tier 1 capital. At present, this indicator is disclosed for monitoring purposes only and is not expected to become binding until 30 June 2021. On 16 April 2019, the European Parliament adopted the Banking Package, which comprehensively changes the cornerstones of banking regulation. The changes put forward by what is known as CRR2 establish a binding minimum ratio of 3.0%.

Under the transitional provisions and applying the terms of Delegated Regulation EU 2015/62 of 17 January 2015, the leverage ratio of the IKB Group in accordance with Article 429 CRR was 7.3% (IKB AG: 7.8%) as at 31 March 2019. This means the IKB Group comfortably exceeds the future minimum ratio of 3.0% and has maintained its leverage ratio at the level of 31 March 2018 as forecast in its 2017/18 annual report.

Net income after taxes

Contrary to the forecast of the 2017/18 annual report, which had predicted slightly positive net income in the Group and a balanced result at IKB AG, the Group generated a loss of € 41 million and IKB AG one of € 44 million. In particular, the reason for the deviation from the forecast was the adjustment of the projected consolidated net income in the planning period induced by a further economic slowdown, which was taken into account by a write-down on deferred tax assets of € 44 million.

Cost income ratio

The cost/income ratio describes the ratio of administrative expenses to the sum of net interest income and net fee and commission income. As forecast in the 2017/18 annual report, it improved slightly to 83.8% at Group level as at 31 March 2019 as against 84.6% in the adjusted prior-year period.

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.

IKB performs regulatory liquidity management using the LCR. The LCR amounted to 318% at IKB Group level as at 31 March 2019 (IKB AG: 295%), comfortably exceeding the minimum of 100% for the full financial year 2018/19 as set out in the annual report for the year ended 31 March 2018 at all times.

Combined separate non-financial report

The non-financial Group statement for the 2018/19 financial year in accordance with section 340i (5) in conjunction with section 315b of the German Commercial Code (HGB), which has been combined with the non-financial statement of the parent company in accordance with section 340a (1a) in conjunction with section 289 HGB, has been published at <https://www.ikb.de/en/investor-relations/financial-reports>.

3. Risk report

Risk management organisation

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

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

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

Risk management at IKB is based on the principle of "three lines of defence", whereby each individual unit (front office, back office, central functions and staff departments) forms the "first line of defence" in the context of its operational responsibility.

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

The "third line of defence" of risk management at IKB is Internal Audit. Internal Audit is an independent, process-independent and neutral monitoring unit within the IKB Group. It operates on behalf of the entire Board of Managing Directors with no duty to comply with instructions and reports directly to the Board of Managing Directors. All relevant activities and processes throughout the Group and the functionality of the internal control system (ICS) are examined on the basis of risk-oriented process checks. The processes and activities outsourced by IKB to other service providers are monitored as part of continuous outsourcing controlling and the dedicated audit activities performed by Group Internal Audit at the outsourcing companies. Using quarterly reports and an annual report, Group Internal Audit informs the Board of Managing Directors and the Supervisory Board, among other things, of significant and serious audit findings, the agreed measures and their processing status and, specifically, the audits conducted and compliance with the audit plan in summarised format. Furthermore, the Board of Managing Directors is informed about the respective audit findings continuously and in detail on the basis of the reports prepared for all audits. Independently of this, it is ensured that the Chairman of the Supervisory Board or the Finance and Audit Committee can obtain information directly from the head of Group Audit with the involvement of the Board of Managing Directors.

Regulatory capital resources and risk-bearing capacity

Regulatory capital resources

The Bank calculates its regulatory capital resources in accordance with the provisions of the CRR. The Bank received approval from BaFin to apply the IRB approach for counterparty default risk in the 2018/19 financial year and has been doing so since 31 March 2019. The Bank uses the standardised approach to calculate the credit valuation adjustment charge, the base indicator approach for operational risk and the prescribed standard regulatory method for market price risk. The Bank continues to use the regulatory netting approach to determine the net basis of measurement for derivatives, taking existing netting agreements into account. The following tables provide an overview of the regulatory risk items, equity base and ratios as applicable on approval of the accounts.

Table: Regulatory capital situation of the IKB Group in accordance with CRR/CRD IV¹⁾

Figures in € million	IRBA	CRSA ²⁾	CRSA
	31 Mar. 2019 ³⁾	31 Mar. 2019	31 Mar. 2018 ³⁾
Counterparty default risk (including CVA charge € 155 million; previous year: € 129 million)	10,393	11,343	10,824
Market risk equivalent	193	193	199
Operational risk	686	686	703
Total risk-weighted assets (RWA)	11,272	12,222	11,725
Common equity tier 1 (CET 1)	1,360	1,360	1,382
Additional tier 1 (AT 1)	23	23	30
Total Tier 1 (T 1)	1,383	1,383	1,412
Tier 2 (T 2)	738	699	738
Own funds	2,121	2,081	2,151
CET 1 ratio	12.1%	11.1%	11.8%
T 1 ratio	12.3%	11.3%	12.0%
Own funds ratio	18.8%	17.0%	18.3%
Capital ratios (fully phased)			
CET 1 ratio	12.1%	11.1%	11.6%
T 1 ratio	12.1%	11.1%	11.6%
Own funds ratio	18.7%	16.9%	18.0%

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

- 1) Figures taking into consideration the phase-in and phase-out provisions of the CRR. The CET 1 ratios were calculated in accordance with the current legal status of the CRR as at 31 March 2019 and 31 March 2018 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) Pro forma figures for comparability with the previous period, the values in accordance with the IRB approach are relevant; CRSA = credit risk standardised approach
- 3) Figures after approval of the accounts

Table: Regulatory capital situation at individual Bank level in accordance with CRR/CRD IV¹⁾

	IRBA	CRSA ²⁾	CRSA
Figures in € million	31 Mar. 2019 ³⁾	31 Mar. 2019	31 Mar. 2018 ³⁾
Counterparty default risk (including CVA charge € 155 million; previous year: € 129 million)	10,238	11,207	10,616
Market risk equivalent	45	45	99
Operational risk	510	510	512
Total risk-weighted assets (RWA)	10,793	11,762	11,227
Common equity tier 1 (CET 1)	1,445	1,445	1,477
Additional tier 1 (AT 1)	0	0	0
Total Tier 1 (T 1)	1,445	1,445	1,477
Tier 2 (T 2)	685	646	693
Own funds	2,130	2,091	2,171
CET 1 ratio	13.4%	12.3%	13.2%
T 1 ratio	13.4%	12.3%	13.2%
Own funds ratio	19.7%	17.8%	19.3%
Capital ratios (fully phased)			
CET 1 ratio	13.4%	12.3%	13.0%
T 1 ratio	13.4%	12.3%	13.0%
Own funds ratio	19.6%	17.7%	19.1%

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

- 1) Figures taking into consideration the phase-in and phase-out provisions of the CRR. The CET 1 ratios were calculated in accordance with the current legal status of the CRR as at 31 March 2019 and 31 March 2018 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) Pro forma figures for comparability with the previous period, the values in accordance with the IRB approach are relevant; CRSA = credit risk standardised approach
- 3) Figures after approval of the accounts

At 12.1% at Group level and 13.4% at individual Bank level, IKB's CET 1 ratios (transitional) are significantly above the minimum legal requirements, including the capital conservation buffer and countercyclical capital buffer, and the SREP capital requirements set by BaFin in the banking supervisory review and evaluation process (SREP).

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

Risk-bearing capacity

The maintenance of risk-bearing capacity is fundamental to risk-related bank management. Lawmakers have laid the foundation for keeping risk-bearing capacity as a key target value in Article 73 of the EU Banking Directive 2013/36/EU and section 25a KWG and the concretisations thereof. Accordingly, banks are required to ensure that all risks classified as significant are covered by sufficient capital to ensure the continuation of business activities and the protection of creditors against losses.

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

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

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

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

From the transition date in May 2018, all regulatory requirements in terms of the normative perspective are complied with in both the plan scenario and this adverse scenario.

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

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

The following table compares the capital requirements in the economic perspective that could arise mathematically in a year to cover unexpected losses at a confidence level of 99.9% (value at risk) with the risk coverage potential that will be available in the next twelve months.

Table: Capital requirements – economic perspective¹⁾

	31 Mar. 2019	31 Mar. 2019	31 Mar. 2018	31 Mar. 2018
	in € million	in %	in € million	in %
Counterparty default risk	630	41%	619	37%
Market price risk	397	26%	505	31%
Operational risk	424	28%	428	26%
Business risk	78	5%	96	6%
Total	1,530	100%	1,648	100%
less diversification effects	-177		-263	
Overall risk position	1,352		1,385	
Risk coverage potential	1,899		1,958	

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

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

Risk coverage potential in the economic perspective declined by € 59 million compared to the start of the financial year. At the same time, the overall risk position for all risks classified as significant fell by € 33 million to € 1,352 million. Taking diversification effects into account, risk coverage potential therefore significantly exceeds the overall risk position, with utilisation unchanged as against 31 March 2018 at 71%. Even excluding diversification effects, the risk coverage potential still clearly exceeds the overall risk position with utilisation of 81% (31 March 2018: 84%).

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

Forecast calculations and stress tests

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

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

Risk strategy

The overall risk strategy is a component of the integrated business and risk strategy and covers all key risk types to which the Bank is exposed. Further detail is added to the overall risk strategy in the form of sub-strategies for the key risk types, and it defines the risk strategy guidelines for IKB's business activities. All risk sub-strategies were reviewed in the financial year 2018/19 and revised to reflect the current business focus and the economic situation as required.

Credit risk strategy

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

Given its core business, the regional focus of IKB's corporate financing business will remain on Germany in future. The concentration of risk this entails is accepted in pursuing the Bank's business objectives.

With regard to its target customers in the high-end midmarket segment, industry diversification is also highly significant. In assessing its limits, the Bank looks at both the significance of the industry to the German economy and an analysis of the industry in terms of its forecast development.

The portion of the credit portfolio relating to foreign obligors is predominantly bonds and receivables from finance and public sector obligors that the Bank holds in its investment portfolio for diversification purposes and as a cash investment.

Market price risk strategy

The market price risk strategy describes the risk profile IKB is prepared to accept when entering into market price risk and what measures are taken to prevent undesirable risks. Above all, the main risk drivers are credit spread risks and interest rate risks, which the Bank will continue to focus on with a view to its forecast net interest income in light of the continued expected low level of interest rates in the financial year 2019/20.

Liquidity strategy

The current liquidity protection is primarily based on the acceptance of customer deposits guaranteed by the Deposit Protection Fund, secured borrowing on the interbank market and participation in the ECB tender procedure. In addition to ensuring that the Bank is able to meet its payment commitments at all times, the

aim of liquidity management is to ensure permanent access to affordable, diversified refinancing options. A diversified portfolio of ECB-eligible liquid securities serves as a liquidity reserve.

Operational risk strategy

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

Counterparty default risk

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

Credit approval process and individual exposure monitoring

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

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

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

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

Rating process and systems

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

In April 2018, IKB submitted an application to BaFin for approval to apply the IRB approach to its internal corporate Rating. BaFin granted its approval, subject to conditions, by way of notification dated 21 March 2019.

Quantifying credit risk

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

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

Portfolio monitoring and management

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

Structure of counterparty default risk

The credit volume as at 31 March 2019 was composed as follows:

Table: Credit volume

in € million	Group			IKB AG		
	31 Mar. 2019	31 Mar. 2018	Change	31 Mar. 2019	31 Mar. 2018	Change
Receivables from banks	1,268	2,521	-1,253	1,264	2,309	-1,045
Receivables from customers	9,823	9,709	114	10,652	10,969	-317
Bonds and other fixed-income securities not including own bonds	3,937	3,884	53	3,947	3,905	42
Equities and other non-fixed-income securities	463	396	67	-	2	-2
Investments ¹⁾	1	1	-	-	-	-
Lease assets	-	8	-8	-	-	-
Subtotal: Balance sheet assets	15,492	16,519	-1,027	15,863	17,185	-1,322
Contingent liabilities ²⁾	2,268	1,946	322	2,326	2,008	318
Asset derivatives in the non-trading book ³⁾	977	882	95	977	882	95
Write-downs	189	171	18	185	159	26
Securities lending	50	289	-239	50	289	-239
Gross credit volume	18,976	19,807	-831	19,401	20,523	-1,122
For information purposes: other significant counterparty default risks outside the gross credit volume						
Irrevocable loan commitments	1,488	1,527	-39	1,488	1,532	-44
Investments in associated and affiliated companies ⁴⁾	6	1	5	259	272	-13

1) In the Group, investments after consolidation are part of the gross credit volume; at IKB AG, they are outside the gross credit volume

2) Before deducting risk provisions

3) Including € 39 million (31 March 2018: € 40 million) in positive fair values for protection seller CDSs whose nominal values are treated as contingent liabilities for accounting purposes

4) IKB AG: including equity investments

All in all, the IKB Group's gross credit volume decreased by € 0.8 billion between 31 March 2018 and 31 March 2019. This was mainly on account of the decline in receivables from banks on account of short-term investments of excess liquidity.

The rise in contingent liabilities is due to higher protection seller credit default swaps (CDS) positions with banks as reference debtors.

The Bank engaged in securities lending as at 31 March 2019. The resulting additional counterparty default risk, i.e. the risk of default of the securities borrower, is recognised in the "Securities lending" item in the nominal amount of € 50 million (31 March 2018: € 289 million).

Developments were largely the same at IKB AG; the drop in customer receivables related to lower intragroup refinancing.

Size category structure

Table: Credit volume by size – Group

	31 Mar. 2019 in € million	31 Mar. 2019 in %	31 Mar. 2019 Number¹⁾	31 Mar. 2018 in € million	31 Mar. 2018 in %
Under € 5 million	752	4%	4,795	1,104	6%
Between € 5 million and € 10 million	1,121	6%	152	1,249	6%
Between € 10 million and € 20 million	2,493	13%	180	2,447	12%
Between € 20 million and € 50 million	4,385	23%	150	3,585	18%
Over € 50 million	9,730	51%	70	10,894	55%
Subtotal	18,481	97%	5,347	19,279	97%
Risk transferred to third parties ²⁾	495	3%	-	528	3%
Total	18,976	100%	5,347	19,807	100%

1) Borrower groups in accordance with section 19 KWG

2) Hermes guarantees, indemnifications, risks transferred

The disposal of the last leasing companies is reflected at Group level by a reduction in the "Under € 5 million" category from € 1.1 billion as at 31 March 2018 to € 0.75 billion as at 31 March 2019. At IKB AG, the volume of this category declined only slightly from € 0.7 billion as at 31 March 2018 to € 0.6 billion as at 31 March 2019 (3%, unchanged), as the lease receivables retained after the disposal of IKB Leasing are held in a separate subsidiary. Other than this, there are no particular discrepancies between IKB AG and the Group regarding the structure of size categories.

The volume in the "Over € 50 million" category mainly declined as a result of lower short-term investments of excess liquidity. The rise in the "Between € 20 million and € 50 million" results from new lending business with the corporate sector.

Collateral, risk transfer and securitisation

Table: Credit volume by type of collateral – Group

	31 Mar. 2019 in € million	31 Mar. 2019 in %	31 Mar. 2018 in € million	31 Mar. 2018 in %
Property liens and charges ¹⁾	2,544	13%	2,571	13%
Transfers of ownership and leased assets ¹⁾	735	4%	1,041	5%
Other collateral ^{1) 2)}	3,940	21%	3,608	18%
Collateralised ¹⁾	891	5%	786	4%
Secured credit volume	8,110	43%	8,006	40%
Without collateral ³⁾	10,371	55%	11,273	57%
Subtotal	18,481	97%	19,279	97%
Risk transferred to third parties ⁴⁾	495	3%	528	3%
Total	18,976	100%	19,807	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 and bonds (including Pfandbriefe)

4) Hermes guarantees, indemnifications, risks transferred

The provision of cover by means of traditional collateral (property liens, transfers of ownership and guarantees) is still of considerable importance for the traditional lending business at IKB. “Without collateral” mostly relates to “banks and the financial sector” (around € 4.7 billion; 31 March 2018: € 5.8 billion) and the public sector (€ 2.8 billion; 31 March 2018: € 3.1 billion). Where the Bank provides collateral in the form of cash and term deposits for derivatives on the interbank market, these are also reported under “Without collateral”. € 2.9 billion of “Without collateral” relates to corporate financing (31 March 2018: € 2.4 billion).

Most of the risks transferred relate to liability sub-participations by banks (primarily KfW Bankengruppe). Around 41% of the risks relate to public guarantees (including Hermes cover).

The structure of collateral at IKB AG is comparable to that of the Group.

Geographical structure

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

Table: Credit volume by region – Group

	31 Mar. 2019 in € million	31 Mar. 2019 in %	31 Mar. 2018 in € million	31 Mar. 2018 in %
Germany	10,449	55%	10,938	55%
Outside Germany	8,032	42%	8,341	42%
Western Europe	5,642	30%	5,924	30%
Eastern Europe	898	5%	1,144	6%
North America	1,075	6%	876	4%
Other	417	2%	397	2%
Subtotal	18,481	97%	19,279	97%
Risk transferred to third parties ¹⁾	495	3%	528	3%
Total	18,976	100%	19,807	100%

1) Hermes guarantees, indemnifications, risks transferred

At 71%, the vast majority of the credit volume outside Germany relates to banks and the financial sector and the public sector (31 March 2018: 73%).

The credit volume in Western Europe as at 31 March 2019 included a public-sector credit volume for the GIIPS nations (Greece, Ireland, Italy, Portugal and Spain) totalling € 697 million. € 349 million of this figure relates to Spain (31 March 2018: € 703 million), € 192 million to Portugal (31 March 2018: € 139 million) and € 156 million to Ireland (31 March 2018: € 0 million). Greece and Italy do not account for any credit volumes (31 March 2018: Italy € 209 million). The figures for Spain and Italy as at 31 March 2018 have been corrected compared to the 2017/18 annual report.

Russia accounts for just € 96 million of the credit volume accounted for by Eastern Europe (31 March 2018: € 97 million).

Developments were the same at IKB AG.

Sector structure

Table: Credit volume by sector – Group

	31 Mar. 2019	31 Mar. 2019	31 Mar. 2018	31 Mar. 2018
	in € million	in %	in € million	in %
Industrial sectors	9,453	50%	9,138	46%
Chemical industry	825	4%	703	4%
Energy supply	678	4%	636	3%
Mechanical engineering	629	3%	715	4%
Automotive	569	3%	458	2%
Wholesale (not including motor vehicles)	555	3%	539	3%
Other industrial sectors	6,197	33%	6,087	31%
Real estate	572	3%	440	2%
Financial sector	1,044	6%	1,207	6%
Banks	4,631	24%	5,340	27%
Public sector	2,781	15%	3,154	16%
Subtotal	18,481	97%	19,279	97%
Risk transferred to third parties ¹⁾	495	3%	528	3%
Total	18,976	100%	19,807	100%

1) Hermes guarantees, indemnifications, risks transferred

The degree of diversification in the industrial sectors remained high, with no single sector accounting for more than 4% of the portfolio.

Credit rating structure

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

Table: Credit volume by credit rating structure¹⁾ – Group

	31 Mar. 2019 in € million	31 Mar. 2019 in %	31 Mar. 2018 in € million	31 Mar. 2018 in %
1-4	6,164	32%	7,353	37%
5-7	5,566	29%	5,418	27%
8-10	4,842	26%	4,428	22%
11-13	1,525	8%	1,822	9%
14-15	232	1%	162	1%
Non-performing assets ²⁾	152	1%	96	0%
Subtotal	18,481	97%	19,279	97%
Risk transferred to third parties ³⁾	495	3%	528	3%
Total	18,976	100%	19,807	100%

1) Higher rating classes reflect lower creditworthiness

2) Before specific valuation allowances and loan loss provisions

3) Hermes guarantees, indemnifications, risks transferred

The decrease in rating classes 1-4 relates to lower short-term investments of excess liquidity.

Non-performing assets

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

Exposures without default, which are managed by the Bank's units specialising in restructuring, are not considered non-performing assets, but are subject to intensive monitoring together with non-performing assets. Non-performing assets and other exposures managed by the units specialising in restructuring amounted to € 0.3 billion in total as at 31 March 2019 (31 March 2018: € 0.3 billion).

Table: Non-performing assets¹⁾ – Group

	31 Mar. 2019 in € million	31 Mar. 2018 in € million	Change in € million	Change in %
Assets with specific risk provisioning	143	80	63	79%
Non-impaired	9	16	-7	-44%
Total	152	96	56	58%
as % of credit volume	0.8%	0.5%		
as % of credit volume with respect to corporates	1.4%	0.9%		
For information purposes: NPL ratio in accordance with EBA definition ²⁾	1.4%	1.0%		

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

Non-performing assets do not include:

- € 12 million (31 March 2018: € 30 million) in risks transferred to third parties for non-performing assets that have been assumed by other banks, public sector entities or via collateralised loan obligations (CLOs) and hence are assigned to the party assuming liability (change in credit rating).
- € 9 million (31 March 2018: € 1 million) in unutilised commitments for debtors whose residual exposure is classified as a non-performing asset.

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

Non-performing assets rose by € 56 million as against 31 March 2018. The ratio of non-performing assets increased by 0.3 percentage points to 0.8% in the past financial year and is therefore still at a very low level by historical standards.

Developments were the same at IKB AG. Non-performing assets climbed from € 66 million to € 141 million, while the NPA ratio rose from 0.3% to 0.7%.

Provisions for possible loan losses

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 loss allowance in the form of a provision or specific risk provision is recognised. In determining the amount of the specific risk provisions, IKB takes the liquidation value of the collateral available into account in addition to future debt service payments by borrowers still possible.

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

Table: Provisions for possible loan losses – Group

	31 Mar. 2019 in € million	31 Mar. 2018 in € million	Change in %
Development of specific impairment losses/provisions¹⁾			
Opening balance	43.4	89.0	-51%
Utilisation	-14.1	-8.9	58%
Reversal	-30.5	-53.0	-42%
Reclassification and net interest expense and discounting	-5.2	-9.7	-46%
Unwinding	-1.2	-1.4	-14%
Additions to specific risk provisions/provisions	84.2	27.5	>100%
Effect of changes in exchange rates	0.1	-0.1	
Total specific risk provisions/provisions	76.7	43.4	77%
Global valuation allowances²⁾			
Opening balance	137.1	156.3	-12%
Addition/reversal	-18.7	-17.0	10%
Reclassification	-0.7	-2.2	-68%
Total general allowances	117.7	137.1	-14%
Total provisions for possible loan losses (including provisions)	194.4	180.5	8%

1) Not including general allowance for contingent liabilities recognised as provisions

2) Including general allowance for contingent liabilities recognised as provisions

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

Total general allowances including country risk provisioning for customer receivables, receivables from banks, contingent liabilities and irrevocable loan commitments in the Group amounted to € 117.7 million (31 March 2018: € 137.1 million), while the figure for IKB AG amounted to € 116.4 million (31 March 2018: € 133.5 million). There were general allowances for securities of € 4.6 million (31 March 2018: € 2.7 million) in the Group and € 4.1 million (31 March 2018: € 2.4 million) at IKB AG.

The reduction in general allowances is essentially due to lower allowances for event risk and lower latent risks retained from leasing business.

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 every quarter containing all key information on the overall risk position in the Group.

Liquidity risk

The identification and analysis of liquidity risk in terms of the insolvency risk are based on the expected cash flows for transactions that have already been contracted, supplemented by modelling, the planning of liquidity measures and new business and the liquidity reserve (options for borrowing with the ECB and cash on hand). The future liquidity balances calculated in this manner are reduced further via additional stress components (market disruptions, credit disruptions, changes in conditions, etc.) and limited. Liquidity risk monitoring at IKB is also supplemented by an early warning system.

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

Liquidity situation

Depending on the development of its new business and taking into account credit facilities and liquidity commitments not yet utilised by customers, the Bank expects its liquidity requirements to amount to around € 3.3 billion over the next twelve months.

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

IKB had secured its liquidity situation for the longer term as at 31 March 2019. The limited minimal liquidity balance is around € 0.4 billion higher than the liquidity limit. The adequate liquidity situation is also underlined by the fact that, taking into account the legal maturities of the Bank's asset and liability positions and its options for borrowing with the ECB and on the secured interbank market and excluding its planned new lending business *ceteris paribus* (i.e. in particular assuming unchanged market values), IKB is financed for an extended period.

The minimum liquidity coverage ratio is 100%. The Bank's aim is to maintain a ratio significantly in excess of 100%. The minimum requirements were complied with at all times in the financial year 2018/19. The LCR was 318% at IKB Group level as at 31 March 2019 (IKB AG: 295%).

Refinancing situation

In addition to secured financing on the interbank market (especially Eurex Repo transactions) and refinancing via the ECB, business involving deposits and promissory note loans with corporate clients, retail 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 € 1.9 billion as at 31 March 2019 (31 March 2018: € 2.2 billion).

The volume of refinancing secured by the Deposit Protection Fund amounts to just under € 5.7 billion as at 31 March 2019 (31 March 2018: € 6.4 billion).

The volume of unsecured bearer bonds in the retail customer segment was around € 0.4 billion as at 31 March 2019 (31 March 2018: € 0.7 billion).

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

Market price risk

IKB's market price risk comprises the risk factors of interest rates, credit spreads, FX (foreign exchange) rates, stock market indexes and their volatilities. As IKB does not have a trading book, market price risk relates solely to non-trading book positions.

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

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

IKB essentially only holds currency positions in USD.

Quantification and evaluation of market price risk

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

For the purposes of daily operational risk monitoring, economic VaR is calculated at a 99% confidence level assuming a holding period of one day. In order to determine the Bank’s risk-bearing capacity, VaR is also calculated at a confidence level of 99.9% (economic perspective) assuming a holding period of one year.

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

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

Market price risk management and hedging

The main task of market price risk management is the management of the market price-sensitive positions entered into by the individual segments. IKB uses a combination of risk indicators, earnings indicators and other indicators to manage market price risk.

Daily risk reporting to the Board of Managing Directors and Treasury comprises the evaluation of all positions, market price risk, net interest income and limit utilisation. Moreover, the Board of Managing Directors is regularly provided with detailed information on relevant market developments, changes in the portfolio, measurement of the portfolio, earnings development and the market risk profile. The Supervisory Board is informed of market price risks every quarter in the context of overall risk reporting.

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

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

Table: Market price risk profile

in € million	Value at 31 Mar. 2019	Value at 31 Mar. 2018
Interest rate basis point value (BPV)	-0.9	-1.1
Credit spread BPV	-7.4	-6.6
VaR – interest rate and volatility	-14.5	-15.2
VaR – credit spread	-22.1	-17.2
VaR – FX and volatility	-1.6	-1.5
VaR – other	0.0	0.0
Correlation effect	14.4	13.4
VaR (total)	-23.8	-20.5

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

Non-financial risks

Operational risk

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

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

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

The gross loss volume identified in the financial year amounted to a total of € 2.0 million at Group level (previous year: € 3.5 million¹). Around € 2.0 million of this figure related to IKB AG (previous year: € 2.4 million¹). In individual cases, the loss amounts are based on estimates for which it may not be possible to obtain accurate figures using updated information until later in some cases.

Legal risk

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

The management of legal risk is the responsibility of the Legal division. The management of tax legal risk is the responsibility of the Taxes department. If necessary, external law firms are brought in for support.

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

Legal developments which are of direct significance to the business of the Bank are monitored, in particular, by means of collaboration in the internal and external executive bodies and committees of the regulatory authorities and the Association of German Banks.

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

¹ Prior-period amount restated to reflect updated information

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

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

IKB and Group companies are involved in legal proceedings. The following section contains a summary of the pending proceedings against IKB or Group companies that have a value in dispute of more than € 15 million or that are material for IKB for other reasons. The Bank generally also recognises provisions for identified risks in connection with legal disputes.

Derivatives trading

In individual cases, customers criticised the advisory services provided by the Bank in connection with certain swap products. Four suits are currently pending, two of which relate to the same issue. One pre-trial dispute is currently also in progress.

Disputes relating to subordinated securities

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

Since July 2016, investors have threatened legal action and, in some cases, asserted claims for information that have been rejected by IKB. In some individual cases, agreements on the suspension of the statute of limitations have been concluded without the acknowledgement of any legal obligation in order to prevent measures suspending the statute of limitations.

Lawsuits with a total value in dispute of € 117 million had been filed against IKB as at the end of March 2019. IKB considers the claims asserted to be unfounded and expects them to be unsuccessful. This assessment was confirmed by two first instance rulings by the Düsseldorf Regional Court.

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. The corporation tax and the solidarity surcharge for 2009 were initially paid including interest. At its application, IKB was granted a suspension of execution for trade tax. The trade tax and the associated interest were therefore not yet payable.

IKB had brought actions before the Düsseldorf Fiscal Court against its tax assessments. In light of a submission by the Hamburg Fiscal Court regarding the unconstitutionality of the provision applied, these proceedings have been stayed by the Düsseldorf Fiscal Court.

Following a decision by the European Court of Justice on 28 June 2018 establishing the invalidity of the decision by the European Commission on 26 January 2011 stating that the restructuring clause in section 8c

(1a) KStG constituted prohibited state aid, this clause (section 8c (1a) KStG) was reinstated retroactively from 2008 by way of a legal amendment towards the end of 2018.

IKB has petitioned to apply the restructuring clause. After assessing the petition, the tax authorities initially revoked the previous tax assessment for the 2009 assessment period in March and then issued amendment notices for 2009 in May. This resulted in total income of around € 162 million in the 2018/19 financial year, around € 112 million of which was tax income reported under income taxes and around € 50 million of which was interest reported under other operating income.

The changes in the assessments have rendered the fiscal court lawsuits groundless. The trade tax risk presented in the past therefore also no longer applies.

Aleanta GmbH (a wholly owned subsidiary of IKB AG with which no profit and loss transfer agreement has been agreed) had received initial written notification that, as part of the tax audit of a company of which it is the universal successor (Olessa GmbH), the tax authorities are intending to treat the retrospective merger of Olessa GmbH into Aleanta GmbH in the financial year 2010/11 as a case covered by section 42 of the German Tax Code (AO). Aleanta GmbH had commented on the matter and the assessment at the time of the tax audit still pending. The maximum risk encompasses taxes of approximately € 26.7 million plus interest (calculated as approximately € 10.9 million up to and including 31 March 2019) and additional Chamber of Commerce and Industry contributions of € 0.2 million. An appeal will be lodged if necessary.

Information security risk

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

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

IT risk

Activities in the area of handling IT risk are concentrated not only on IT services, products and projects, but also on measures in the area of IT security management. This includes the continuous improvement of the IT security management system as part of IKB's ISO 27001-based ISMS (see also "Information security risk").

The IT security management department is responsible for the Bank's operational IT security. It works with other affected areas to establish measures and support their implementation, continuous improvement and adaptation to reflect current and future IT security and compliance requirements. System and network security are continuously updated to reflect changing threats in cooperation with external service providers. Infrastructure availability risks are minimised by dividing the data centres between two separate locations. The ISMS takes account of the risk involved in outsourcing key IT services. Measures for addressing this risk are verified through regular audits led by the CISO and emergency drills run by central operational risk management.

Compliance risk

As IKB's business activities give rise to legal obligations for the handling of information relevant to compliance trading with financial instruments and rendering investment services and ancillary investment services, IKB is subject to a wide range of statutory and regulatory requirements. Compliance with these requirements is ensured by way of the measures conducted by the compliance functions established for this purpose. The corresponding binding conduct requirements and process instructions are set out in the Bank's written rules. In addition, the principles and values set out in the IKB Code of Conduct include

requirements for the conduct of all employees at all locations of the Group. Regular training is provided to ensure that employees are fully aware of all requirements and regulatory developments. Compliance-related technical consulting and support for the divisions and the implementation of monitoring measures are performed preventively and with a view to specific processes by (1) the compliance function in accordance with the Minimum Requirements for the Compliance Function (MaComp) and (2) the MaRisk compliance function.

The independent monitoring of the Group's business activities and employee consulting and training with respect to the prevention of money laundering, the prevention of terrorist financing, compliance with financial sanctions and the prevention of fraud and corruption is ensured by the anti-money laundering officer/central office of IKB AG.

Reporting by the compliance officer in accordance with WpHG/MaComp and KWG/MaRisk and by the anti-money laundering officer/central office takes place on an annual basis and as required to the Board of Managing Directors and, for the MaComp and MaRisk compliance functions, to the Supervisory Board.

The MaComp and MaRisk compliance functions perform a regular, Group-wide risk analysis (at least once a year).

The money laundering officer/central office prepares a risk analysis on money laundering, other illegal acts, the financing of terrorism and compliance with financial sanctions at least once a year and additionally as required. On the basis of the latest Group-wide risk analysis and taking into account the preventive measures defined, the risk of money laundering and the risk from other illegal acts to the IKB Group are still considered to be low to medium overall. Sanction/embargo risks are classified as medium. As part of its annual risk inventory and the update of its risk analysis, the money laundering officer/central office has not identified any increase in the risks to the business activities of IKB compared to previous years.

Personnel risk

In light of the need to sustainably safeguard its profitability in a market environment that remains challenging, the Bank believes it is necessary to continue to optimise its organisational structure and operational work-flows in a targeted manner and, in particular, to reduce complexity within the Group. To implement these measures, a new reconciliation of interests was concluded in June 2018 with a term until 31 March 2020.

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

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

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

Please see the disclosure report for the financial year 2018/19 for information on the remuneration system of IKB.

Reputation risks

Reputation risk is the risk of negative perception of IKB by the Bank's stakeholders (e.g. customers, investors, regulatory authorities) that could affect income, capital or liquidity by, for example, adversely influencing the Bank's ability to conduct existing or new business, maintain customer relationships or utilise sources of refinancing, now or in future.

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.

Strategic risks

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

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

Business risk

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

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

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

Participation risk

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

Overall assessment of the risk situation

In terms of the regulatory capital and liquidity ratios, IKB's overall position was satisfactory as at the end of the financial year 2018/19. All the capital ratios are in excess of the capital requirements resulting from the banking supervisory review and evaluation process (SREP), meaning IKB has sufficient scope to implement its business activities as planned. Assuming that earnings and the business model develop as forecast, IKB plans to successively strengthen its capital base.

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

Liquidity is ensured with a buffer both currently and going forward.

IKB also selectively enters into market price risks in the form of interest rate and credit spread risks in order to strengthen its net interest income and retain its liquidity with a sufficient buffer both currently and going forward. The market price risk position rose moderately in the 2018/19 financial year, mainly on account of lingering turbulence in the market environment. The Bank does not anticipate any significant changes.

IKB is maintaining its high lending standards even in the sustained low-interest environment. However, after the last two outlier financial years in which net risk provisions were reversed, the risk provision situation has normalised again not least on account of the worsening economic situation. However, the recognition of new net provisions is still at a relatively moderate level in the 2018/19 financial year. In connection with this, the ratio of non-performing assets has risen slightly in the past financial year following a steady decline in recent years, but is still at an extraordinarily low level.

Operational risk remained largely unchanged compared to the previous year. The main drivers were again the legal risks entailed by the restructuring of equity and liabilities.

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

4. Report on opportunities

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

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

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

The cost situation can improve 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 perception of the Bank’s credit standing as a result could lead to further positive repercussions for business activities as a whole.

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

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

5. Outlook

Future general economic conditions

The global economy had cooled in the summer of 2018, and sentiment indicators became more muted as a result of recurring trade conflicts, political disputes within the EU and Brexit uncertainty. There are currently no discernible signs that the global economy is bottoming out, and sentiment and leading indicators in key economic regions have not yet stabilised reliably. The global economy is therefore initially expected to continue to stifle the economy in Europe and Germany, especially if there is an escalation in the trade conflict between the US and the EU/China.

The effects of the substantial economic aid in China are expected to be seen as the year progresses. In light of this, in its spring report, the Council of Economic Experts states that the global economy could stabilise in the coming months. However, as there are no signs of new stimulus for the world economy in the medium term, global growth is not expected to accelerate in the coming year.

The economy of the euro area is also expected to bottom out over the course of 2019. The relatively robust domestic demand is set to make a big contribution to this. Above all, unemployment in the euro area will presumably fall further – thanks in part to labour market reforms in some euro countries. The Council of Economic Experts is forecasting GDP growth in the euro area of 1.2% for the current year and 1.4% for 2020.

The rate of expansion of the German economy has eased considerably. Temporary production problems in the automotive and chemical industry were partially responsible for this. At the same time, the fundamental momentum of the German economy has slowed. In terms of demand, this is mainly due to significantly weaker export demand.

In light of this, the Council of Economic Experts has revised its growth forecast for 2019 downwards and is now forecasting GDP growth rates for 2019 and 2020 of only 0.8% and 1.7% respectively. The low forecast for 2019 is heavily influenced by the weak final quarter of 2018 and the associated low statistical surplus. Adjusted for the strong positive calendar effect on account of the unusually high number of work days, the growth rate in 2020 is expected to be only 1.3%.

In view of the consistently strong capacity utilisation, companies are expected to continue investing in new equipment. However, according to the Council of Economic Experts, investment in equipment will likely rise more moderately owing to weaker export prospects and more pessimistic company forecasts. In addition, investment will be squeezed by the high rise in unit labour costs. Thus, demand for credit among companies will likewise only be moderate.

There are still risks to economic development. In addition to the uncertain outcome of the Brexit negotiations, the trade conflicts between the US, Europe and China are contributing to this in particular.

In light of the weaker economic performance and uncertain outlook, forecasts for interest rate hikes in the euro area this year have now been withdrawn entirely. Monetary policy is expected to remain highly expansionary in the forecast period.

Banks are still facing considerable challenges. Extensive regulatory requirements, the low-interest environment and intense competition are limiting banks' earnings opportunities. This is made more difficult by the fact that banks have reduced their risk provisions in recent years, not least on account of the good economic performance. A more significant economic slowdown could trigger adjustment requirements, thereby driving up risk provisions. This could further impair the profitability of banks, reduce their equity and limit lending capabilities. Furthermore, Europe still has high levels of non-performing loans (NPL). Just as

the reduction of these loans was aided by the economic environment in recent years, a deterioration of economic circumstances would likely cause a resurgence in NPL levels.

At the same time, conditions are changing due to factors including technological innovations in the area of finance and growth in demand for financing for intangible assets. The expansionary monetary policy could also lead to a build-up of systemic risk.

The high indebtedness of sovereign states and companies remains a risk. Developments in Italy last year showed that doubts as to the sustainability of public finance can lead to an abrupt rise in risk premiums, potentially triggering distortion on the financial markets.

Net assets

By way of notification dated 21 March 2019, the German Federal Financial Supervisory Authority authorised IKB to apply the IRB approach in accordance with Article 143(2) of Regulation (EU) No. 575/2013 effective 31 March 2019. The application of the IRB approach resulted in a reduction of risk-weighted assets and thus an increase in regulatory capital ratios. Continuing the IRB approach, the Bank expects its common equity tier 1 capital ratio to remain at the same level for the coming financial year.

For the 2019/20 financial year, the Bank expects to see a constant level of receivables from customers, as repayments and targeted sales will likely offset the slight growth in new lending business. The Bank will continue to be selective when it comes to new lending business in the financial year 2019/20 in order to generate appropriate income for the risks assumed and to take into account the growing requirements imposed by the banking authorities at an early stage. The development of the securities portfolio will depend to a large extent on liquidity requirements and the available investment opportunities.

The equity and liabilities side of the balance sheet will continue to be characterised by a diverse funding mix for asset refinancing in the forecast period, with deposit-taking business remaining an important component.

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

Liquidity situation

Deposit-taking business with retail customers, corporate clients and institutional investors and secured financing are key elements of IKB's refinancing. IKB will also continue to actively utilise programme loans and global loans from government development banks for its customers. At any time, the Bank also has the option of issuing bearer bonds and subordinated capital.

The funds thus generated are used to repay refinancing as it matures and to refinance new business. The future liquidity situation is also dependent on the development of new business, the extent to which customers draw on existing loan commitments, the investment behaviour of deposit customers, further developments in European deposit protection, agreements with the Deposit Protection Fund of the Association of German Banks, the options for secured refinancing on the interbank market and with the ECB and the market value development of collateral and derivatives.

IKB has sufficient liquidity even applying the defined stress scenarios. According to the Bank's planning, liquidity is ensured with a sufficient buffer.

IKB performs its regulatory liquidity management using the liquidity coverage ratio (LCR). For the financial year 2019/20, the Bank expects binding compliance with the statutory minimum requirement with an LCR comfortably in excess of 100%.

Leverage ratio

IKB assumes that the leverage ratio of the IKB Group will stay at the level of the current financial year in the 2019/20 financial year.

Results of operations

An appropriate risk/return ratio will continue to be key to IKB's lending policy in the coming financial year. IKB is forecasting slight growth in its net interest income in the 2019/20 financial year. With a constant level of receivables from customers, the Bank expects to see a slight increase in its average margins.

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

Further reductions in administrative costs in the Group are to be achieved through ongoing cost-cutting and optimisation measures. Accordingly, IKB expects its administrative expenses to decline slightly in the financial year 2019/20.

IKB expects a moderate improvement in its cost/income ratio as the ratio of administrative expenses to total net interest and commission income, as minor improvements are expected in terms of both costs and income.

Overall assessment

For the financial year 2019/20, the Bank is forecasting slightly positive consolidated result after taxes and a slightly positive result for IKB AG. The result for the coming financial year could be lower than expected if impacted by risks of negative economic developments not yet foreseeable.

6. Disclosures in accordance with section 312 AktG

IKB has prepared a dependent company report in accordance with section 312 of the German Stock Corporation Act (AktG). The dependent company report will not be made public. The closing statement of the Board of Managing Directors of the Bank in the dependent companies report is as follows: "With respect to the transactions and measures listed in the report on relationships with affiliated companies, according to the circumstances known to use at the time in which the transactions were carried out or measures performed or omitted, our company received at least appropriate and hence in no case disadvantageous compensation for every transaction and has therefore not been disadvantaged by any measures performed or omitted."

7. Corporate Governance Declaration

In the declaration below, the Board of Managing Directors reports – including on behalf of the Supervisory Board – on the determination of target figures for the proportion of women and deadlines for their attainment in the Supervisory Board, the Board of Managing Directors and the first two management levels below the Board of Managing Directors in accordance with section 289f (4) of the German Commercial Code (HGB).

At its meeting on 8 June 2017, the Supervisory Board of IKB determined a target figure of 11.1% (rounded) for the proportion of women in the Supervisory Board and 0% for the Board of Managing Directors as at 31 March 2022.

At its meeting on 27 June 2017, the Board of Managing Directors determined target figures for the proportion of women in the next two management levels below the Board of Managing Directors. The target figure for the proportion of women in the first management level was fixed at $\geq 5\%$ and in the second management level at $\geq 7\%$, in each case as at 31 March 2022.

Combined Annual Financial Statements of the Group and IKB Deutsche Industriebank AG for the Financial Year 2018/19

Consolidated balance sheet as at 31 March 2019

in € million	31 Mar. 2019	31 Mar. 2018
Assets		
Cash reserve	24.6	30.9
a) Cash on hand	-	-
b) Balances with central banks	24.6	30.9
thereof: with Deutsche Bundesbank	24.6	30.9
c) Balances in postal giro accounts	-	-
Debt instruments of public sector entities and bills of exchange eligible for refinancing of central banks	-	-
Receivables from banks	1,267.7	2,520.5
a) Repayable on demand	889.9	2,487.3
b) Other receivables	377.8	33.2
Receivables from customers	9,823.2	9,708.8
thereof: mortgage loans ¹⁾	683.7	754.1
thereof: public sector loans	304.1	351.7
Bonds and other fixed-income securities	3,953.4	3,904.7
a) Money market securities	-	-
b) Bonds and notes	3,937.4	3,884.3
ba) Public sector issuers	2,238.0	2,455.2
thereof: eligible as collateral for Deutsche Bundesbank	2,238.0	2,404.7
bb) Other issuers	1,699.4	1,429.1
thereof: eligible as collateral for Deutsche Bundesbank	1,527.6	1,419.2
c) Own bonds	16.0	20.4
Nominal amount	15.6	19.9
Equities and other non-fixed-income securities	462.7	395.5
Assets held for trading	-	-
Equity investments	0.7	0.7
thereof: banks	0.2	0.2
thereof: financial services institutions	-	-
Investments in associated companies	-	-
thereof: banks	-	-
thereof: financial services institutions	-	-
Investments in affiliated companies	5.4	0.3
thereof: banks	-	-
thereof: financial services institutions	-	-
Assets held in trust	-	-
Compensation receivables on the public sector including debt securities arising from their exchange	-	-
Lease assets	-	8.1
Intangible assets	2.6	3.1
a) Internally generated industrial and similar rights and assets	-	-
b) Purchased concessions, industrial and similar rights and assets and licences in such rights and assets	2.6	3.1
c) Goodwill	-	-
d) Advance payments made	-	-
Tangible assets	16.9	218.7
Called unpaid capital	-	-
Other assets	329.7	162.1
Prepaid expenses	101.2	76.6
Deferred tax assets	136.6	180.2
Excess of plan assets over post-employment benefit liability	7.7	7.6
Total assets	16,132.4	17,217.8

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

in € million	31 Mar. 2019	31 Mar. 2018
Equity and liabilities		
Liabilities to banks	7,351.8	7,432.1
a) Repayable on demand	91.2	80.9
b) With agreed lifetime or notice period	7,260.7	7,351.2
Liabilities to customers	5,749.5	6,447.5
a) Savings deposits	-	-
b) Other liabilities	5,749.5	6,447.5
ba) Repayable on demand	1,228.3	1,202.6
bb) With agreed lifetime or notice period	4,521.2	5,244.9
Securitised liabilities	445.6	720.6
a) Bonds issued	445.6	720.6
b) Other securitised liabilities	-	-
Liabilities held for trading	-	-
Liabilities held in trust	-	-
Other liabilities	105.9	123.1
Deferred income	55.1	50.5
Deferred tax liabilities	-	-
Provisions	181.1	206.2
a) Provisions for pensions and similar obligations	68.2	45.5
b) Tax provisions	34.8	41.9
c) Other provisions	78.1	118.8
Subordinated liabilities	826.3	831.0
Profit participation capital	-	-
thereof: due within two years	-	-
Fund for general banking risks	585.0	585.0
thereof: trading-related special reserve according to section 340e (4) HGB	-	-
Equity	829.7	821.8
a) Called-up capital	1,621.5	1,621.5
Subscribed capital	1,621.5	1,621.5
Less uncalled unpaid contributions	-	-
Contingent capital	800.0	800.0
b) Capital reserves	1,750.7	1,750.7
c) Revenue reserves	2.7	-0.9
ca) Legal reserve	2.4	2.4
cb) Reserve for shares in a parent or majority investor	-	-
cc) Statutory reserves	-	-
cd) Other revenue reserves	0.3	-3.3
d) Difference in equity from currency translation	-	-0.2
e) Net accumulated losses	-2,592.1	-2,551.1
f) Non-controlling interests	47.0	1.8
Negative goodwill from capital consolidation	2.4	-
Total equity and liabilities	16,132.4	17,217.8
Contingent liabilities	2,264.9	1,944.0
a) Contingent liabilities from rediscounted and settled bills of exchange	-	-
b) Liabilities from guarantees and indemnity agreements	2,264.9	1,944.0
c) Liability arising from the provision of collateral for third-party liabilities	-	-
Other obligations	1,488.0	1,527.4
a) Repurchase obligations from non-genuine repurchase agreements	-	-
b) Placement and underwriting obligations	-	-
c) Irrevocable loan commitments	1,488.0	1,527.4

Balance sheet of IKB Deutsche Industriebank AG as at 31 March 2019

in € million	31 Mar. 2019	31 Mar. 2018
Assets		
Cash reserve	24.6	30.9
a) Cash on hand	-	-
b) Balances with central banks	24.6	30.9
thereof: with Deutsche Bundesbank	24.6	30.9
c) Balances in postal giro accounts	-	-
Debt instruments of public sector entities and bills of exchange eligible for refinancing of central banks	-	-
Receivables from banks	1,263.5	2,308.7
a) Repayable on demand	885.9	2,275.5
b) Other receivables	377.6	33.2
Receivables from customers	10,651.8	10,968.8
thereof: mortgage loans	687.0	757.4
thereof: public sector loans	304.1	351.7
Bonds and other fixed-income securities	3,962.8	3,925.3
a) Money market securities	-	-
b) Bonds and notes	3,946.8	3,904.9
ba) Public sector issuers	2,238.0	2,455.2
thereof: eligible as collateral for Deutsche Bundesbank	2,238.0	2,404.7
bb) Other issuers	1,708.8	1,449.7
thereof: eligible as collateral for Deutsche Bundesbank	1,536.9	1,439.9
c) Own bonds	16.0	20.4
Nominal amount	15.6	19.9
Equities and other non-fixed-income securities	-	1.9
Assets held for trading	-	-
Equity investments	0.2	0.2
thereof: banks	0.2	0.2
thereof: financial services institutions	-	-
Investments in affiliated companies	259.1	271.5
thereof: banks	-	-
Assets held in trust	-	-
Compensation receivables on the public sector including debt securities arising from their exchange	-	-
Intangible assets	2.6	3.1
a) Internally generated industrial and similar rights and assets	-	-
b) Purchased concessions, industrial and similar rights and assets and licences in such rights and assets	2.6	3.1
c) Goodwill	-	-
d) Advance payments made	-	-
Tangible assets	2.5	4.2
Called unpaid capital	-	-
Other assets	317.6	155.8
Prepaid expenses	81.2	88.4
Deferred tax assets	137.0	181.0
Excess of plan assets over post-employment benefit liability	7.5	7.4
Total assets	16,710.2	17,947.2

in € million	31 Mar. 2019	31 Mar. 2018
Equity and liabilities		
Liabilities to banks	7,349.6	7,429.9
a) Repayable on demand	91.0	80.9
b) With agreed lifetime or notice period	7,258.6	7,349.0
Liabilities to customers	5,884.9	6,521.6
a) Savings deposits	-	-
b) Other liabilities	5,884.9	6,521.6
ba) Repayable on demand	1,269.4	1,282.3
bb) With agreed lifetime or notice period	4,615.6	5,239.3
Securitised liabilities	865.9	1,140.9
a) Bonds issued	865.9	1,140.9
b) Other securitised liabilities	-	-
Liabilities held for trading	-	-
Liabilities held in trust	-	-
Other liabilities	104.4	279.8
Deferred income	55.1	61.3
Deferred tax liabilities	-	-
Provisions	172.5	186.7
a) Provisions for pensions and similar obligations	63.1	40.9
b) Tax provisions	33.6	40.9
c) Other provisions	75.8	104.9
Subordinated liabilities	826.3	831.0
Profit participation capital	-	-
Fund for general banking risks	585.0	585.0
thereof: trading-related special reserve according to section 340e (4) HGB	-	-
Equity	866.5	911.0
a) Called-up capital	1,621.5	1,621.5
Subscribed capital	1,621.5	1,621.5
Less uncalled unpaid contributions	-	-
Contingent capital	800.0	800.0
b) Capital reserves	1,750.7	1,750.7
c) Revenue reserves	2.4	2.4
ca) Legal reserve	2.4	2.4
cb) Reserve for shares in a parent or majority investor	-	-
cc) Statutory reserves	-	-
cd) Other revenue reserves	-	-
e) Net accumulated losses	-2,508.1	-2,463.6
Total equity and liabilities	16,710.2	17,947.2
Contingent liabilities	2,322.9	2,006.5
a) Contingent liabilities from rediscounted and settled bills of exchange	-	-
b) Liabilities from guarantees and indemnity agreements	2,322.9	2,006.5
c) Liability arising from the provision of collateral for third-party liabilities	-	-
Other obligations	1,488.0	1,531.7
a) Repurchase obligations from non-genuine repurchase agreements	-	-
b) Placement and underwriting obligations	-	-
c) Irrevocable loan commitments	1,488.0	1,531.7

Consolidated income statement for the period from 1 April 2018 to 31 March 2019

in € million	2018/19	2017/18	2017/18 restated ¹⁾
Expenses			
Lease expenses	-1.9	-236.7	-3.2
Interest expenses	-247.6	-411.5	-397.5
thereof: positive interest	41.5	21.5	19.6
Commission expenses	-3.4	-15.7	-6.1
Net trading results	-	-	-
General administrative expenses	-184.2	-260.5	-204.5
a) Personnel expenses	-98.6	-153.0	-117.0
aa) Wages and salaries	-84.9	-131.0	-100.9
ab) Social security, post-employment and other employee benefit costs	-13.6	-22.0	-16.1
thereof: for pensions	-3.4	-5.1	-4.0
b) Other administrative expenses	-85.7	-107.5	-87.5
Amortisation and write-downs on intangible fixed assets and depreciation and write-downs of tangible fixed assets	-9.9	-272.6	-9.9
a) On lease assets	-1.7	-262.4	-1.2
b) On intangible and tangible assets	-8.2	-10.2	-8.7
Other operating expenses	-616.8	-381.4	-340.9
Expenses for the addition to the fund for general banking risks	-	-	-
Depreciation and write-downs of receivables, specific securities and additions to loan loss provisions	-35.7	-	-
Depreciation and write-downs of equity investments, investments in affiliated companies and long-term investments	-34.6	-8.0	-7.8
Costs of loss absorption	-0.2	-	-11.1
Extraordinary expenses	-191.7	-476.2	-420.1
Income taxes	64.7	-70.6	-61.9
Other taxes not reported under "Other operating expenses"	-0.8	-2.1	-0.8
Net income for the financial year	-	-	-
Total expenses	-1,262.1	-2,135.3	-1,463.8

1) Figures for the prior-year comparative period from 1 April 2017 to 31 March 2018 restated for improved comparability due to significant changes in the consolidated group

in € million	2018/19	2017/18	2017/18 restated ¹⁾
Income			
Lease income	5.6	549.1	7.4
Interest income from	437.8	648.0	607.5
a) Lending and money market transactions	377.4	566.2	525.6
thereof: negative interest	28.9	23.0	22.4
b) Fixed-income securities and government-inscribed debts	60.4	81.8	81.9
thereof: negative interest	-	-	-
Current income from	0.4	2.1	0.4
a) Equities and other non-fixed-income securities	0.2	0.3	0.3
b) Equity investments	0.2	0.1	0.1
c) Investments in associates	-	1.7	-
d) Investments in affiliated companies	-	-	-
Income from profit-pooling, profit transfer and partial profit transfer agreements	-	-	-
Commission income	40.5	54.5	44.8
Net trading results	-	-	-
Income from reversals of write-downs on receivables and certain securities and from the reversal of loan loss provisions	-	32.7	34.5
Income from reversals of write-downs of equity investments, investments in affiliated companies and long-term investment securities	169.8	158.0	157.9
Other operating income	497.4	255.9	221.5
Income from the reversal of the fund for general banking risks	-	-	-
Extraordinary income	70.1	219.5	219.5
Income from assumption of losses	-	-	-
Net loss for the financial year	40.5	215.4	170.4
Total income	1,262.1	2,135.3	1,463.8
Net income/loss for the financial year	-41.0	-215.5	-170.6
Non-controlling interests	0.5	0.2	0.2
Loss carryforward from the previous year	-2,551.1	-2,335.6	-2,380.5
Withdrawals from capital reserves	-	-	-
Withdrawals from revenue reserves	-	-	-
Withdrawals from profit participation capital	-	-	-
Withdrawals from silent partnership contributions	-	-	-
Allocations to revenue reserves	-	-	-
Replenishment of profit participation capital	-	-	-
Net accumulated losses	-2,592.1	-2,551.1	-2,551.1

1) Figures for the prior-year comparative period from 1 April 2017 to 31 March 2018 restated for improved comparability due to significant changes in the consolidated group

Income statement of IKB Deutsche Industriebank AG for the period from 1 April 2018 to 31 March 2019

in € million	2018/19	2017/18
Expenses		
Interest expenses	-315.3	-413.8
thereof: positive interest	41.5	20.1
Commission expenses	-2.6	-5.8
Net trading results	-	-
General administrative expenses	-184.9	-206.5
a) Personnel expenses	-96.6	-111.7
aa) Wages and salaries	-83.1	-96.6
ab) Social security, post-employment and other employee benefit costs	-13.4	-15.1
thereof: for pensions	-3.3	-3.7
b) Other administrative expenses	-88.3	-94.8
Amortisation and write-downs on intangible fixed assets and depreciation and write-downs on tangible fixed assets	-2.0	-2.7
Other operating expenses	-597.9	-319.3
Expenses for the addition to the fund for general banking risks	-	-
Depreciation and write-downs of receivables, specific securities and additions to loan loss provisions	-35.1	-
Depreciation and write-downs of equity investments, investments in affiliated companies and long-term investments	-49.1	-8.5
Costs of loss absorption	-4.1	-161.8
Extraordinary expenses	-176.5	-357.2
Income taxes	64.9	-62.3
Other taxes not reported under "Other operating expenses"	-0.2	-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	-1,302.8	-1,538.0

in € million	2018/19	2017/18
Income		
Interest income from	497.2	620.6
a) Lending and money market transactions	440.6	546.1
thereof: negative interest	28.9	22.7
b) Fixed-income securities and government-inscribed debts	56.7	74.5
thereof: negative interest	-	-
Current income from	52.4	3.0
a) Equities and other non-fixed-income securities	0.2	0.2
b) Equity investments	-	-
c) Investments in affiliated companies	52.2	2.8
Income from profit-pooling, profit transfer and partial profit transfer agreements	12.5	1.9
Commission income	40.7	45.1
Net trading results	-	-
Income from reversals of write-downs on receivables and certain securities and from the reversal of loan loss provisions	-	42.1
Income from reversals of write-downs of equity investments, investments in affiliated companies and long-term investment securities	164.9	125.5
Other operating income	477.6	186.2
Income from the reversal of the fund for general banking risks	-	-
Extraordinary income	13.1	217.3
Income from assumption of losses	-	-
Net loss for the financial year	44.5	296.3
Total income	1,302.8	1,538.0
Net income/loss for the financial year	-44.5	-296.3
Loss carryforward from the previous year	-2,463.6	-2,167.3
Withdrawals from capital reserves	-	-
Withdrawals from revenue reserves	-	-
Withdrawals from profit participation capital	-	-
Withdrawals from silent partnership contributions	-	-
Allocations to revenue reserves	-	-
Replenishment of profit participation capital	-	-
Net accumulated losses	-2,508.1	-2,463.6

Consolidated cash flow statement

in € million	2018/19
Net income for the period (consolidated net income/loss for the year including minority interest)	-40.5
+/- Amortisation/depreciation, write-downs and reversals thereof on receivables and fixed assets	53.7
+/- Increase/decrease in provisions	-55.8
+/- Other non-cash expenses/income	4.7
-/+ Gain/loss on the disposal of fixed assets	-136.4
+/- Other adjustments (net)	-33.3
+/- Increase/decrease in receivables from banks	1,226.4
+/- Increase/decrease in receivables from customers	-213.9
+/- Increase/decrease in securities (if not long-term investments)	4.3
+/- Increase/decrease in lease assets	-0.1
+ Receipts from disposal	0.2
- Payments for acquisition	-0.2
+/- Increase/decrease in other assets from operating activities	-6.6
+/- Increase/decrease in liabilities to banks	150.1
+/- Increase/decrease in liabilities to customers	-687.9
+/- Increase/decrease in securitised liabilities	-272.8
+/- Increase/decrease in other liabilities from operating activities	14.2
+/- Interest expenses/interest income	-190.6
+/- Lease expenses/lease income	-3.6
+/- Expenses/income from extraordinary items	121.6
+/- Income tax expenses/income	-64.7
+ Interest and dividends received	435.9
- Interest paid	-284.6
+/- Cash flows received/paid in leasing activities	3.6
+ Extraordinary receipts	23.2
- Extraordinary payments	-176.2
+/- Income tax payments	0.1
Cash flow from operating activities	-129.2
+ Receipts from the disposal of long-term investments	2,228.4
- Payments for the acquisition of long-term investments	-2,219.5
+ Receipts from the disposal of tangible assets	192.5
- Payments for the acquisition of tangible assets	-0.9
+ Receipts from the disposal of intangible assets	-
- Payments for the acquisition of intangible assets	-0.5
+ Receipts from disposals from consolidated group	6.1
- Payments for additions to consolidated group	-92.9
+/- Change in cash funds from other investing activities (net)	-4.5
+ Receipts from extraordinary items	15.7
- Payment for extraordinary items	-2.1
Cash flow from investing activities	122.3
+ 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	-0.4
+ Receipt from extraordinary items	-
- Payment for extraordinary items	-
- Dividends paid to shareholders of the parent company	-
- Dividends paid to other shareholders	-0.9
+/- Change in cash funds from other capital (net)	1.7
Cash flow from financing activities	0.4

in € million	2018/19
Net change in cash funds	-6.3
+/- 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	30.9
Cash funds at end of period	24.6

Notes on the consolidated cash flow statement

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

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

- operating activities,
- investing activities and
- financing activities

to cash funds at the end of the financial year.

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

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

The cash flow from investing activities shows incoming and outgoing payments from positions whose general purpose is a long-term investment or use. For banks, this includes payments from the disposal and acquisition of financial and tangible assets in particular. Additions and disposals resulting from the addition to and disposal from the consolidated group are also taken into account.

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

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

Applied accounting principles

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

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

The consolidated financial statements (Group) and the annual financial statements (IKB AG) of IKB Deutsche Industriebank AG for the financial year 2018/19 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 (DRS) promulgated by the German Standardisation Council (DSR) and endorsed by the Federal Ministry of Justice in accordance with section 342 (2) HGB.

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

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

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

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

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

(2) Changes in presentation and measurement

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

The new mortality tables published by Heubeck Richttafeln GmbH (2018 G mortality tables) set out material parameters for the measurement of pension provisions. The new mortality tables reflect the latest developments in terms of probable life expectancy, invalidity, marriage and employee fluctuation and were applied in determining the necessary settlement amount for the pension obligations. Unlike in the previous year, as-

assumptions of 0%/1.5% were applied for the wage and salary increase. The other assumptions remained unchanged. The transition to the 2018 G Heubeck mortality tables results in a non-recurring expense of € 2.3 million. This was more than offset by a reduction in expenses of around € 7.5 million due to the change in assumptions concerning the wage and salary trend, resulting in a positive overall earnings effect of € 5.2 million in the period under review. This was recognised in the income statement as a reduction in personnel expenses in the current financial year and other operating income (€ 6.1 million).

In accordance with section 67 (1) sentence 1 of the Einführungsgesetz zum Handelsgesetzbuch (EGHGB – Introductory Act to the German Commercial Code), the Bank previously exercised the option to add at least one fifteenth of the additional provision required on account of the change in the measurement of pension obligations due to BilMoG each financial year. In a departure from this, the scheduled addition in the period under review was accompanied by the recognition of an extraordinary addition corresponding to the BilMoG (Bilanzrechtsmodernisierungsgesetz – German Act to Modernise Accounting Law) transition amount of € 1.7 million as an extraordinary expense at the level of IKB AG and the IKB Group (see note (45)).

Information on the effects of the transition to the new mortality tables, the change in the assumptions concerning the wage and salary increase and the recognition of the BilMoG transition expense can be found in note (36) (Pension provisions), note (45) (Extraordinary income and expenses) and note (51) (Other operating income).

Since October 2018, the fair values of customer derivatives have no longer been adjusted for outstanding net present value of margins. The fair values of customer derivatives increased by € 6.9 million at the date on which this change was applied. The reported fair values would have been € 8.3 million higher as at 31 March 2018.

(3) Consolidated group

In addition to IKB AG, 22 (31 March 2018: 30) subsidiaries have been included in consolidation in the consolidated financial statements as at 31 March 2019. A further 27 (31 March 2018: 30) subsidiaries were excluded from consolidation in accordance with section 296 (2) and section 311 (2) HGB. The non-consolidation of these companies does not result in a significantly different view of the economic position of the Group than if they were included in consolidation.

Valin Mittelstand Senior Debt Fund S.A., SICAV-SIF, Luxembourg, Luxembourg, is fully consolidated for the first time as a result of the shares purchased by IKB AG effective 31 December 2018.

The following companies were removed from the consolidated group:

In October 2018, Tempelhofer Hafen GmbH & Co. KG i.L., Düsseldorf, was deconsolidated on account of its insignificance in accordance with section 296 (2) HGB. The deconsolidation has not had any material effects.

IKB Leasing SR, s.r.o. v likvidácii, Bratislava, Slovakia, sold its business operations in October 2018. The company subsequently went into liquidation and was deconsolidated on account of its insignificance for the net assets, financial assets and results of operations in accordance with section 296 (2) HGB. The deconsolidation effect amounted to € -0.8 million.

IKB Leasing S.A., Bucharest, Romania, and IKB Leasing Finance IFN S.A., Bucharest, Romania, were sold in November 2018. The resulting expense amounted to € 2.0 million (deconsolidation effect € -5.0 million, utilisation of provision € 3.0 million).

Following the disposal of the business operations in Slovakia and the sale of the Romanian leasing companies, the controlling companies Rhodana GmbH, Düsseldorf, and Ligera GmbH, Düsseldorf, were deconsol-

dated on account of their insignificance for the Group's net assets, financial assets and results of operations in accordance with section 296 (2) HGB. This did not give rise to any consolidation effect.

In December 2018, IKB Grundstücks GmbH, Düsseldorf, was merged into IKB AG with retrospective effect from 1 April 2018.

IKB Grundstücks GmbH & Co. Objekt Holzhausen KG, Düsseldorf, was absorbed into IKB AG in December 2018 as a result of the merger of its general partner, IKB Grundstücks GmbH .

Following the exit of the limited partner, SOMANA Verwaltung GmbH, Pullach i. Isartal, IKB Grundbesitzgesellschaft Frankfurt GmbH & Co. KG, Frankfurt/Main, was absorbed into IKB AG in December 2018 as a result of the merger of its general partner, IKB Grundstücks GmbH.

For further information, please refer to note (53).

(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 2019 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 BilMoG, capital consolidation for companies included in consolidation for the first time has been in line with the revaluation method in accordance with section 301 HGB. Before the BilMoG came into effect, the book value method was used for companies included in consolidation for the first time.

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

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

Increases in shares in subsidiaries are interpreted as capital measures within the meaning of DRS 23, meaning the assets and liabilities are not remeasured. Instead, the cost of the additional shares is offset against the respective minority interest in the equity of the subsidiary at the date on which the additional shares are acquired. Any difference arising as a result is taken directly to consolidated equity.

Accounting policies

(5) Receivables

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

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

Lease receivables were acquired in the context of true forfaiting in connection with the sale of the IKB Leasing Group in the financial year 2017/18. The claims to payment under the leases were transferred to an IKB subsidiary and are reported in the consolidated financial statements as receivables from customers at the amount of the purchase price, taking provisions for possible loan losses into account. Incoming payments on the forfeited receivables are divided into payments of principal and interest with a constant effective interest rate. The incoming payments are not divided into payments of principal and interest if the forfeited receivable was already impaired when purchased. The incoming payments are initially treated as payments of principal. Excess incoming payments are only recognised in the income statement after the principal has been repaid in full.

(6) Provisions for possible loan losses

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

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

As a matter of principle, general allowances and generally calculated provisions for customer receivables and contingent liabilities from guarantees are calculated in accordance with the letter from the Federal Ministry of Finance dated 10 January 1994. In so doing, historical credit losses are taken as a basis and multiplied by a cyclical factor in order to accommodate the general economic situation. In order to estimate current latent counterparty risks, however, a general allowance is recognised in at least the amount of an estimated one-year expected loss on this portfolio.

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

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

For non-recourse financing of lease assets, there is also default risk for the lessee in addition to the default risk for the leasing company. This double default risk is taken into account when recognising general allow-

ances by recognising general allowances for the default risk of lessees on the basis of estimated one-year losses in addition to calculating the general allowance for the leasing company.

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

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

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

To cover country risk, a global valuation allowance was recognised for the credit volume in high-risk countries outside the European Union with internal ratings from class 8 for which the risk has not been placed with third parties. The general allowance for country risk is recognised in the amount of at least the one-year expected loss. The Bank considers whether additional country risk provisioning appears necessary on a case-by-case basis. Accordingly, as in the previous year, country risk provisioning within the tax ranges was recognised for rating classes 13-15 as at 31 March 2019, taking into account risk-mitigating factors for individual exposures.

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

(7) Securities

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

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

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

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

Structured financial instruments are recognised in accordance with the principles of IDW RS HFA 22. The principle of uniform accounting is only deviated from if the structured financial instrument has significantly

elevated or additional risks or opportunities compared to the underlying on account of embedded derivatives.

(8) Securities repurchase and lending transactions

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

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

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

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

Investments in affiliated companies and investees and investors are carried at the lower of acquisition cost or fair value. They are measured in line with the less strict principle of lower of cost or market value under section 340e (1) sentence 1 HGB in conjunction with section 253 (3) sentence 5 HGB.

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

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

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

(10) Lease assets

Assets of lease companies of the Group intended for leasing are reported in the consolidated balance sheet as lease assets if the IKB Group is the beneficial owner. The disposal of the last leasing companies in the year under review (further information can be found in note (3)) means the IKB Group no longer reports any lease assets in the financial year 2018/19.

Income from disposals of lease assets and other associated income from the leasing companies sold are reported in “Lease income” in the consolidated income statement. The cost of disposals of lease assets and other associated expenses in the Group are contained in the item “Lease expenses”. The costs of refinancing lease assets are reported in interest expense.

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

(11) Deferred taxes

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

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

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

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

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

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

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

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

(13) Liabilities

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

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

(14) Provisions

Provisions for pensions and similar obligations

Pension liabilities are carried at the settlement amount necessary in line with prudent business judgement. The 2018 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. 2019 Assumption	31 Mar. 2018 Assumption
Interest rate (7 or 10-year average)	2.24%/3.07%	2.68%/3.57%
Wage and salary increase	0.0%/1.5%	2.0%/3.0%
Pension trend	1.75%	1.75%
Fluctuation rate in line with grading by age and sex		
Age up to 35 m/f	6.0%/6.0%	6.0%/6.0%
Age from 36 to 45 m/f	4.0%/4.0%	4.0%/4.0%
Age over 45 m/f	1.5%/1.5%	1.5%/1.5%

In accordance with section 253 HGB, pension provisions are discounted using the average market interest rate for the past ten years for a general remaining term of 15 years (see note (36)). The average market interest rate for the past seven years is still used for discounting similar obligations. The interest rate was announced by the Bundesbank in line with the German Regulation on the Discounting of Provisions (Rückstellungsabzinsungsverordnung – RückAbzinsV). For securities-linked commitments, provisions are carried in the amount of the fair value of the plan assets if a guaranteed minimum amount is exceeded.

In accordance with section 67 (1) sentence 1 EGHGB, the option is exercised to add at least one fifteenth of the additional provision required on account of the change in the measurement of pension obligations due to BilMoG each financial year (see note (36)). In a departure from this, an additional amount from the transition to BilMoG is recognised as an extraordinary expense. With this additional expense, the BilMoG transition amount has been fully recognised in profit or loss. The Bank also exercises the option not to recognise indirect pension obligations (2015 pension fund plan) in its balance sheet.

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

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

Tax provisions and other provisions

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

banking items in subsequent periods is reported under other operating expenses. The interest effect on provisions in connection with banking items is reported in interest expenses.

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

(15) Contingent liabilities and other obligations

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

(16) Extraordinary result

In accordance with section 340a (2) HGB, banks must report the expenses they incur and the income they generate outside ordinary business activities under “Extraordinary expenses” and “Extraordinary income”. Accordingly, this item includes expenses resulting from extraordinary measures to simplify the capital structure (particularly expenses in connection with the replacement of other financial commitments from debtor warrants in exchange for cash payment). This item also includes expenses and income in connection with the disposal of significant equity investments in Group companies, the sale of the property used for business purposes or business restructuring measures, as well as expenses from the transfer to pension provisions due to the BilMoG transition (see note (14)).

(17) Derivatives

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

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

Interest derivatives are measured loss-free at present value together with all other interest-bearing financial instruments in accordance with the principles of IDW RS BFA 3. The present value of the interest-bearing transaction is offset against the corresponding carrying amounts, taking into account administrative and risk costs and anticipated refinancing costs. The method for calculating interest rate-related present values has been amended in response to circular 9/2018 (BA). Future cash flows are now also discounted for the purposes of loss-free measurement of the banking book using a uniform interest rate curve per currency. IKB takes into account the refinancing effect of equity for the period in which no distributions are currently expected by assuming zero interest on equity for the notional closing of excess assets. Loss-free measurement in accordance with IDW RS BFA 3 did not give rise to any provision requirements even applying the new measurement method.

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

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

(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". There were no longer any foreign-currency financial statements in the Group as at 31 March 2019.

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

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

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

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

Notes on the balance sheet

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

in € million	Group		IKB AG	
	31 Mar. 2019	31 Mar. 2018	31 Mar. 2019	31 Mar. 2018
Receivables from banks¹⁾	377.8	33.2	377.6	33.2
remaining term				
up to 3 months	4.0	3.1	3.9	3.1
between 3 months and 1 year	353.7	3.6	353.7	3.6
between 1 and 5 years	20.1	26.5	20.0	26.5
more than 5 years	-	-	-	-
Receivables from customers	9,823.2	9,708.8	10,651.8	10,968.8
remaining term				
up to 3 months	754.9	834.4	757.7	833.6
between 3 months and 1 year	1,210.1	1,313.0	1,616.3	1,718.9
between 1 and 5 years	5,776.0	5,537.8	5,903.3	5,602.1
more than 5 years	2,082.2	2,023.6	2,374.5	2,814.2
Liabilities to banks¹⁾	7,260.7	7,351.2	7,258.6	7,349.0
remaining term				
up to 3 months	547.3	484.7	546.8	484.3
between 3 months and 1 year	681.4	720.7	681.3	720.6
between 1 and 5 years	4,710.3	4,876.1	4,708.8	4,874.4
more than 5 years	1,321.7	1,269.7	1,321.7	1,269.7
Liabilities to customers¹⁾	4,521.2	5,244.9	4,615.6	5,239.3
remaining term				
up to 3 months	382.6	525.3	378.7	521.4
between 3 months and 1 year	1,539.8	1,368.6	1,639.8	1,368.6
between 1 and 5 years	2,214.1	2,851.6	2,212.3	2,849.9
more than 5 years	384.8	499.4	384.8	499.4

1) not including receivables or liabilities repayable on demand

€ 83.0 million (previous year: € 81.3 million) of bonds and other fixed-income securities are payable in the following year in the Group and € 83.0 million (previous year: € 81.3 million) are payable in the following year at IKB AG. € 195.9 million (previous year: € 267.3 million) of the bonds issued and reported under securitised liabilities are payable in the following year in the Group and € 196.1 million (previous year: € 267.5 million) are payable in the following year at IKB AG.

(20) Foreign-currency assets

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

in € million	Group		IKB AG	
	31 Mar. 2019	31 Mar. 2018	31 Mar. 2019	31 Mar. 2018
Assets	527.1	514.1	527.4	511.6

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

(21) Repurchase agreements

The carrying amount of assets reported in the balance sheet as at the reporting date and transferred in genuine agreements is € 283.6 million (previous year: € 195.2 million) in the Group and € 283.6 million (previous year: € 195.4 million) at IKB AG.

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

Group				
	31 Mar. 2019		31 Mar. 2018	
in € million	Affiliated companies	Investees and investors	Affiliated companies	Investees and investors
Receivables from customers	9.7	-	9.7	-
Other assets	-	-	-	-

IKB AG				
	31 Mar. 2019		31 Mar. 2018	
in € million	Affiliated companies	Investees and investors	Affiliated companies	Investees and investors
Receivables from customers	1,129.2	-	1,712.6	-
Other assets	49.4	-	8.2	-

(23) Fixed assets

Group:

in € million	Intangible assets	Tangible assets	Lease assets	Equity investments	Investments in affiliated companies	Bonds and other fixed-income securities	Equities and other non-fixed-income securities	Total
Acquisition costs as at 31 Mar. 2018	38.1	249.4	12.1	1.7	1.5	3,886.7	400.4	4,589.9
Additions to the consolidated group	-	-	-	-	-	-	-	-
Additions	0.5	0.9	0.2	-	-	2,174.5	77.4	2,253.5
Reclassifications	-	-	-	-	43.9	-	-7.4	36.5
Effects of currency translation	-	-	-	-	-	0.8	-	0.8
Disposals from the consolidated group	-	-0.1	-12.2	-	-2.6	-	-	-14.9
Disposals	-10.4	-228.3	-0.2	-	-0.7	-2,120.5	-5.4	-2,365.5
Acquisition costs as at 31 Mar. 2019	28.2	21.8	-	1.7	42.1	3,941.5	464.9	4,500.2
Cumulative depreciation/ amortisation, write-downs and reversals thereof by 31 Mar. 2018	-35.0	-30.7	-4.0	-1.0	-1.2	-2.4	-4.9	-79.2
Reversals of write-downs	-	-	-	-	0.1	0.9	-	1.0
Depreciation/amortisation and write-downs	-1.0	-7.2	-1.7	-	-0.1	-2.5	-0.8	-13.3
Reclassifications	-	-	-	-	-36.1	-	-	-36.1
Effects of currency translation	-	-	-	-	-	-	-	-
Disposals from the consolidated group	-	0.1	5.6	-	-	-	-	5.7
Disposals	10.4	32.9	0.1	-	0.5	-	3.5	47.4
Cumulative depreciation/ amortisation, write-downs and reversals thereof by 31 Mar. 2019	-25.7	-4.9	-	-0.9	-36.7	-4.1	-2.2	-74.5
Residual carrying amount as at 31 Mar. 2019	2.6	16.9	-	0.7	5.4	3,937.4	462.7	4,425.7
Residual carrying amount as at 31 Mar. 2018	3.1	218.7	8.1	0.7	0.3	3,884.3	395.5	4,510.7

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

IKB AG:

in € million	Intangible assets ¹⁾	Tangible assets	Equity investments	Investments in affiliated companies	Bonds and other fixed-income securities	Equities and other non-fixed-income securities	Total
Acquisition costs as at 31 Mar. 2018	81.3	12.4	0.6	1,260.7	3,907.3	1.9	5,264.2
Additions	0.5	0.9	-	100.4	2,174.9	7.4	2,284.1
Reclassifications	-	-	-	-	-	-7.4	-7.4
Effects of currency translation	-	-	-	-	0.8	-	0.8
Disposals	-53.6	-8.1	-	-101.2	-2,132.1	-1.9	-2,296.9
Acquisition costs as at 31 Mar. 2019	28.2	5.2	0.6	1,259.9	3,950.9	-	5,244.8
Cumulative depreciation/amortisation, write-downs and reversals thereof by 31 Mar. 2018	-78.2	-8.2	-0.4	-989.2	-2.4	-	-1,078.4
Reversals of write-downs	-	-	-	3.7	0.9	-	4.6
Depreciation/amortisation and write-downs	-1.0	-0.9	-	-15.3	-2.5	-	-19.7
Reclassifications	-	-	-	-	-	-	-
Effects of currency translation	-	-	-	-	-	-	-
Disposals	53.6	6.5	-	-	-	-	60.1
Cumulative depreciation/amortisation, write-downs and reversals thereof by 31 Mar. 2019	-25.7	-2.7	-0.4	-1,000.9	-4.1	-	-1,033.4
Residual carrying amount as at 31 Mar. 2019	2.6	2.5	0.2	259.1	3,946.8	-	4,211.4
Residual carrying amount as at 31 Mar. 2018	3.1	4.2	0.2	271.5	3,904.9	1.9	4,185.8

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

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

€ 43.2 million of the disposals of acquisition costs and cumulative depreciation/amortisation, write-downs and reversals thereof for intangible assets of IKB AG result from the fact that the goodwill from the past acquisition of the new customer derivative business of a Luxembourg subsidiary, which had already been written down in full, was derecognised in full due to the absence of future use. Additional disposals of € 10.4 million in the Group and at IKB AG result from an IT inventory, which involved the derecognition of acquisition costs and cumulative depreciation/amortisation, write-downs and reversals thereof for IT assets that are no longer used.

A building used by a third party with a carrying amount of € 14.4 million (previous year: € 16.6 million) is recognised in tangible assets in the Group. The two buildings partially used for banking purposes that were held in the previous year, IKB's headquarters in Düsseldorf and the IKB branch in Frankfurt/Main (previous year: carrying amount of € 197.8 million), were sold in the period under review, meaning that no buildings partially used for banking purposes were held at the reporting date. As in the previous year, IKB AG had no buildings in its portfolio.

Operating and office equipment was included in tangible assets at € 2.5 million (previous year: € 4.3 million) in the Group and € 2.5 million (previous year: € 4.2 million) at IKB AG.

The decline in lease assets in the Group is due to the sale of IKB Leasing S.A., Bucharest, Romania, in November 2018.

The reclassifications of acquisition costs and cumulative depreciation/amortisation, write-downs and reversals thereof to investments in affiliated companies in the Group result in particular from the fact that

Tempelhofer Hafen GmbH & Co. KG i.L., Düsseldorf, Rhodana GmbH, Düsseldorf, and IKB Leasing SR, s.r.o.v likvidácii, Bratislava, Slovakia, were deconsolidated in the period under review, meaning that the shares in these companies are reported as investments in affiliated companies at the reporting date.

The additions to investments in affiliated companies at IKB AG are due to the shares purchased in Valin Mittelstand Senior Debt Fund S.A., SICAV-SIF, Luxembourg, Luxembourg. The disposals of investments in affiliated companies at IKB AG are due in particular to the partial repayment of the free capital reserves in the amount of € 87 million by IKB Real Estate Holding GmbH, Düsseldorf, that was made possible by the sale of IKB's headquarters in Düsseldorf, as well as the shares in IKB Grundstücks GmbH & Co. Objekt Holzhausen KG, Düsseldorf, (€ 13.2 million) that ceased to exist as a result of the latter's absorption into IKB AG.

Write-downs on investments in affiliated companies at IKB AG relate in particular to a write-down of € 15.1 million on the carrying amount of the investment in IKB Lux Beteiligungen S.à.r.l., Munsbach, which corresponds to the amount distributed as retained profits. Reversals of write-downs on investments in affiliated companies at IKB AG in the amount of € 3.7 million relate to the reversal of a write-down on the investment in IKB Grundstücks GmbH & Co. Objekt Holzhausen KG, Düsseldorf, the limited partner of IKB Grundbesitzgesellschaft Frankfurt GmbH & Co. KG. The change in the carrying amount of the investment reflected the gains on the disposal of the bank building in Frankfurt/Main.

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

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

In total, there were unrealised losses from long-term investments of € 16.0 million (previous year: € 38.3 million) based on the carrying amounts of € 619.9 million (previous year: € 944.7 million) and the fair values of € 603.9 million (previous year: € 906.4 million). At IKB AG, unrealised losses for long-term investments amounted to a total of € 14.7 million (previous year: € 34.6 million) based on carrying amounts of € 535.4 million (previous year: € 1,032.0 million) and fair values of € 520.7 million (previous year: € 997.4 million). All unrealised gains and losses on long-term investments are presented in note (61).

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

In the current financial year, write-downs on fixed assets for impairment that is expected to be permanent were recognised in the amount of € 0.7 million (previous year: € 0.5 million) in the Group and € 15.3 million (previous year: € 0.2 million) at IKB AG.

The reported amounts do not include deferred interest.

(24) Subordinated assets

in € million	Group		IKB AG	
	31 Mar. 2019	31 Mar. 2018	31 Mar. 2019	31 Mar. 2018
Receivables from customers	100.3	148.7	100.3	148.7
Bonds and other fixed-income securities	25.4	-	25.4	-
Total	125.7	148.7	125.7	148.7

(25) Negotiable securities

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

31 Mar. 2019 in € million	Group			IKB AG		
	Total negotiable	Listed	Not listed	Total negotiable	Listed	Not listed
Bonds and other fixed-income securities	3,953.4	3,884.1	69.3	3,962.8	3,893.5	69.3
Equities and other non-fixed-income securities	458.1	-	458.1	-	-	-
Equity investments	-	-	-	-	-	-

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

The item “Bonds and other fixed-income securities” includes the negotiable securities assigned to fixed assets of € 3,937.4 million (previous year: € 3,884.3 million) in the Group and € 3,946.8 million (previous year: € 3,904.9 million) at IKB AG. The item “Equities and other non-fixed-income securities” includes the negotiable securities assigned to fixed assets of € 458.1 million (previous year: € 390.2 million) in the Group and, in the previous year, € 1.9 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:

in € million	Group				IKB AG			
	Carrying amount	Fair value	Difference to carrying amount	Distribution	Carrying amount	Fair value	Difference to carrying amount	Distribution
Mixed funds	262.7	262.7	-	8.3	262.0	262.0	-	8.3
Other special funds	458.1	492.2	34.1	-	-	-	-	-
Total	720.8	754.9	34.1	8.3	262.0	262.0	-	8.3

in € million	Group				IKB AG			
	Carrying amount	Fair value	Difference to carrying amount	Distribution	Carrying amount	Fair value	Difference to carrying amount	Distribution
	31 Mar. 2018	31 Mar. 2018	31 Mar. 2018	2017/18	31 Mar. 2018	31 Mar. 2018	31 Mar. 2018	2017/18
Mixed funds	260.1	260.1	-	1.1	259.4	259.4	-	1.1
Other special funds	388.3	391.3	3.0	-	-	-	-	-
Total	648.4	651.4	3.0	1.1	259.4	259.4	-	1.1

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

Furthermore, CTA assets were invested in a German special fund. If the offsetting of CTA assets against pension obligations (depending on the pension plan and company) results in an excess of CTA assets, this is reported under "Excess of plan assets over post-employment benefit liability" (see note (31)). If the offsetting results in an excess pension obligation, this is recognised as a pension provision. The fund predominantly invests in fixed-income securities and investment funds.

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

(27) Leases

In the previous year, assets intended for lease (equipment leasing) were reported in the consolidated balance sheet as lease assets. This primarily related to partial payout leases in which the lease assets are accounted for by the lessor.

The full derecognition of lease assets at the reporting date was due to the disposal of the lease companies remaining in the Group and their business operations following the sale of the IKB Leasing Group.

(28) Other assets

Other assets include the following:

in € million	Group		IKB AG	
	31 Mar. 2019	31 Mar. 2018	31 Mar. 2019	31 Mar. 2018
Foreign currency adjustment item	18.9	39.6	18.9	39.6
Receivables from tax authorities	179.3	27.5	178.9	26.2
Receivables from derivatives	1.7	11.1	1.7	11.1
Deferred interest on derivatives	53.7	64.5	53.7	64.6
Trade receivables	2.8	0.4	2.7	0.2
Receivables from affiliated companies	-	-	49.4	8.2
Miscellaneous assets	73.3	19.0	12.2	5.9
Total	329.7	162.1	317.6	155.8

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

(29) Prepaid expenses

Prepaid expenses essentially include discounts on liabilities recognised at nominal amount of € 2.3 million (previous year: € 2.9 million) in the Group and € 2.3 million (previous year: € 2.9 million) at IKB AG and prepaid expenses for derivatives business of € 74.2 million (previous year: € 69.6 million) in the Group and € 74.2 million (previous year: € 81.8 million) at IKB AG.

(30) Deferred tax assets

in € million	Group		IKB AG	
	31 Mar. 2019	31 Mar. 2018	31 Mar. 2019	31 Mar. 2018
Excess deferred tax assets	136.6	180.2	137.0	181.0

Loss carryforwards:

in € million	Group		IKB AG	
	31 Mar. 2019	31 Mar. 2018	31 Mar. 2019	31 Mar. 2018
Reported corporation tax loss carryforwards	7.2	7.2	-	-
Reported trade tax loss carryforwards	7.0	6.4	-	-

The carrying amount of deferred tax assets is essentially based on the differences between the financial accounts and the tax accounts that will reverse in subsequent years. In particular, the carrying amount relates to investment funds of the domestic tax group and the difference between pension provisions recognised in the financial accounts and the tax accounts. Furthermore, deferred tax assets on tax loss carryforwards are taken into account if the losses are sufficiently likely to be offset within the next five financial years from the next balance sheet date. Local tax rates were used in each case. The resulting tax expenses and income have been reported net.

In the period under review, the carrying amount of excess deferred tax assets decreased by € 44.0 million in the Group and at IKB AG as the result of a write-down to reflect the reduction in expected future consolidated net income.

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

31 Mar. 2019		
in € million	Group	IKB AG
Offset assets		
Acquisition costs	300.8	300.1
Fair value	310.8	310.0
Offset liabilities		
Settlement amount	-368.6	-365.6
Excess of plan assets over post-employment benefit liability	7.7	7.5
Expenses and income offset in the reporting year	2018/19	2018/19
Expenses and income from pension obligations		
Expenses for pension obligations	-35.1	-34.7
Expenses and income from plan assets		
Income from plan assets	9.5	9.5
Expenses of plan assets	-5.7	-5.7
Net income/expense	-31.4	-31.0

31 Mar. 2018		
in € million		
	Group	IKB AG
Offset assets		
Acquisition costs	287.6	287.0
Fair value	302.6	301.7
Offset liabilities		
Settlement amount	-338.1	-335.4
Excess of plan assets over post-employment benefit liability	7.6	7.4
Expenses and income offset in the reporting year	2017/18	2017/18
Expenses and income from pension obligations		
Expenses for pension obligations	-32.0	-28.4
Expenses and income from plan assets		
Income from plan assets	1.7	1.6
Expenses of plan assets	-4.6	-4.2
Net income/expense	-34.9	-31.0

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.

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

in € million	Group			
	31 Mar. 2019		31 Mar. 2018	
	Affiliated companies	Investees and investors	Affiliated companies	Investees and investors
Liabilities to customers	0.7	0.2	0.3	0.5
Securitised liabilities	-	-	-	-
Other liabilities	-	-	-	-

in € million	IKB AG			
	31 Mar. 2019		31 Mar. 2018	
	Affiliated companies	Investees and investors	Affiliated companies	Investees and investors
Liabilities to customers	141.8	0.2	82.0	0.5
Securitised liabilities	420.2	-	420.2	-
Other liabilities	4.6	-	163.0	-
Subordinated liabilities	75.1	-	75.4	-

(33) Foreign-currency liabilities

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

in € million	Group		IKB AG	
	31 Mar. 2019	31 Mar. 2018	31 Mar. 2019	31 Mar. 2018
Liabilities	342.9	353.5	342.9	353.2

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

(34) Other liabilities

Other liabilities break down as follows:

in € million	Group		IKB AG	
	31 Mar. 2019	31 Mar. 2018	31 Mar. 2019	31 Mar. 2018
Obligations from derivatives	4.5	16.3	4.5	16.3
Deferred interest on derivatives	56.4	69.8	56.4	68.7
Liabilities to tax authorities	3.6	5.4	3.5	4.7
Deferred income for subordinated liabilities	10.9	11.8	10.9	11.8
Trade payables	17.7	8.5	17.3	8.0
Miscellaneous liabilities	12.8	11.3	11.7	170.3
Total	105.9	123.1	104.4	279.8

(35) Deferred income

Deferred income primarily includes discounts on receivables recognised at nominal amount of € 15.8 million (previous year: € 18.3 million) in the Group and € 15.8 million (previous year: € 18.3 million) at IKB AG and deferred income for derivatives business of € 37.7 million (previous year: € 27.7 million) in the Group and € 37.7 million (previous year: € 40.7 million) at IKB AG.

(36) Pension provisions

The reported pension provisions amount to € 68.2 million (previous year: € 45.5 million) in the Group and € 63.1 million (previous year: € 40.9 million) at IKB AG.

In addition to the scheduled recognition in the income statement of the outstanding addition from the first-time application of BilMoG, an extraordinary addition of € 1.7 million was recognised in the Group and at IKB AG in the financial year 2018/19, meaning there was no outstanding addition as at 31 March 2019 (31 March 2018: € 5.7 million).

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

31 Mar. 2019		
in € million	Group	IKB AG
Measurement of obligation using the ten-year average market interest rate	350.1	344.5
Measurement of obligation using the seven-year average market interest rate	395.7	389.2
Difference in accordance with section 253 (6) HGB	45.6	44.7

(37) Subordinated liabilities

This item includes liabilities whose contractual conditions stipulate that they can only be repaid in the event of insolvency or liquidation after all non-subordinated creditors have been repaid. An early repayment obligation or participation in the losses of operating activities is not intended.

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

In the Group, trust preferred securities were originally issued by two subsidiaries in the US created for this purpose. Unlike German preferred shares, these preferred shares grant no share to the liquidation result of the issuing companies. Perpetual maturity is agreed for the investor for preferred shares.

The carrying amount and nominal amount of the remaining outstanding preferred shares in the Group amounted to € 75.1 million as at 31 March 2019 (previous year: € 75.1 million).

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

As at the reporting date, subordinated liabilities amounted to € 826.3 million (previous year: € 831.0 million) in the Group and € 826.3 million (previous year: € 831.0 million) at IKB AG. The interest expenses on these amounted to € 30.5 million in the financial year (previous year: € 17.7 million) in the Group and € 31.8 million (previous year: € 18.7 million) at IKB AG.

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

Group	Carrying amount		Interest rate	
Year of issue	in € million	Currency	in %	Maturity
2005/2006	104.5	JPY	2.76	21 Jul. 2035
2017/2018	160.0	EUR	4.50	23 Jul. 2022
2017/2018	300.0	EUR	4.00	31 Jan. 2028

IKB AG	Carrying amount		Interest rate	
Year of issue	in € million	Currency	in %	Maturity
2005/2006	104.5	JPY	2.76	21 Jul. 2035
2017/2018	160.0	EUR	4.50	23 Jul. 2022
2017/2018	300.0	EUR	4.00	31 Jan. 2028

(38) Fund for general banking risks

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

(39) Development of capital

Treasury stock

By way of resolution of the Annual General Meeting on 5 September 2013, the company was authorised to acquire and sell treasury shares for the purpose of securities trading until 4 September 2018. The amount of shares acquired for this purpose must not exceed 5% of the share capital at the end of any one day. Together with the treasury shares acquired for other reasons held by the company or assigned to it in accordance with sections 71a et seq. AktG, the treasury shares acquired on the basis of this authorisation must not exceed 10% of the share capital at any time. This authorisation was not utilised in the financial year 2018/19.

The authorisation to acquire and utilise treasury shares for purposes other than securities trading also resolved by the Annual General Meeting on 5 September 2013 was revoked by way of resolution of the Annual General Meeting on 1 September 2016 and replaced by a new authorisation. This was because the authorisation resolved by the Annual General Meeting on 5 September 2013 was still based on the OTC share price on the Frankfurt stock exchange. As the shares of IKB Deutsche Industriebank AG were no longer traded OTC on the Frankfurt stock exchange at the time of the 2016 Annual General Meeting, the authorisation of 5 September 2013 was void. In light of this, the company was authorised by way of resolution of the Annual General Meeting held on 1 September 2016 to acquire treasury shares of up to 10% of the share capital for purposes other than securities trading up to and including 31 August 2021. The shares must be purchased in line with the principle of equal treatment in accordance with section 53a AktG. If the number of shares offered exceeds the maximum number of shares the company is permitted to buy back, offers will be accepted proportionally. Preferential acceptance of smaller numbers of shares (up to 100 per shareholder) is permitted. The purchase price per share (not including incidental costs of acquisition) must be at least € 0.05 and not more than € 2.00. Together with the treasury shares acquired for other reasons held by the company or assigned to it in accordance with sections 71a et seq. AktG, the treasury shares acquired on the basis of this authorisation must not exceed 10% of the share capital of the company at any time. The acquired shares can be sold by way of an offer to all shareholders or – if stock market trading resumes – on the stock exchange or, in full or in part, called in. This authorisation was not utilised in the financial year 2018/19.

No treasury shares were held in the financial year 2018/19, nor were there any additions or disposals of the same.

Equity

By way of resolution of the Annual General Meeting on 5 September 2013, the Board of Managing Directors was authorised, with the approval of the Supervisory Board, to increase the share capital of the company by a total of up to € 560,000,000.00 against cash or non-cash contributions by issuing new no-par-value bearer shares until 4 September 2018. The number of shares must increase by the same proportion as the share capital. With the approval of the Supervisory Board, the statutory pre-emption rights of shareholders can be disapplied under this authorisation. The authorised capital was entered in the commercial register on 14 October 2013. This authorisation was not utilised in the financial year 2018/19.

By way of resolution of the Annual General Meeting on 4 September 2014, the Board of Managing Directors was authorised, with the approval of the Supervisory Board, to increase the share capital of the company by a total of up to € 250,732,700.16 against cash or non-cash contributions by issuing up to 97,942,461 new no-par-value bearer shares until 3 September 2019. The number of shares must increase by the same proportion as the share capital. With the approval of the Supervisory Board, the statutory pre-emption rights of shareholders can be disapplied under this authorisation. The authorised capital was entered in the commercial register on 28 October 2014. This authorisation was not utilised in the financial year 2018/19.

The authorisations resolved by the Annual General Meeting on 4 September 2014 and 27 August 2015 to issue convertible or option bonds by 3 September 2019 and 26 August 2020 respectively were both based on OTC share prices on the Frankfurt stock exchange. As the shares of IKB Deutsche Industriebank AG were no longer traded OTC on the Frankfurt stock exchange at the time of the 2016 Annual General Meeting, the authorisations of 4 September 2014 and 27 August 2015 were void. The Annual General Meeting therefore revoked these authorisations by way of resolution dated 1 September 2016. At the same time, the Annual General Meeting on 1 September 2016 authorised the Board of Managing Directors, with the approval of the Supervisory Board, to issue bearer option or convertible bonds or combinations of these instruments (referred to together as “bonds” hereafter) with a total nominal value of up to € 1,600,000,000.00 with or without a limited term on one or several occasions, including in various tranches, until 31 August

2021, and to grant the bearers of the bonds option or conversion rights for a total of up to 312,500,000 new no-par value shares with a proportionate interest in the share capital of up to € 800,000,000 in accordance with the terms of issue of the respective bonds. The resolution was entered in the commercial register on 21 October 2016. This authorisation was not utilised in the financial year 2018/19.

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

Silent partnership contributions

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

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 and that requires the approval of the German Federal Financial Supervisory Authority (BaFin). A further condition for ending silent partnerships through cancellation is that the repayment value is replenished to the original nominal value of the contribution.

IKB AG has received silent contributions from partners. The loss ratio is calculated by the ratio of the silent partner contribution to balance sheet equity including profit participation certificates. As a result of loss participation in previous years, the repayment claims of the silent partners and therefore their carrying amounts were unchanged at € 0.0 million (previous year: € 0.0 million) in the Group and at IKB AG at a nominal value of € 400.0 million. Since the partial repurchase in the financial year 2017/18, less than € 50 million of the original nominal value of the bonds refinancing the silent participations is held by third parties. 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 silent partnership contributions.

Statement of changes in equity

Group:

in € million	1 Apr. 2018	Capita l in- crease /reduc tion	Call- up of previ- ously un- called contri- butions	Trans- fers to/with drawals from re- serves	Distri- bution	Cur- rency trans- lation	Other chang es	Chang es in con- solida- ted group	Consol- idated net in- come/ loss for the year	31 Mar. 2019
(Corrected) subscribed capital	1,621.5	-	-	-	-	-	-	-	-	1,621.5
Subscribed capital (ordinary shares)	1,621.5	-	-	-	-	-	-	-	-	1,621.5
Own shares (ordinary shares)	-	-	-	-	-	-	-	-	-	-
Uncalled unpaid contribu- tions (ordinary shares)	-	-	-	-	-	-	-	-	-	-
Reserves	1,749.8	-	-	-	-	-	-	3.7	-	1,753.5
Capital reserves	1,750.7	-	-	-	-	-	-	-	-	1,750.7
in accordance with section 272(2) no. 1 to 3 HGB	599.2	-	-	-	-	-	-	-	-	599.2
in accordance with section 272(2) no. 4 HGB	1,151.5	-	-	-	-	-	-	-	-	1,151.5
Revenue reserves	-0.9	-	-	-	-	-	-	3.7	-	2.7
Legal reserves	2.4	-	-	-	-	-	-	-	-	2.4
Other revenue reserves	-3.3	-	-	-	-	-	-	3.7	-	0.3
Difference in equity from currency translation	-0.2	-	-	-	-	-	-	0.2	-	-
Retained profits/ accumulated losses brought forward	-2,551.1	-	-	-	-	-	-	-	-41.0	-2,592.1
Equity of parent company	820.0	-	-	-	-	-	-	3.9	-41.0	782.7
Non-controlling interests be- fore currency translation and net profit/loss for the year	1.8	-	-	-	-	-	-	45.3	-	47.1
Currency translation at- tributable to non-controlling interests	-	-	-	-	-	-	-	-	-	-
Net profit/loss for the year attributable to non- controlling interests	-	-	-	-	-0.6	-	-	-	0.5	-0.1
Non-controlling interests	1.8	-	-	-	-0.6	-	-	45.3	0.5	47.0
Consolidated equity	821.8	0.0	0.0	0.0	-0.6	0.0	0.0	49.2	-40.5	829.7

Group:

		Capital increase/reduction	Call-up of previously un-called contributions	Transfers to/with draws from reserves	Distribution	Currency translation	Other changes	Changes in the consolidated group	Consolidated net income/loss for the year	
in € million	1 Apr. 2017									31 Mar. 2018
(Corrected) subscribed capital	1,621.5	-	-	-	-	-	-	-	-	1,621.5
Subscribed capital (ordinary shares)	1,621.5	-	-	-	-	-	-	-	-	1,621.5
Own shares (ordinary shares)	-	-	-	-	-	-	-	-	-	-
Uncalled unpaid contributions (ordinary shares)	-	-	-	-	-	-	-	-	-	-
Reserves	1,755.9	-	-	-	-	-	-	-6.1	-	1,749.8
Capital reserves	1,750.7	-	-	-	-	-	-	-	-	1,750.7
in accordance with section 272(2) no. 1 to 3 HGB	599.2	-	-	-	-	-	-	-	-	599.2
in accordance with section 272(2) no. 4 HGB	1,151.5	-	-	-	-	-	-	-	-	1,151.5
Revenue reserves	5.2	-	-	-	-	-	-	-6.1	-	-0.9
Legal reserves	2.4	-	-	-	-	-	-	-	-	2.4
Other revenue reserves	2.8	-	-	-	-	-	-	-6.1	-	-3.3
Difference in equity from currency translation	-4.3	-	-	-	-	4.1	-	-	-	-0.2
Retained profits/accumulated losses brought forward	-2,335.6	-	-	-	-	-	-	-	-215.5	-2,551.1
Equity of parent company	1,037.5	-	-	-	-	4.1	-	-6.1	-215.5	820.0
Non-controlling interests before currency translation and net profit/loss for the year	1.4	-	-	-	-	-	-	0.2	-	1.6
Currency translation attributable to non-controlling interests	-	-	-	-	-	-	-	-	-	-
Net profit/loss for the year attributable to non-controlling interests	-	-	-	-	-	-	-	-	0.2	0.2
Non-controlling interests	1.4	-	-	-	-	-	-	0.2	0.2	1.8
Consolidated equity	1,038.9	0.0	0.0	0.0	0.0	4.1	0.0	-5.9	-215.3	821.8

IKB AG:

		Capital in- crease/reduction	Transfers to/withdrawals from reserves	Distribution	Other changes	Net in- come/loss for the year	
in € million	1 Apr. 2018						31 Mar. 2019
(Corrected) subscribed capital	1,621.5	-	-	-	-	-	1,621.5
Subscribed capital (ordinary shares)	1,621.5	-	-	-	-	-	1,621.5
Own shares (ordinary shares)	-	-	-	-	-	-	-
Uncalled unpaid contributions (ordinary shares)	-	-	-	-	-	-	-
Reserves	1,753.1	-	-	-	-	-	1,753.1
Capital reserves	1,750.7	-	-	-	-	-	1,750.7
in accordance with section 272(2) no. 1 to 3 HGB	599.2	-	-	-	-	-	599.2
in accordance with section 272(2) no. 4 HGB	1,151.5	-	-	-	-	-	1,151.5
Revenue reserves	2.4	-	-	-	-	-	2.4
Legal reserves	2.4	-	-	-	-	-	2.4
Other revenue reserves	-	-	-	-	-	-	-
Retained profits/accumulated losses brought forward	-2,463.6	-	-	-	-	-44.5	-2,508.1
Equity	911.0	-	-	-	-	-44.5	866.5

IKB AG:

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

Non-controlling interests at the reporting date related to minority shareholders in the subsidiaries Valin Mittelstand Senior Debt Fund S.A., SICAV-SIF, Luxembourg, Luxembourg, and the special-purpose entity HIMERA Grundstücks-Vermietungsgesellschaft mbH, Pullach i. Isartal. The additions to minority shareholders are due to the first-time consolidation of Valin Mittelstand Senior Debt Fund S.A., SICAV-SIF, Luxembourg.

The restricted amounts of distributable profits break down as follows:

Group:

31 Mar. 2019 in € million	Gross income	Deferred tax assets	Deferred tax liabilities	Restriction on distribution
Unrealised gains on plan assets	4.3	-	-3.1	1.2
Recognition of deferred taxes	-	141.9	-2.2	139.7
Difference from the change in the market interest rate for the measurement of pension obligations	43.9	-	-	43.9
Total	48.2	141.9	-5.3	184.8

IKB AG:

31 Mar. 2019		Deferred tax	Deferred tax	Restriction on
in € million	Gross income	assets	liabilities	distribution
Unrealised gains on plan assets	10.0	-	-3.1	6.9
Recognition of deferred taxes	-	140.1	-	140.1
Difference from the change in the market interest rate for the measurement of pension obligations	44.7	-	-	44.7
Total	54.7	140.1	-3.1	191.7

(40) Contingent liabilities and other obligations

At the balance sheet date, the guarantees and warranties reported in the “Contingent liabilities” item primarily included CDSs (Bank as protection seller) in the amount of € 2,147.8 million (previous year: € 1,855.9 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.

As part of the sale of the shares in IKB Leasing GmbH by IKB Beteiligungen GmbH in the financial year 2017/18, IKB AG jointly and severally assumed warranties and indemnification obligations. These include loan commitments in the context of IKB Leasing’s refinancing facilities, guarantees of quality for GmbH interests and assets in addition to the proper settlement of and compliance with past obligations (e.g. issuing tax returns). IKB AG and a further two Group companies also assumed warranties and indemnification obligations in connection with the disposal of IKB Leasing S.A., Bucharest, Romania, and IKB Leasing Finance IFN S.A., Bucharest, Romania, and the sale of the business operations of IKB Leasing SR, s.r.o., Bratislava, Slovakia.

In addition, IKB Grundbesitzgesellschaft Düsseldorf GmbH & Co. KG issued guarantees in relation to the sale of property.

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

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

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

(41) Other financial obligations

As at the reporting date, “Other financial obligations” totalled € 265.5 million (previous year: € 543.8 million) in the Group and € 265.2 million (previous year: € 609.1 million) at IKB AG.

The decline in “Other financial obligations” results in particular from the replacement of obligations from waivers by shareholders with debtor warrants. These were replaced in full at the reporting date (previous year: € 180.1 million).

In addition, there are payment obligations under long-term rental agreements for the term of the lease of € 35.5 million (previous year: € 10.1 million) in the Group and € 35.2 million (previous year: € 75.8 million) of IKB AG. The increase at Group level results from the sale of IKB’s headquarters in Düsseldorf to a non-Group buyer. At the same time, the tangible reduction in usable space over the lease term in the Group and at IKB AG is leading to contrary effects. There are still leases for the Bank’s branches for properties used for

banking purposes. Provisions for expected losses from executory contracts have been recognised for the event that the expenses exceed the benefit of the rental agreement. The risk or opportunity lies in the fact that after the end of a limited rent agreement, the contract can be extended or a follow-up agreement can be concluded at less advantageous or more advantageous conditions.

Given the loss allocation in previous years, there was no repayment on a profit participation certificate issue with a nominal amount of € 150 million that matured on 31 March 2015. The four-year recovery period under the terms of the profit participation certificates expired on 31 March 2019, meaning there are no longer any replenishment rights.

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.

None of the total financial obligations of IKB AG relate to affiliated companies (previous year: € 70.6 million).

Dissenting view of the tax authorities

A final and substantive ruling on the disputed tax issue relating to the unconstitutionality of the detrimental acquisition in accordance with section 8c of the German Corporate Income Tax Act (KStG) that was pending with the Düsseldorf Fiscal Court has now been issued. The tax authorities reviewed and accepted IKB's petition for the retrospective reapplicability of an exception known as the restructuring clause. Corresponding tax amendment notices have been issued. Background information and further comments can be found under "Legal risk" in "section 3. Risk report". This also means the other financial obligation for trade tax, the interest on this obligation and Chamber of Commerce and Industry (CCI) contributions (previous year: € 155.9 million) are no longer recognised.

Aleanta GmbH (a wholly owned subsidiary of IKB AG with which no profit and loss transfer agreement has been agreed) had received initial written notification that, as part of the tax audit of a company of which it is the universal successor (Olessa GmbH), the tax authorities are intending to treat the retrospective merger of Olessa GmbH into Aleanta GmbH in the financial year 2010/11 as a case covered by section 42 of the German Tax Code (AO). Aleanta GmbH had commented on the matter and the assessment at the time of the tax audit still pending. The maximum risk encompasses taxes of approximately € 26.7 million plus interest (calculated as approximately € 10.9 million up to and including 31 March 2019) and additional Chamber of Commerce and Industry contributions of € 0.2 million. An appeal will be lodged if necessary.

(42) Off-balance sheet transactions

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

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 (59)).

Notes on the income statement

(43) Income by geographical market

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

in € million	Group		IKB AG	
	2018/19	2017/18	2018/19	2017/18
Germany	958.8	1,237.6	1,052.9	854.5
Europe not including Germany	22.8	272.0	14.9	0.3
Total	981.6	1,509.6	1,067.8	854.8

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

(44) Income and expenses from leases

in € million	Group	
	2018/19	2017/18
Depreciation and impairment losses on lease assets	-1.7	-262.4
Other operating income from leases	8.6	46.3

(45) Extraordinary income and expenses

The "Extraordinary expenses" item includes expenses in connection with the replacement of commitments from debtor warrants in the Group and at IKB AG in the amount of € 162.1 million at the reporting date (previous year: € 311.4 million).

The spin-off of the former IKB Leasing Group resulted in further extraordinary expenses of € 13.4 million in the Group and € 0.2 million at IKB AG. These expenses were offset by extraordinary income of € 6.1 million in the Group.

In connection with the transfer to pension provisions due to the BilMoG transition, the Group and IKB AG incurred expenses of € 5.7 million (previous year: € 4.1 million in the Group and € 4.0 million at IKB AG). The year-on-year increase is due to the extraordinary recognition in the income statement of the addition from the first-time application of BilMoG in the full amount of € 1.7 million.

Additional charges for unbilled IT services from previous years resulted in an extraordinary prior-period expense of € 4.7 million in the Group and at IKB AG. An additional prior-period expense of € 0.4 million is reported in other operating expenses. These additional charges are offset by claims that resulted in extraordinary prior-period income of € 4.0 million in the Group and at IKB AG.

Expenses for business restructuring measures amounted to € 3.8 million in the Group and at IKB AG (previous year: € 32.4 million in the Group and € 29.8 million at IKB AG).

The sale of IKB's headquarters in Düsseldorf by IKB Grundbesitzgesellschaft Düsseldorf GmbH & Co. KG, Düsseldorf, generated extraordinary income of € 48.3 million and extraordinary expenses of € 1.5 million in the Group in the period under review.

In addition, the sale of an office building in Frankfurt/Main by IKB Grundbesitzgesellschaft Frankfurt GmbH & Co. KG, Frankfurt/Main, generated extraordinary income of € 11.7 million and extraordinary expenses of € 0.6 million in the Group in the period under review.

At IKB AG, extraordinary income of € 9.1 million resulted from the absorption of IKB Grundbesitzgesellschaft Frankfurt GmbH & Co. KG, Frankfurt/Main, and IKB Objekt Holzhausen KG, Frankfurt/Main, into IKB AG that was triggered by the merger of the general partner, IKB Grundstücks GmbH.

(46) Other operating expenses

Other operating expenses essentially include:

in € million	Group		IKB AG	
	2018/19	2017/18	2018/19	2017/18
Expenses from derivatives in the non-trading book	-545.8	-266.4	-545.8	-274.9
Expenses from currency translation	-13.8	-62.1	-0.2	-1.0
Expenses from additions to provisions	-14.4	-5.9	-14.4	-5.2
Pension scheme expense (CTA-funded)	-31.4	-34.9	-31.0	-31.0

Expenses from derivatives in the non-trading book relate in particular to strategic close-outs of derivative transactions in the banking book. These expenses are offset by income in the item "Other operating income".

(47) Costs of loss absorption

Costs of loss absorption at IKB AG in the amount of € 4.1 million (previous year: € 161.8 million) primarily relate to loss absorption obligations in connection with the profit and loss transfer agreement with the subsidiary IKB Beteiligungen GmbH.

(48) Income taxes

The item "Income taxes" includes current taxes of € 108.2 million (previous year: € 2.6 million) in the Group and € 108.9 million (previous year: € 5.7 million) at IKB AG.

The current tax income primarily results from the reimbursement of taxes paid in previous years (corporation tax and solidarity surcharge) as a result of the recognition of the retrospective reapplicability of the restructuring clause provided by section 8c KStG by the tax authorities.

The change in the recognition of deferred tax assets of € -43.6 million (previous year: € -73.2 million) in the Group and € -44.0 million (previous year: € -68.0 million) at IKB AG is also reported in this item.

The expense reported in deferred tax assets is the result of a write-down to reflect the reduction in expected future consolidated net income.

(49) Income from profit transfer agreements

The income from profit transfer agreements at IKB AG in the amount of € 12.5 million (previous year: € 1.9 million) includes the profit transfers from IKB Real Estate Holding GmbH in the amount of € 7.9 million (pre-

vious year: € 1.6 million) and IKB Beteiligungsgesellschaft 5 mbH in the amount of € 4.6 million (previous year: € -6.4 million).

(50) Administrative and brokerage services for third parties

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

(51) Other operating income

Other operating income essentially breaks down as follows:

in € million	Group		IKB AG	
	2018/19	2017/18	2018/19	2017/18
Income from derivatives in the non-trading book	394.2	161.8	394.2	171.3
Income from currency translation	13.5	59.2	0.1	0.1
Income from the reversal of provisions	16.1	7.1	16.5	5.6
Interest on taxes	50.0	0.6	50.0	0.6
Income from compensation payments ¹⁾	2.2	8.7	0.7	1.3

1) from out-of-court settlements

Income from derivatives in the non-trading book relate in particular to strategic close-outs of derivative transactions in the banking book. This income is offset by expenses in the item “Other operating expenses”.

Other operating income includes € 2.9 million in prior-period income for the reimbursement of unbilled IT services from previous years.

Other operating income in the Group and at IKB AG also includes € 6.1 million for an adjustment due to changes in the assumptions for pension provisions. For further information, please refer to note (2).

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

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

The material effects of the disposal were as follows:

Lease expenses decreased from € 236.7 million in the previous year to € 1.9 million, while depreciation on lease assets decreased from € 262.4 million to € 1.7 million. Accordingly, lease income also declined from € 549.1 million to € 5.6 million. Excluding the IKB Leasing Group companies that were sold, lease expenses would have amounted to € 3.2 million in the previous year, depreciation on lease assets would have amounted to € 1.2 million and lease income would have amounted to € 7.4 million. The expenses and income relate to the lease receivables and leasing companies that remained in the Group in the period under review but that have since been sold or whose business operations have since been sold.

General administrative expenses were reduced from € 260.5 million to € 184.2 million compared with the same period of the previous year. Personnel expenses decreased from € 153.0 million to € 98.6 million, while other administrative expenses declined from € 107.5 million to € 85.7 million. The restated general administrative expenses for the same period of the previous year totalled € 204.5 million, with personnel expenses amounting to € 117.0 million and other administrative expenses to € 87.5 million. The leasing companies remaining in the Group for the time being accounted for only minor administrative expenses in the period under review.

Extraordinary expenses for the same period of the previous year adjusted for the significant changes in the consolidated group amounted to € 420.1 million. The difference of € 56.1 million compared with the actual extraordinary expenses of € 476.2 million is attributable to extraordinary expenses in connection with the sale of the IKB Leasing Group.

Other disclosures

(53) Consolidated group as at 31 March 2019

	Equity interest in %
A. Consolidated subsidiaries	
1. Domestic companies	
Aleanta GmbH, Düsseldorf	100
IKB Beteiligungen GmbH, Düsseldorf	100
IKB Beteiligungsgesellschaft 1 mbH, Düsseldorf	100
IKB Beteiligungsgesellschaft 2 mbH, Düsseldorf	100
IKB Beteiligungsgesellschaft 3 mbH, Düsseldorf	100
IKB Beteiligungsgesellschaft 5 mbH, Düsseldorf	100
IKB Grundbesitzgesellschaft Düsseldorf GmbH & Co. KG, Düsseldorf	94.9
IKB Grundstücksgesellschaft Düsseldorf GmbH, Düsseldorf	1) ¹⁾ 100
IKB Invest GmbH, Düsseldorf	1) ¹⁾ 100
IKB Projektentwicklung GmbH & Co. KG i.L., Düsseldorf	3) ³⁾ 100
IKB Real Estate Holding GmbH, Düsseldorf	100
IKB Struktur GmbH, Düsseldorf	1) ¹⁾ 100
Istop 1 GmbH, Düsseldorf	1) ¹⁾ 100
Istop 2 GmbH, Düsseldorf	1) ¹⁾ 100
Istop 4 GmbH, Düsseldorf	1) ¹⁾ 100
Istop 6 GmbH, Düsseldorf	1) ¹⁾ 100
2. Foreign companies	
IKB Finance B.V., Amsterdam, Netherlands	100
IKB Funding LLC I, Wilmington, United States of America	100
IKB International S.A. i.L., Munsbach, Luxembourg	2) ²⁾ 100
IKB Lux Beteiligungen S.à.r.l., Munsbach, Luxembourg	100
Valin Mittelstand Senior Debt Fund S.A., SICAV-SIF, Luxembourg, Luxembourg	68.3
3. Special-purpose entities in accordance with section 290 (2) no. 4 HGB	
HIMERA Grundstücks-Vermietungsgesellschaft mbH, Pullach i. Isartal	

1) Indirect investment

2) in liquidation (banking licence returned)

3) in liquidation

(54) List of shareholdings as at 31 March 2019

31 Mar. 2019	Financial year	Equity interest in %
1. German subsidiaries (consolidated)		
Aleanta GmbH, Düsseldorf	1 Apr. - 31 Mar.	100.00
IKB Beteiligungen GmbH, Düsseldorf	²⁾ 1 Apr. - 31 Mar.	100.00
IKB Beteiligungsgesellschaft 1 mbH, Düsseldorf	²⁾ 1 Jan. - 31 Dec.	100.00
IKB Beteiligungsgesellschaft 2 mbH, Düsseldorf	²⁾ 1 Jan. - 31 Dec.	100.00
IKB Beteiligungsgesellschaft 3 mbH, Düsseldorf	²⁾ 1 Jan. - 31 Dec.	100.00
IKB Beteiligungsgesellschaft 5 mbH, Düsseldorf	²⁾ 1 Apr. - 31 Mar.	100.00
IKB Grundbesitzgesellschaft Düsseldorf GmbH & Co. KG, Düsseldorf	⁴⁾ 1 Apr. - 31 Mar.	94.90
IKB Grundstücksgesellschaft Düsseldorf GmbH, Düsseldorf	1 Apr. - 31 Mar.	100.00
IKB Invest GmbH, Düsseldorf	²⁾ 1 Apr. - 31 Mar.	100.00
IKB Projektentwicklung GmbH & Co. KG i.L., Düsseldorf	³⁾⁶⁾ 1 Jan. - 31 Dec.	100.00
IKB Real Estate Holding GmbH, Düsseldorf	²⁾ 1 Apr. - 31 Mar.	100.00
IKB Struktur GmbH, Düsseldorf	²⁾ 1 Apr. - 31 Mar.	100.00
Istop 1 GmbH, Düsseldorf	²⁾ 1 Jan. - 31 Dec.	100.00
Istop 2 GmbH, Düsseldorf	²⁾ 1 Jan. - 31 Dec.	100.00
Istop 4 GmbH, Düsseldorf	²⁾ 1 Jan. - 31 Dec.	100.00
Istop 6 GmbH, Düsseldorf	²⁾ 1 Jan. - 31 Dec.	100.00
2. Foreign subsidiaries (consolidated)		
IKB Finance B.V., Amsterdam, Netherlands	1 Apr. - 31 Mar.	100.00
IKB Funding LLC I, Wilmington, United States of America	1 Apr. - 31 Mar.	100.00
IKB International S.A. i.L., Munsbach, Luxembourg	³⁾ 1 Apr. - 31 Mar.	100.00
IKB Lux Beteiligungen S.à.r.l., Munsbach, Luxembourg	1 Apr. - 31 Mar.	100.00
Valin Mittelstand Senior Debt Fund S.A., SICAV-SIF, Luxembourg, Luxembourg	1 Jan. - 31 Dec.	68.33
3. Special-purpose entities (special-purpose entities included in the consolidated financial statements in line with section 290 (2) no. 4 HGB)		
HIMERA Grundstücks-Vermietungsgesellschaft mbH, Pullach i. Isartal		
4. German subsidiaries (not included in consolidation due to section 296 (2) HGB⁵⁾)		
	¹⁾	
Brunnenstraße 105-109 Berlin Grundbesitz GmbH i.L., Düsseldorf	³⁾ 1 Jan. - 31 Dec.	100.00
FRANA Grundstücks-Vermietungsgesellschaft mbH, Düsseldorf	1 Jan. - 31 Dec.	100.00
IKB NewCo 3 GmbH, Düsseldorf	1 Jan. - 31 Dec.	100.00
IKB NewCo 5 GmbH, Düsseldorf	1 Apr. - 31 Mar.	100.00
IKB Projektentwicklungsverwaltungsgesellschaft mbH i.L., Düsseldorf	³⁾ 1 Oct. - 30 Sept.	100.00
IKB Real Estate GmbH, Düsseldorf	²⁾ 1 Jan. - 31 Dec.	100.00
ISOG Technology Holding GmbH, Weilheim	1 Apr. - 31 Mar.	57.70
ISTOS Beteiligungsverwaltungs- und Grundstücks- Vermietungsgesellschaft mbH, Düsseldorf	1 Jan. - 31 Dec.	100.00
Ligera GmbH, Düsseldorf	²⁾ 1 Jan. - 31 Dec.	100.00
MFRSI Beteiligungsholding Verwaltungsgesellschaft mbH, Düsseldorf	1 Jan. - 31 Dec.	100.00
Restruktur 2 GmbH i.L., Düsseldorf	³⁾ 30 Mar. - 29 Mar.	100.00
Restruktur 3 GmbH, Düsseldorf	1 Apr. - 31 Mar.	100.00
Rhodana GmbH, Düsseldorf	²⁾ 1 Jan. - 31 Dec.	100.00
Tempelhofer Hafen GmbH & Co. KG i.L., Düsseldorf	³⁾ 1 Jan. - 31 Dec.	100.00

31 Mar. 2019	Financial year	Equity interest in %
5. Foreign subsidiaries (not included in consolidation due to section 296 (2) HGB⁵⁾)	1)	
IKB Funding Trust I, Wilmington, United States of America	1 Apr. - 31 Mar.	100.00
IKB Leasing SR, s.r.o. v likvidácii, Bratislava, Slovakia	3)	1 Jan. - 31 Dec. 100.00
Valin Asset Management S.à.r.l., Munsbach, Luxembourg	1 Apr. - 31 Mar.	100.00
6. Special-purpose entities (not included in consolidation due to section 296 (2) HGB⁵⁾)	1)	
Capital Raising GmbH, Norderfriedrichskoog		
Hybrid Raising GmbH, Norderfriedrichskoog		
Rosaria Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Heimstetten KG, Grünwald		
7. German associates/joint ventures (not accounted for using the equity method due to section 311 (2) HGB⁵⁾)	1)	
Argantis Beteiligungs-Holding GmbH i.L., Cologne	3)	1 Jan. - 31 Dec. 50.00
Argantis GmbH i.L., Cologne	3)	1 Jan. - 31 Dec. 50.00
Dritte Hubschraubertechnologiepark Donauwörth GmbH, Düsseldorf	1 Jan. - 31 Dec.	50.00
equiNotes Management GmbH i.L., Düsseldorf	3)	1 Jan. - 31 Dec. 50.00
FUNDIS Verwaltungsgesellschaft mbH i.L., Düsseldorf	3)	1 Jan. - 31 Dec. 50.00
Hafenspitze Verwaltungsgesellschaft mbH, Hamburg	1 Jan. - 31 Dec.	25.00
MFRSI Beteiligungsholding GmbH & Co. KG, Düsseldorf	1 Jan. - 31 Dec.	50.00

1) The information in accordance with section 285 no. 11 HGB on equity and results is not shown for companies not included in the consolidated financial statements in accordance with section 286 (3) sentence 1 no. 1 HGB.

2) Profit transfer agreement

3) In liquidation

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

5) The Bank exercises the option of not including companies in consolidation where they are of only minor importance to the net assets, financial position and results of operations of the Group.

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

(55) Significant shares in voting rights

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

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

(56) Disclosure of auditor's fees

in € million	Group		IKB AG	
	2018/19	2017/18	2018/19	2017/18
Audit of financial statements	-1.9	-2.2	-1.8	-1.7
Other assurance or valuation services	-0.1	-0.2	-0.1	-0.2
Other services	-	-0.1	-	-0.1
Total	-2.0	-2.5	-1.9	-2.0

Auditor's fees include € 31.0 thousand (previous year: € 0.1 million) in expenses for previous financial years.

In addition to expenses for the statutory audit of the single-entity and consolidated financial statements, auditor's fees include expenses for the review of the interim financial statements in the amount of € 0.2 million (previous year: € 0.2 million). The prior-year figure also includes € 0.2 million for voluntary audits of the single-entity financial statements of controlled companies. Other assurance or valuation services primarily include expenses for the audit in accordance with the German Securities Trading Act (WpHG) in the amount of € 0.1 million (previous year: € 0.1 million). The prior-year figure also includes € 0.1 million for the issue of a letter of comfort.

(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. In connection with Lone Star's waiver of receivables that would have arisen from a future resumption of a debtor warrant, IKB AG made a cash payment in March 2019 that was less than the value of the debtor warrant as calculated by an independent expert.

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

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

31 Mar. 2019		
in € million	Group	IKB AG
Liabilities to banks	8,791.9	8,799.0
Contingent liabilities	21.9	21.9
Total	8,813.8	8,820.9

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

(59) Forward transactions

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

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

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

(60) Derivative financial instruments not recognised at fair value

Group:

31 Mar. 2019 in € million	Nominal	Fair value		Carrying amount	
		positive	negative	Assets	Equity and liabilities
Interest-related derivatives	28,752.0	814.3	-1,410.2	92.2	68.6
Credit-related derivatives	125.0	-	-1.9	-	1.9
Currency-related derivatives	830.9	10.8	-19.3	4.3	8.5
Derivatives assigned to several categories	888.6	112.5	-68.3	27.4	7.4
Total	30,596.4	937.6	-1,499.8	123.9	86.4

31 Mar. 2019 in € million	Carrying amount				
	Other assets	Prepaid expenses	Provisions	Other liabilities	Deferred income
Interest-related derivatives	48.9	43.3	-	51.7	16.9
Credit-related derivatives	-	-	1.3	-	0.6
Currency-related derivatives	4.3	-	-	8.5	-
Derivatives assigned to several categories	20.3	7.1	-	0.6	6.8
Total	73.5	50.4	1.3	60.8	24.3

IKB AG:

31 Mar. 2019 in € million	Nominal	Fair value		Carrying amount	
		positive	negative	Assets	Equity and liabilities
Interest-related derivatives	28,752.0	814.3	1,410.3	92.2	68.6
Credit-related derivatives	125.0	-	1.9	-	1.9
Currency-related derivatives	830.9	10.9	19.3	4.3	8.5
Derivatives assigned to several categories	888.5	112.5	68.3	27.4	7.4
Total	30,596.4	937.7	1,499.8	123.9	86.4

31 Mar. 2019 in € million	Carrying amount				
	Other assets	Prepaid expenses	Provisions	Other liabilities	Deferred income
Interest-related derivatives	48.9	43.3	-	51.7	16.9
Credit-related derivatives	-	-	1.3	-	0.6
Currency-related derivatives	4.3	-	-	8.5	-
Derivatives assigned to several categories	20.3	7.1	-	0.6	6.8
Total	73.5	50.4	1.3	60.8	24.3

(61) Unrealised gains and losses

The table shows the unrealised gains and losses for the following material financial balance sheet items and off-balance sheet derivatives of the IKB Group. The unrealised gains and losses on credit default swaps recognised as loan collateral are also included.

Group in € million	31 Mar. 2019			31 Mar. 2018		
	Carrying amount	Fair value	Difference	Carrying amount	Fair value	Difference ¹⁾
Receivables from banks	1,267.7	1,267.5	-0.2	2,520.5	2,520.9	0.4
Receivables from customers	9,823.2	10,212.5	389.3	9,708.8	10,066.8	358.0
Bonds and other fixed-income securities	3,953.4	4,145.5	192.1	3,904.7	4,127.0	222.3
Equities and other non-fixed-income securities	462.7	497.9	35.2	395.5	400.1	4.6
Derivative financial instruments not recognised at fair value	123.9	937.6	813.7	162.6	841.6	679.0
Credit default swaps recognised as loan collateral	24.7	39.4	14.7	22.1	40.5	18.4
Subtotal	15,655.6	17,100.4	1,444.8	16,714.2	17,996.9	1,282.7
Liabilities to banks	7,351.8	7,386.4	-34.6	7,432.1	7,441.8	-9.7
Liabilities to customers	5,749.5	5,830.6	-81.1	6,447.5	6,543.4	-95.9
Securitised liabilities	445.6	452.4	-6.8	720.6	724.4	-3.8
Subordinated liabilities	826.3	729.3	97.0	831.0	748.2	82.8
Silent partnership contributions	0.0	29.5	-29.5	0.0	27.1	-27.1
Derivative financial instruments not recognised at fair value	86.4	1,499.8	-1,413.4	98.2	1,511.9	-1,413.7
Credit default swaps recognised as loan collateral	13.4	5.0	8.4	17.0	1.7	15.3
Subtotal	14,473.0	15,933.0	-1,460.0	15,546.4	16,998.5	-1,452.1
Total			-15.2			-169.4

1) IKB made changes to the calculation of the fair value of derivative financial instruments in the year under review. Applying the current measurement methods to the portfolio as at 31 March 2018, the unrealised result would be around € 8.3 million higher.

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

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

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

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

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

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

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

(62) Remuneration of the Board of Managing Directors

Total remuneration of € 5.8 million (previous year: € 5.5 million) was incurred for members of the Board of Managing Directors in the financial year 2018/19. This includes fixed salaries, variable performance-based remuneration, severance payments, pension compensation for a pension not agreed, reimbursed moving costs and non-cash remuneration. The Supervisory Board regularly reviews the appropriateness of the respective total remuneration.

Former and retired members of the Board of Managing Directors

The total remuneration for former members of the Board of Managing Directors and their surviving dependents amounted to € 3.5 million (previous year: € 3.5 million). In the financial year 2018/19, € 45.7 million was recognised for pension obligations to former members of the Board of Managing Directors and their surviving dependants based on an average interest rate of ten years (previous year: € 47.3 million).

(63) Remuneration of the Supervisory Board

The total remuneration of the members of the Supervisory Board for the financial year 2018/19 amounted to € 530 thousand (previous year: € 242 thousand). This contains reimbursed expenses of € 108 thousand including the VAT incurred on remuneration (previous year: € 62 thousand).

(64) Remuneration of the Advisory Board

The members of the Advisory Board received € 213 thousand (previous year: € 259 thousand), including VAT.

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

No loans were granted to members of the Board of Managing Directors. There are loans to the members of the Supervisory Board totalling € 10.8 thousand (previous year: € 13.5 thousand).

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

	Group		IKB AG	
	31 Mar. 2019	31 Mar. 2018	31 Mar. 2019	31 Mar. 2018
Men	497	779	492	565
Women	236	416	226	252
Total	733	1,195	718	817

The reduction in the average number of employees is primarily due to cost reduction and optimisation measures at IKB AG and the sale of the IKB Leasing Group in the previous financial year.

(67) Legal disputes

In the unlikely event that claims for damages are still brought against IKB as a result of its activities or the activities of IKB Credit Asset Management GmbH in relation to Rhineland Funding Capital Corporation LLC (RFCC), Delaware, and/or Rhinebridge by parties involved in these transactions, IKB expects any such claims to be unsuccessful.

In an agreement dated 10/16 September 2008, KfW also provided a degree of indemnification to IKB for claims from legal disputes against IKB (including the relevant court costs) in connection with Rhineland Funding Capital Corporation (RFCC), Rhinebridge or the Havenrock entities for events that occurred before 29 October 2008.

Although the indemnification amount is limited, IKB considers it assured that the identifiable legal risks from the transactions covered by the declaration of indemnity are still covered by the indemnification. In this connection, IKB has extensive duties to KfW in respect of information, disclosure, participation and action. 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 considers the risk of a violation to be low. The indemnification claims of IKB are also extinguished retroactively if the share sale and transfer agreement or the share transfer in rem between KfW and LSF6 Europe Financial Holdings, L.P., Delaware, Dallas, USA, are zero and void or one of the parties exercises a right to terminate a legal relationship by unilateral declaration which results in the reversal of the performance rendered in the transaction covering the obligation. Furthermore, the claims from the indemnification agreement are extinguished if, also taking into account the claims for the indemnification agreement, there is reason for insolvency at IKB or insolvency proceedings have been instituted against the assets of IKB.

Claims from IKB shareholders or investors in financial instruments linked to the development of IKB shares are not covered by the indemnification.

(68) Significant events after 31 March 2019

There were no events after 31 March 2019 with a significant effect on the net assets, financial position and results of operations of the Group.

(69) Executive bodies

Board of Managing Directors

Dr Michael H. Wiedmann (Chairman)

Claus Momburg

Dr Jörg Oliveri del Castillo-Schulz

Dirk Volz

Supervisory Board

Dr Karl-Gerhard Eick (Chairman)

Management consultant

Dr Claus Nolting (Deputy Chairman)

Lawyer

Sven Boysen¹⁾

Employee representative

Mark Coker

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

Benjamin Dickgießer

Managing Director of Hudson Advisors Portugal, LDA

Dr Lutz-Christian Funke

Director of KfW

Arndt G. Kirchhoff

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

Bernd Klein¹⁾ (until 5 September 2018)

Employee representative

Nicole Riggers¹⁾

Employee representative

Jörn Walde¹⁾ (since 5 September 2018)

Employee representative

1) elected by the employees

Offices held by employees

As at 31 March 2019, the following employees were represented in the statutory supervisory boards of large corporations:

Dr Reiner Dietrich
Tricor Packaging & Logistics AG


Düsseldorf, 3 June 2019

IKB Deutsche Industriebank AG

The Board of Managing Directors



Dr. Michael H. Wiedmann



Claus Momburg



Dr. Jörg Oliveri del Castillo-Schulz



Dirk Volz

Independent auditor's report

Independent auditor's report

To IKB Deutsche Industriebank Aktiengesellschaft

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

Opinions

We have audited the annual financial statements of IKB Deutsche Industriebank AG, Düsseldorf, which comprise the balance sheet as at 31 March 2019, and the income statement for the fiscal year from 1 April 2018 to 31 March 2019, and notes to the financial statements, including the recognition and measurement policies presented therein. In addition, we have audited the management report of IKB Deutsche Industriebank AG for the fiscal year from 1 April 2018 to 31 March 2019. In accordance with the German legal requirements we have not audited the following content of the management report: the Corporate Governance Declaration contained in chapter 7 of the management report and the non-financial statement referred to in chapter 2 of the management report. In addition, other information includes the following information outside the management report: Report of the Supervisory Board and the Letter from the Chairman of the Board of Managing Directors.

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

- the accompanying annual financial statements comply, in all material respects, with the requirements of German commercial law applicable to credit institutions and give a true and fair view of the assets, liabilities and financial position of the Company as of 31 March 2019 and of its financial performance for the fiscal year from 1 April 2018 to 31 March 2019 in compliance with German legally required accounting principles, and
- the accompanying management report, as a whole, provides an appropriate view of the Company's position. In all material respects, this management report is consistent with the annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our opinion on the management report does not cover the content of the above listed Corporate Governance Declaration, the non-financial statement, the report of the Supervisory Board and the Letter from the Chairman of the Board of Managing Directors,

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

Basis for the opinions

We conducted our audit of the annual financial statements and of the management report in accordance to Sec. 317 HGB and the EU Audit Regulation (No 537/2014, referred to subsequently as “EU Audit Regulation”) and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the “Auditor’s responsibilities for the audit of the annual financial statements and of the management report” section of our auditor’s report. We are independent of the Company in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Art. 10 (2) f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Art. 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the annual financial statements and on the management report.

Key audit matters in the audit of the annual financial statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the annual financial statements for the fiscal year from 1 April 2018 to 31 March 2019. These matters were addressed in the context of our audit of the annual financial statements as a whole, and in forming our opinion thereon; we do not provide a separate opinion on these matters.

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

1. Recoverability of deferred tax assets

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

If there are differences between the carrying amounts of assets, liabilities, prepaid expenses and deferred income in the statutory accounts and their tax carrying amounts, which are expected to reverse in subsequent fiscal years, the resulting tax relief may be recognized in the balance sheet as a (net) deferred tax asset, measured at the entity’s individual tax rate at the time the differences are due to reverse. IKB AG exercised this option and recognized deferred tax assets in the amount of EUR 137m (Previous Year EUR 181m) as of 31 March 2019. The recognized items must be reversed as soon as the tax relief arises or ceases to be expected.

As of 31 March, 2019, IKB AG’s deferred tax assets from temporary differences mainly relate to financial assets, provisions and general bad debt allowances. The temporary differences in financial assets primarily relate to subsidiaries’ investments in investment fund shares.

The amount of the recognized net deferred tax asset derives from the reversal of temporary differences, which will probably lead to a tax relief in subsequent fiscal years.

IKB AG estimates whether differences are likely to reverse in future fiscal years on the basis of a forecast of the taxable results for the next five fiscal years based on internal planning and business plans as of 31 March 2019 which, forming a basis for the recoverability of deferred taxes, are highly dependent on estimates and assumptions made by the managing directors.

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

Auditor's response and any key observations

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

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

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

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

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

Reference to related disclosures

The Bank provides information on deferred taxes in the notes to the combined annual financial statements of the Group and IKB AG as of 31 March 2019 in Notes "(11) Deferred taxes" and "(30) Deferred tax assets."

2. Presentation of legal risks in the annual financial statements

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

In its annual financial statements as of 31 March 2019 IKB mentions litigation risks.

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

Accounting for provisions for litigation was therefore, in our opinion, a key audit matter.

Auditor's response and any key observations

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

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

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

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

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

Reference to related disclosures

The Bank provides information on ongoing litigation in the combined management report of IKB AG and the IKB Group as of 31 March 2019 in chapters “3. Risk report” and in the notes to the combined financial statements in Note “(41) Other financial obligations.”

3. Early repurchase of debtor warrants

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

In March 2019, IKB AG concluded a so-called debt waiver in return of a payment for the outstanding nominal amount of a total of EUR 180.1m with the holders of the remaining indefinite term debtor warrant. This debtor warrant was agreed upon in connection with debt waivers by creditors in 2008/2009 and requires repayment when the financial situation improves as contractually defined.

The early redemption of the debtor warrant is corresponding to schedule and according to IKB AG considered as economically favorable in the long run and due to the final elimination of contingent liabilities, progress has been made in restructuring the liabilities side. The early redemption led to expenses (including consulting fees) of EUR 162.1m in the annual financial statements of IKB AG as of 31 March 2019.

The redemption thus has a significant impact on the annual financial statements of IKB AG as of 31 March 2019 and is therefore of special importance to the financial statement users. In view of this, the early redemption of the debtor warrants was a key audit matter within the framework of our audit.

Auditor’s response and any key observations:

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

In addition, we examined the commercial accounting for the transaction in the annual financial statements of IKB AG as of 31 March 2019 in order to ascertain whether it conforms to the provisions of the HGB [“Handelsgesetzbuch”: German Commercial Code]. Furthermore, with regard to the market conformity of the redemption, we used relevant valuation reports of an external appraiser according to IDW S1 “Standards for the Valuation of Business Enterprises” prepared in accordance with IDW Auditing Standard IDW AuS 322 (revised) “Using the Work of an Auditor’s Expert” and analyzed whether the transaction was consistent with the objective value determined by the external appraiser and whether the notes pursuant to Sec. 285 No. 21 HGB were provided.

Our procedures did not give rise to any reservations regarding the accounting for and presentation of the matter in the annual financial statements of IKB AG as of 31 March 2019.

Reference to related disclosures:

The Bank provides information on the early repurchase of the debtor warrant in chapter “2. Economic report, Significant events in the period under review” of the combined management report of IKB AG and the IKB Group and in the notes to the combined annual financial statements of IKB AG and the Group as of 31 March 2019 in Notes “(45) Extraordinary income and expenses” and “(57) Related party transactions.”

Other information

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

Other information includes the following sections of the Annual Report 2018/2019 obtained by us before the date of this auditor’s report: the Corporate Governance Declaration contained in chapter 7 of the management report and the non-financial statement referred to in chapter 2 of the management report. In addition, other information includes the following information outside the management report which was provided to us before the date of this auditor’s report: Letter from the Chairman of the Board of Managing Directors. Furthermore, other information includes the following disclosures outside of the management report provided to us after the date of this auditor’s report: Report of the Supervisory Board.

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

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

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

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

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

The managing directors are responsible for the preparation of the annual financial statements that comply, in all material respects, with the requirements of German commercial law applicable to business corpora-

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

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the annual financial statements and of the management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit of the annual financial statements and of arrangements and measures (systems) relevant to the audit of the management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems of the Company.
- Evaluate the appropriateness of accounting policies used by the managing directors and the reasonableness of estimates made by the managing directors and related disclosures.
- Conclude on the appropriateness of the managing directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the annual financial statements and in the management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to be able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements present the underlying transactions and events in a manner that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German legally required accounting principles.
- Evaluate the consistency of the management report with the annual financial statements, its conformity with [German] law, and the view of the Company's position it provides.
- Perform audit procedures on the prospective information presented by the managing directors in the management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the managing directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis.

There is a substantial unavoidable risk that future events will differ materially from the prospective information.

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

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

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

Other legal and regulatory requirements

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

We were elected as auditor by the annual general meeting on 5 September 2018. We were engaged by the chairman of the audit committee on 21 November 2018. We have been the auditor of IKB Deutsche Aktiengesellschaft AG continuously since the fiscal year 2017/2018.

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

German Public Auditor responsible for the engagement

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

Düsseldorf, June 4th 2019

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Werthmann
Wirtschaftsprüfer

Gundelach
Wirtschaftsprüferin

Independent auditor's report

To IKB Deutsche Industriebank Aktiengesellschaft

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

Opinions

We have audited the consolidated financial statements of IKB Deutsche Industriebank AG, Düsseldorf, which comprise the balance sheet as at 31 March 2019, and the income statement for the fiscal year from 1 April 2018 to 31 March 2019, and notes to the financial statements, including the recognition and measurement policies presented therein. In addition, we have audited the management report of IKB Deutsche Industriebank for the fiscal year from 1 April 2018 to 31 March 2019. In accordance with the German legal requirements we have not audited the following content of the management report: the Corporate Governance Declaration contained in chapter 7 of the management report and the non-financial statement referred to in chapter 2 of the management report. In addition, other information includes the following information outside the management report: Report of the Supervisory Board and the Letter from the Chairman of the Board of Managing Directors.

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

- the accompanying consolidated financial statements comply, in all material respects, with the requirements of German commercial law applicable to credit institutions and give a true and fair view of the assets, liabilities and financial position of the Company as of 31 March 2019 and of its financial performance for the fiscal year from 1 April 2018 to 31 March 2019 in compliance with German legally required accounting principles, and
- the accompanying management report as a whole provides an appropriate view of the Company's position. In all material respects, this management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our opinion on the management report does not cover the content of the above listed Corporate Governance Declaration, the non-financial statement, the report of the Supervisory Board and the Letter from the Chairman of the Board of Managing Directors,

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

Basis for the opinions

We conducted our audit of the consolidated financial statements and of the management report in accordance to Sec. 317 HGB and the EU Audit Regulation (No 537/2014, referred to subsequently as “EU Audit Regulation”) and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the “Auditor’s responsibilities for the audit of the consolidated financial statements and of the management report” section of our auditor’s report. We are independent of the Company in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Art. 10 (2) f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Art. 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the consolidated financial statements and on the management report.

Key audit matters in the audit of the consolidated financial statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the fiscal year from 1 April 2018 to 31 March 2019. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon; we do not provide a separate opinion on these matters.

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

2. Recoverability of deferred tax assets

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

If there are differences between the carrying amounts of assets, liabilities, prepaid expenses and deferred income in the statutory accounts and their tax carrying amounts, which are expected to reverse in subsequent fiscal years, the resulting tax relief may be recognized in the balance sheet as a (net) deferred tax asset, measured at the entity’s individual tax rate at the time the differences are due to reverse. IKB exercised this option and recognized deferred tax assets in the amount of EUR 137m (Previous Year EUR 181m) as of 31 March 2019. The recognized items must be reversed as soon as the tax relief arises or ceases to be expected.

As of 31 March 2019, IKB’s deferred tax assets from temporary differences mainly relate to financial assets, provisions and general bad debt allowances. The temporary differences in financial assets primarily relate to subsidiaries’ investments in investment fund shares.

The amount of the recognized net deferred tax asset derives from the reversal of temporary differences, which will probably lead to a tax relief in subsequent fiscal years.

IKB estimates whether differences are likely to reverse in future fiscal years on the basis of a forecast of the taxable results for the next five fiscal years based on internal planning and business plans as of 31 March 2019 which, forming a basis for the recoverability of deferred taxes, are highly dependent on estimates and assumptions made by the managing directors.

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

Auditor's response and any key observations

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

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

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

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

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

Reference to related disclosures

The Bank provides information on deferred taxes in the notes to the combined consolidated financial statements of the Group and IKB as of 31 March 2019 in Notes "(11) Deferred taxes" and "(30) Deferred tax assets."

2. Presentation of legal risks in the consolidated financial statements

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

In its consolidated financial statements as of 31 March 2019 IKB mentions litigation risks.

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

Accounting for provisions for litigation was therefore, in our opinion, a key audit matter.

Auditor's response and any key observations

During our audit of the accounting for litigation, we examined the processes and internal controls established by IKB to identify, assess and account for litigation.

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

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

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

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

Reference to related disclosures

The Bank provides information on ongoing litigation in the combined management report of IKB and the IKB Group as of 31 March 2019 in chapters “3. Risk report” and in the notes to the combined financial statements in Note “(41) Other financial obligations.”

3. Early repurchase of debtor warrants

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

In March 2019, IKB concluded a so-called debt waiver in return of a payment for the outstanding nominal amount of a total of EUR 180.1m with the holders of the remaining indefinite term debtor warrant. This debtor warrant was agreed upon in connection with debt waivers by creditors in 2008/2009 and requires repayment when the financial situation improves as contractually defined.

The early redemption of the debtor warrant is corresponding to schedule and according to IKB considered as economically favorable in the long run and due to the final elimination of contingent liabilities, progress has been made in restructuring the liabilities side. The early redemption led to expenses (including consulting fees) of EUR 162.1m in the consolidated financial statements of IKB as of 31 March 2019.

The redemption thus has a significant impact on the consolidated financial statements of IKB as of 31 March 2019 and is therefore of special importance to the financial statement users. In view of this, the early redemption of the debtor warrants was a key audit matter within the framework of our audit.

Auditor’s response and any key observations:

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

In addition, we examined the commercial accounting for the transaction in the consolidated financial statements of IKB as of 31 March 2019 in order to ascertain whether it conforms to the provisions of the HGB [“Handelsgesetzbuch”: German Commercial Code]. Furthermore, with regard to the market conformity of the redemption, we used relevant valuation reports of an external appraiser according to IDW S1 “Standards for the Valuation of Business Enterprises” prepared in accordance with IDW Auditing Standard IDW AuS 322 (revised) “Using the Work of an Auditor’s Expert” and analyzed whether the transaction was consistent with the objective value determined by the external appraiser and whether the notes pursuant to Sec. 285 No. 21 HGB were provided.

Our procedures did not give rise to any reservations regarding the accounting for and presentation of the matter in the consolidated financial statements of IKB as of 31 March 2019.

Reference to related disclosures:

The Bank provides information on the early repurchase of the debtor warrant in chapter “2. Economic report, Significant events in the period under review” of the combined management report of IKB and the IKB Group and in the notes to the combined consolidated financial statements of IKB and the Group as of 31 March 2019 in Notes “(45) Extraordinary income and expenses” and “(57) Related party transactions.”

Other information

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

Other information includes the following sections of the Annual Report 2018/2019 obtained by us before the date of this auditor’s report: the Corporate Governance Declaration contained in chapter 7 of the management report and the non-financial statement referred to in chapter 2 of the management report. In addition, other information includes the following information outside the management report which was provided to us before the date of this auditor’s report: Letter from the Chairman of the Board of Managing Directors. Furthermore, other information includes the following disclosures outside of the management report provided to us after the date of this auditor’s report: Report of the Supervisory Board.

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

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

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

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

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

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

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems of the Company.
- Evaluate the appropriateness of accounting policies used by the managing directors and the reasonableness of estimates made by the managing directors and related disclosures.
- Conclude on the appropriateness of the managing directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to be able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German legally required accounting principles.

- Evaluate the consistency of the management report with the consolidated financial statements, its conformity with [German] law, and the view of the Company's position it provides.
- Perform audit procedures on the prospective information presented by the managing directors in the management report. On the basis of sufficient appropriate audit evidence, we evaluate, in particular, the significant assumptions used by the managing directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

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

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

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

Other legal and regulatory requirements

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

We were elected as auditor by the annual general meeting on 5 September 2018. We were engaged by the chairman of the audit committee on 21 November 2018. We have been the auditor of IKB Deutsche Aktiengesellschaft AG continuously since the fiscal year 2017/2018.

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

German Public Auditor responsible for the engagement

IKB Annual Report 2018/2019

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

Düsseldorf, June 4th 2019

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Werthmann
Wirtschaftsprüfer

Gundelach
Wirtschaftsprüferin

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-Bötzkjes-Straße 1
40474 Düsseldorf
Tel +49 211 8221-4511
Fax +49 211 8221-2511
e-mail: investor.relations@ikb.de