6-Month Report 2017/2018

(1 April – 30 September 2017)

IKB Deutsche Industriebank

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Letter from the Chairman of the Board of Managing Directors

Ladies and Gentlemen,

We are continuing the success of previous years in the 2017/18 financial year and making further progress in practically every respect. We have expanded our new business volume, increased our net interest and net fee and commission income, and reduced our administrative expenses. All in all, this allowed us to increase our consolidated net income for the first half of the year to € 24 million.

This was also supported by the historically favourable risk situation resulting from strong economic performance in Germany and, ultimately, the impressive business success of our core target group, the German industrial Mittelstand. Net risk provisioning made a further positive contribution to earnings, while we succeeded in reducing the proportion of non-performing assets (NPA) in the total credit volume to 0.8%.

We view this as the result of our risk-conscious new business and pricing policy, which we intend to pursue further while continuing to expand our new business volume. Our common equity tier 1 ratio (CET1) of 11.3% gives us sufficient headroom to achieve this, as well as our leverage ratio of 7.1%.

In addition, the systematic simplification of our group structure is allowing us to focus on supporting our customers in the high-end industrial midmarket. As part of this focus, we sold our subsidiaries IKB Leasing and ikb Data. While the sale of ikb Data to Datagroup is already complete, the IKB Leasing transaction is currently subject to the approval of the banking supervisory authorities and is expected to come into effect in the second half of the 2017/18 financial year.

Reducing the complexity of our liabilities is of particular importance to us. The profit participation certificates have expired. Following our successful purchase offer, less than € 50 million of the € 400 million total nominal value of the two silent participations (Capital Raising and Hybrid Raising notes) is now in third-party ownership.

Our Funding Trust II structure with a nominal volume of € 400 million was terminated as part of a merger offer. The holders of the securities of IKB FT II received an IKB subordinated bond with a nominal value of € 400 and a cash payment of € 150 in exchange for € 1,000 nominal value. We have also begun reducing the claims from the debtor warrants while preserving our equity ratios.

We will continue to streamline our capital structure. An offer to the holders of the securities of IKB Funding Trust I, which has an outstanding nominal volume of about € 75 million, is currently in progress. While we generated net income of € 94 million from transactions on the liabilities side in the first half of the year, further measures will initially have an adverse effect on consolidated net income before improving our earnings in future years. We expect the IKB Group's CET 1 ratio to remain essentially unchanged versus the previous year even after implementing measures to simplify the capital structure.

We will also continue to adjust our internal structures to reflect the Bank's reduced complexity. As for many other German banks, this includes a reduction of our workforce. Despite the considerable progress made in many areas in recent years, we need to continue to improve the Bank's profitability in order to strengthen our position in the market. In addition to cost measures, this primarily means growing our top line.

Our long-term lending to the manufacturing industry and our long-standing expertise in the field of public programme loans mean we have a visible position in the German market and significant opportunities for growth. Based on our business model with its clear midmarket focus, we support our customers with loans, risk management, capital markets and advisory services.

Düsseldorf, November 2017

Dr Michael H. Wiedmann

Interim Group Management Report

1. Basic information on the Group

Comprehensive information on the IKB Group can be found on pages 13 to 14 of the 2016/17 annual report. Compared with this information, IKB has continued with its strategy of focusing on its core business with high-end midmarket companies with the sale of the IKB Leasing Group and ikb Data (see “section 2. Economic report/Significant events in the period under review").

2. Economic report

Macroeconomic and industry-specific conditions

The global economy is enjoying an upturn that has now lasted for a good year. Growth momentum is broad-based and is being driven by both the industrialised nations and the emerging economies. In particular, Chinese economic growth, which plays an important role for the global economy, remained extremely strong in spite of the structural slowdown.

In the USA, the pace of macroeconomic growth has picked up again substantially following a weaker start to 2017. In this environment, the US Federal Reserve raised the federal funds rate by a further 0.25 percentage points in mid-June, bringing the target range to between 1.00% and 1.25%. In September, it also resolved to start scaling back its balance sheet. Economic activity has currently slowed temporarily in the wake of the hurricanes.

The British economy is suffering from concerns about the country's withdrawal from the European Union. Economic growth slowed substantially in the first half of 2017 due to factors including a minimal increase in consumer demand. Although employment has risen considerably, real income has fallen of late as consumer price inflation increased to 3% in autumn 2017 despite the slowdown in wage momentum. Inflation has been driven in particular by the pronounced depreciation of the pound sterling since the Brexit referendum.

The euro zone economy has gained tangible momentum, with gross domestic product (GDP) increasing in recent quarters. This development was fuelled by foreign business as well as domestic demand. The upturn is broad-based in nature, with economic expansion recorded in almost all euro member states.

The euro has appreciated against the US dollar since the start of this year. This is likely to have been driven by growing disillusionment with US-President Trump's economic policy announcements, as well as by the surprisingly robust economic performance in the euro zone. The strength of the euro served to reduce import prices, and hence curb consumer price inflation. Export momentum is also likely to have declined slightly as a result.

Monetary policy in the euro zone remains expansive and is helping to drive the economic upturn. Since March 2016, the main refinancing operations rate of the European Central Bank (ECB) has been 0%, the deposit rate has been -0.4% and the marginal lending rate has been 0.25%. The ECB scaled back its monthly bond purchase volume to € 60 billion since April 2017 compared with € 80 billion in the previous year. This reduction, together with the rise in the external value of the euro, has already led to a slight deterioration in monetary conditions this year.

The upturn in Germany accelerated in the first half of the year, with quarter-on-quarter GDP growth of 0.7% in the first quarter and 0.6% in the second quarter. Impetus was provided by exports, which saw increased growth in the first six months. Domestic demand remained an important growth driver. Construction activity continued to be stimulated by low interest rates and increased demand for housing. Equipment investment also enjoyed pronounced growth, suggesting that it is no longer primarily driven by the strong domestic economy but also by rising demand from abroad.

The expansive monetary policy in the euro zone served to reduce interest rates for loans, since when they have remained at an extremely low level. Muted lending to companies in the euro zone has continued, with only moderate growth in the lending volume since 2015. Countries like Spain and Italy are still seeing a decline in the volume of lending. In Germany, lending to companies has enjoyed livelier growth, although lending to the manufacturing industry has moved largely sideways.

For the banking sector in the euro zone and Germany, the pressure on profitability remained. Low interest rates, restructuring measures and regulatory requirements are still squeezing earnings, which are also suffering from intensive competition per se and increasing competition from providers of digital financial services. German banks benefited from the sustained low level of defaults thanks to the continued positive economic development.

Although the period under review again saw numerous political risks, including the intensification of the North Korea conflict, elections in the euro zone, the uncertainty surrounding US policy and the conflict in Catalonia, these risk factors did not affect the global economy and have been alleviated slightly in some cases. In this environment, the financial markets also remained unaffected.

Significant events in the period under review

Election of the auditor

Following the public tender for the statutory audit of the single-entity and consolidated financial statements conducted under the responsibility of the Risk and Audit Committee, the Annual General Meeting of IKB followed the recommendation of the Supervisory Board and elected Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart, as the new auditor of the single-entity and consolidated financial statements for the 2017/18 financial year on 9 May 2017. The change of auditor required by law from PricewaterhouseCoopers AG Wirtschaftsprüfungsgesellschaft, Düsseldorf, which has been IKB's auditor for ten years, was thus implemented.

Changes in the Group

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

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

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

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

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

IKB Funding Trust II merger

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

Sale of the IKB Leasing Group

On 28 and 29 June 2017, IKB entered into an agreement on the sale of the IKB Leasing Group to PEAC Holdings (Germany) GmbH, a subsidiary of the investment fund administered by HPS Investment Partners, LLC ("HPS"). Among other things, the transaction is subject to the approval of the banking supervisory authorities and is expected to come into effect in the second half of the financial year 2017/18. It was agreed that the purchase price would not be disclosed. With the sale of the IKB Leasing Group, IKB is pressing ahead with its strategy of focusing on its core business with high-end midmarket companies.

Sale of ikb Data

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

Dissenting view of the tax authorities

In the financial year 2016/17, the tax authorities issued negative decisions in the appeal proceedings against the tax assessments for corporation tax, the solidarity surcharge and trade tax for 2009. IKB then brought actions before the Düsseldorf Fiscal Court in good time. The decision by the German Federal Constitutional Court on 29 March 2017 on the incompatibility of part of section 8c of the German Corporate Income Tax Act (KStG) relating to detrimental acquisitions of between 25% and 50% with the German Basic Law, and the further submission to the German Federal Constitutional Court by the Hamburg Fiscal Court on 29 August 2017 on the question of whether section 8c section 2 KStG as amended by the German Business Tax Reform Act 2008 (now section 8c (1) sentence 2 KStG) is unconstitutional, have further improved the risk assessment (see “section 3. Risk report") from IKB AG's perspective.

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

Legally relevant events

Profit participation certifikates

A suit with a preliminary value in dispute of € 22 million has been filed against IKB and further legal action has been threatened. The Bank considers the allegations unfounded and feels its defence prospects are good. Further information can be found under note (29) "Significant events after 30 September 2017".

Debt issuance programme

The debt issuance programme was updated on 28 August 2017. This programme is used continuously for various new issues of IKB bearer bonds.

Personnel changes

Supervisory Board

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

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

In the first half of the financial year 2017/18, the Group's new business volume increased by € 0.1 billion or 4% year-on-year to € 2.3 billion. The majority of the new business volume relates to IKB AG. In the period under review, loans from own funds accounted for 59% of the new business volume (previous year: 60%), while public programme loans accounted for 20% (previous year: 21%) and equipment leasing accounted for 21% (previous year: 19%).

Results of operations

In the first half of the financial year 2017/18, IKB generated consolidated net income of € 24 million after € 10 million in the same period of the previous year.

Net interest and lease income

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

Net interest and lease income in the Group amounted to € 151 million in the period under review (previous year: € 144 million). This increase was primarily due to increased volumes in the operating lending business as well as income from the realisation of leased assets.

Net fee and commission income

The Group recorded net fee and commission income of € 20 million, up on the prior-year figure of € 17 million. This increase was largely due to the commission on credit default swaps as a result of the reclassification of pledgor CDSs reported as guarantees (see note (2).

Administrative expenses

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

Administrative expenses in the Group amounted to € 132 million in the period under review compared with € 141 million in the same period of the previous year.

Personnel expenses declined by € 9 million year-on-year to € 81 million. This improvement was primarily due to the successful implementation of restructuring measures.

Other administrative expenses and depreciation, amortisation and impairment losses declined slightly from € 52 million in the previous year to € 51 million.

Net other income

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

The main factors influencing net other income, which declined from a positive € 29 million in the previous year to a negative € 7 million in the period under review, are presented below.

The measurement and sale of long-term investments resulted in net income of € 69 million after net income of € 154 million in the previous year.

Close-out payments in connection with the strategic early dissolution of derivative transactions in the banking book resulted in net expenses of € 137 million after net expenses of € 114 million in the previous year.

The termination of the structure of IKB Funding Trust II, the repurchase of the Capital Raising and Hybrid Raising bonds and the partial early repurchase of a debtor warrant resulted in extraordinary income in the net amount of € 94 million.

Expenses of € 47 million were incurred in connection with the sale of the leasing business.

The sale of a private equity direct investment resulted in income of € 20 million.

Expenses for retirement benefits impacted net other income in the amount of € 14 million in the period under review (previous year: € 6 million). Of this figure, an expense of € 15 million related to the discounting of pension provisions in line with the German Ordinance on the Discounting of Provisions (*Rückstellungsabzinsungsverordnung – RückAbzinsV*) issued by Deutsche Bundesbank (previous year: expense of € 15 million), while income of € 2 million related to the measurement of and transactions involving the assets transferred in contractual trust arrangements (previous year: income of € 9 million).

Net risk provisioning

Net risk provisioning, which includes amortisation/depreciation and write-downs of receivables and specific securities as well as additions to loan loss provisions, improved by € 28 million compared with the first half of the financial year 2016/17, from a negative € -18 million to a positive € 10 million.

Net risk provisioning mainly saw positive development on account of the fact that it contains a reversal of specific risk provisions in response to the positive economic development, as well as reversals of general allowances for non-strategic assets due to the reduced risk of loss following disposals and the termination of sales activities.

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

Taxes

Net tax expenses amounted to € 18 million in the period under review after € 21 million in the same period of the previous year.

Net income

Consolidated net income for the first half of the 2017/18 financial year amounted to € 24 million compared with € 10 million in the previous year.

Net assets

The Group's total assets declined by € 0.4 billion as against 31 March 2017, amounting to € 18.8 billion at the end of the period under review.

The gross credit volume, which also includes off-balance sheet business (see also "section 3. Risk report"), decreased by € 0.5 billion as against 31 March 2017 to € 21.8 billion. This item primarily comprises medium-term and long-term loans to banks, loans to customers, asset derivatives in the non-trading book and guarantees.

Assets

Receivables from banks in the Group decreased by € 0.4 billion to € 1.3 billion, largely as a result of a reduction in call accounts and cash collateral received.

Receivables from customers increased by € 0.5 billion to € 10.4 billion on the back of a slight increase in the new business volume.

Bonds and other fixed-income securities in the Group decreased by € 0.5 billion to € 4.8 billion, largely as a result of strategic disposals.

Liabilities

Liabilities to banks declined by € 0.1 billion to € 7.5 billion, particularly as a result of maturing global loans.

Liabilities to customers fell by € 0.4 billion to € 7.2 billion, primarily as a result of a reduction in the volume of customer deposits and promissory note loans.

Equity

Equity increased by € 25 million, from € 1,039 million to € 1,064 million, largely as a result of the consolidated net income for the period under review.

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

Unrealised gains and losses have arisen in the period under review and in recent financial years from financial instruments in the banking book in the form of securities, from derivatives and from the refinancing of the credit book without matching maturities as a result of changes in market interest rates, exchange rates and credit ratings. Unrealised losses could lead to a lower level of net interest income or losses on disposal in future financial years. Like at 31 March 2017, the fair value measurement of the banking book in accordance with IDW RS BFA3 did not result in any provisioning requirements.

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. The Bank is also issuing bearer bonds in the retail customer segment and being selective when it comes to entering into new lending business.

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

Overall assessment

The results of operations for the first half of the financial year 2017/18 are characterised by a satisfactory earnings situation for the Bank. Net assets and the financial position are in order.

From the Bank’s perspective, the course of business in the first half of the financial year was positive on the whole.

Financial and non-financial performance indicators

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

Regulatory tier 1 ratio

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

As at 30 September 2017, the CET 1 ratio amounted to 11.3% for the IKB Group and 14.6% for IKB AG (for details see “section 3. Risk report”). As anticipated in the annual report for the year ended 31 March 2017, this meant that IKB exceeded the statutory minimum requirement (CRR) of 4.5% for the CET 1 ratio plus a capital conservation buffer of 1.25% and the SREP additional capital requirement.

Leverage ratio

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

The leverage ratio compares the largely unweighted total of balance sheet and off-balance sheet transactions with regulatory tier 1 capital. At present, this indicator is disclosed for monitoring purposes only and is not expected to become binding until 1 January 2019. The draft of CRR2 published on 23 November 2016 includes a minimum ratio of 3.0%.

Under the transitional provisions and applying the terms of Delegated Regulation EU 2015/62 of 17 January 2015, the leverage ratio of the IKB Group in accordance with Article 429 CRR was 7.1% (IKB AG: 8.6%) as at 30 September 2017, thereby comfortably exceeding the future minimum ratio of 3.0%. The slight decrease in the leverage ratio of IKB AG and the IKB Group compared with the forecast contained in the annual report for the year ended 31 March 2017 is primarily attributable to IKB's restructuring measures.

Net income after taxes

In its 2016/17 annual report, IKB was forecast to generate significantly positive operating results in the financial year 2017/18 including disposals of financial instruments. In line with this, consolidated net income of € 24 million was generated in the period under review. Information on potential non-recurring effects in the second half of the financial year can be found in “section 5. Outlook".

Cost income ratio

The cost income ratio describes the ratio of administrative expenses to the sum of net interest income, net fee and commission income and net income from the trading portfolio. It amounted to 77.1% at Group level as at 30 September 2017 compared with 87.6% in the previous year.

Banking income and net banking income

The Group's banking income, which consists of net interest and lease income and net fee and commission income, amounted to € 172 million at Group level as at 30 September 2017 compared with € 161 million in the previous year.

Net banking income is calculated as banking income less provisions for possible loan losses and amounted to € 207 million at Group level as at 30 September 2017 compared with € 142 million in the previous year.

Liquidity coverage ratio

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

70% as at 1 January 2016, increased to 80% as at 1 January 2017 and will reach its final level of 100% as at 1 January 2018.

IKB performs regulatory liquidity management using the LCR. The LCR amounted to 475% at IKB Group level as at 30 September 2017 (IKB AG: 200%), thereby comfortably exceeding the minimum of 100% for the full financial year 2017/18 as set out in the annual report for the year ended 31 March 2017 at all times.

3. Risk report

Where methods and processes have not changed since 31 March 2017, no detailed presentation is provided in the following section and readers should refer to IKB's 2016/17 annual report (see pages 25 to 50).

Regulatory capital resources and risk-bearing capacity

Regulatory capital resources

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

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

Figures in € million	**30 Sep. 2017**	**31 Mar. 2017[2)]**
Counterparty default risk (including CVA charge € 108 million; 31 March 2017: € 164 million)	12,299	11,888
Market risk equivalent	376	323
Operational risk	703	722
Total risk-weighted assets (RWA)	**13,377**	**12,934**
Common equity tier 1 (CET 1)	**1,511**	**1,510**
Additional tier 1 (AT 1)	36	236
Total Tier 1 (T 1)	**1,547**	**1,746**
Tier 2 (T 2)	386	435
Own funds	**1,933**	**2,181**
CET 1 ratio	**11.3%**	**11.7%**
T 1 ratio	11.6%	13.5%
Own funds ratio	14.4%	16.9%

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

1) Figures taking into consideration the phase-in and phase-out provisions of the CRR. The CET 1 ratios were calculated in accordance with the current legal status of the CRR as at 30 September 2017 and 31 March 2017 respectively, including transitional provisions and the interpretations published by the supervisory authorities. The possibility that future EBA/ECB standards and interpretations or other supervisory actions will lead to a retrospective change in the CET 1 ratio cannot be ruled out.

2) Figures after approval of the accounts

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

Figures in € million	**30 Sep. 2017**	**31 Mar. 2017[2)]**
Counterparty default risk (including CVA charge € 108 million; 31 March 2017: € 164 million)	10,944	10,815
Market risk equivalent	105	70
Operational risk	512	481
Total risk-weighted assets (RWA)	**11,561**	**11,366**
Common equity tier 1 (CET 1)	**1,687**	**1,766**
Additional tier 1 (AT 1)	0	0
Total Tier 1 (T 1)	**1,687**	**1,766**
Tier 2 (T 2)	348	197
Own funds	**2,035**	**1,964**
CET 1 ratio	**14.6%**	**15.5%**
T 1 ratio	14.6%	15.5%
Own funds ratio	17.6%	17.3%

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

1) Figures taking into consideration the phase-in and phase-out provisions of the CRR. The CET 1 ratios were calculated in accordance with the current legal status of the CRR as at 30 September 2017 and 31 March 2017 respectively, including transitional provisions and the interpretations published by the supervisory authorities. The possibility that future EBA/ECB standards and interpretations or other supervisory actions will lead to a retrospective change in the CET 1 ratio cannot be ruled out.

2) Figures after approval of the accounts

At 11.3% at Group level and 14.6% at individual Bank level, IKB's CET 1 ratios are above the minimum legal requirements, including the capital conservation buffer and countercyclical capital buffer, and the SREP capital requirements set by BaFin in the banking supervisory review and evaluation process (SREP).

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

Risk-bearing capacity

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

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

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

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

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

Table: Economic capital requirements – going-concern perspective

	30 Sep. 2017 in € million	30 Sep. 2017 in %	31 Mar. 2017 in € million	31 Mar. 2017 in %
Counterparty default risk	151	52%	156	56%
Market price risk	17	6%	22	8%
Operational risk	47	16%	19	7%
Business risk	56	19%	62	22%
Liquidity risk	17	6%	19	7%
Total	**288**	**100%**	**278**	**100%**
less diversification effects	-37		-33	
Overall risk position	**252**		**246**	
Risk coverage potential	**501**		**528**	

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

The overall risk position increased by € 6 million compared with the start of the financial year to € 252 million. Based on the Bank's current planning and taking into account the SREP additional capital requirement, risk coverage potential fell by € 27 million to € 501 million compared with 31 March 2017.

As at 30 September 2017, the overall risk position amounted to 50% of the risk coverage potential after taking diversification effects into account (31 March 2017: 47%). All regulatory minimum capital requirements under Basel III will continue to be met – even excluding diversification effects – should these unexpected risks occur.

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

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

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

Table: Economic capital requirements – liquidation perspective

	30 Sep. 2017 in € million	30 Sep. 2017 in %	31 Mar. 2017 in € million	31 Mar. 2017 in %
Counterparty default risk	528	43%	604	46%
Market price risk	498	41%	547	42%
Operational risk	104	8%	52	4%
Business risk	96	8%	106	8%
Total	**1,226**	**100%**	**1,309**	**100%**
less diversification effects	-291		-389	
Overall risk position	**935**		**920**	
Risk coverage potential	**1,694**		**1,657**	

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

Risk coverage potential in the liquidation perspective increased by € 37 million compared with the start of the financial year. At the same time, the overall risk position for all risks classified as significant rose by € 15 million to € 935 million. Thus, taking diversification effects into account, risk coverage potential significantly exceeds the total risk position, with utilisation amounting to 55% (31 March 2017: 56%). Even excluding diversification effects, the risk coverage potential still clearly exceeds the overall risk position with utilisation of 72% (31 March 2017: 79%).

Forecast calculations and stress tests

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

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

Risk strategy

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

There was no need to adjust the risk strategies in the first half of the financial year 2017/18. As such, please refer to IKB's 2016/17 annual report for further information (see pages 30 and 31).

Counterparty default risk

Details of the credit approval process and individual exposure monitoring, the rating processes and rating systems, the quantification of credit risk and portfolio monitoring and management can be found in IKB's 2016/17 annual report (see pages 31 and 32).

Structure of counterparty default risk

The credit volume as at 30 September 2017 was composed as follows:

Table: Credit volume – Group

in € million	30 Sep. 2017	31 Mar. 2017	Change	30 Sep. 2016	Change
Receivables from banks	1,298	1,670	-372	1,591	-293
Receivables from customers	10,397	9,925	472	10,033	364
Bonds and other fixed-income securities not including own bonds	4,778	5,309	-531	4,679	99
Equities and other non-fixed-income securities	472	473	-1	471	1
Investments	1	4	-3	4	-3
Lease assets	947	928	19	919	28
Subtotal: Balance sheet assets	**17,893**	**18,309**	**-416**	**17,697**	**196**
Contingent liabilities[1)]	2,392	2,566	-174	2,366	26
Asset derivatives in the non-trading book[2)]	1,038	1,191	-153	1,603	-565
Write-downs[3)]	196	233	-37	339	-143
Leasing: Deferred income and advance payments for intangible assets	-108	-97	-11	-70	-38
Provisions for expected losses for embedded derivatives	-48	-53	5	-51	3
Securities lending	474	190	284	146	328
Gross credit volume	**21,837**	**22,339**	**-502**	**22,030**	**-193**
For information purposes: other significant counterparty default risks outside the gross credit volume					
Irrevocable loan commitments	1,895	1,550	345	1,819	76
Investments in associated and affiliated companies	18	17	1	20	-2

1) before deducting risk provisions
2) Including € 46 million (31 March 2017: € 21 million) in positive fair values for protection seller CDSs whose nominal values are treated as contingent liabilities for accounting purposes.
3) not including provisions for expected losses for embedded derivatives in structured products; credit volume after deduction of write-downs on bonds and other fixed-income securities; IKB AG: excluding general allowances for country risk

All in all, the IKB Group's gross credit volume decreased by € 0.5 billion between 31 March 2017 and 30 September 2017. The change compared with the start of the financial year is primarily attributable to the sale of bonds and the reduction in the derivative and call account volume, as well as the reduction in the volume of government bonds held by the Bank for liquidity management purposes and CDS positions with sovereign reference debtors. By contrast, receivables from customers increased as a result of new business. The gross credit volume includes € 474 million resulting from securities lending for the default risk of the securities borrower (31 March 2017: € 190 million).

There were no significant changes in the size category and collateral structure compared with 31 March 2017 (see IKB's 2016/17 annual report, pages 34 and 35).

Geographical structure

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

Table: Credit volume by region – Group

	30 Sep. 2017 in € million	30 Sep. 2017 in %	31 Mar. 2017 in € million	31 Mar. 2017 in %
Germany	10,531	48%	10,259	46%
Outside Germany	10,693	49%	11,430	51%
Western Europe	7,981	37%	8,457	38%
Eastern Europe	1,232	6%	1,430	6%
North America	1,085	5%	1,129	5%
Other	395	2%	414	2%
Subtotal	**21,224**	**97%**	**21,689**	**97%**
Risk transferred to third parties[1)]	613	3%	650	3%
Total	**21,837**	**100%**	**22,339**	**100%**

1) Hermes guarantees, indemnifications, risks transferred

The public-sector credit volume for the GIIPS nations (Greece, Ireland, Italy, Portugal and Spain) totals € 1,330 million. Of this figure, € 830 million relates to Spain (31 March 2017: € 720 million), € 251 million to Ireland (31 March 2017: € 252 million) and € 249 million to Italy (31 March 2017: € 311 million).

The slight increase in the credit volume in Germany is primarily due to new corporate business. The de-crease outside Germany primarily related to the public sector, the reduction in the volume of government bonds held by the Bank for liquidity management purposes and CDS positions with sovereign reference debtors.

Sector structure

Table: Credit volume by sector – Group

	30 Sep. 2017 in € million	30 Sep. 2017 in %	31 Mar. 2017 in € million	31 Mar. 2017 in %
Industrial sectors	10,503	48%	10,155	45%
Mechanical engineering	941	4%	918	4%
Chemical industry	723	3%	661	3%
Wholesale (not including motor vehicles)	712	3%	642	3%
Energy supply	699	3%	750	3%
Metal products	618	3%	616	3%
Other industrial sectors	6,810	31%	6,568	29%
Real estate	475	2%	371	2%
Financial sector	1,657	8%	1,259	6%
Banks	4,779	22%	5,104	23%
Public sector	3,810	17%	4,800	21%
Subtotal	**21,224**	**97%**	**21,689**	**97%**
Risk transferred to third parties[1)]	613	3%	650	3%
Total	**21,837**	**100%**	**22,339**	**100%**

1) Hermes guarantees, indemnifications, risks transferred

Growth in corporate lending led to a slight increase in the absolute credit volume as well as the proportion attributable to the industrial sectors. The degree of diversification in the industrial sectors is still high, with no single sector accounting for more than 5% of the portfolio. The decrease in the public-sector volume is attributable to the reduction in the volume of bonds and protection seller credit default swaps (CDS). Bonds were acquired in the financial sector.

Credit rating structure

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

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

	30 Sep. 2017 in € million	30 Sep. 2017 in %	31 Mar. 2017 in € million	31 Mar. 2017 in %
1-4	7,783	36%	7,247	32%
5-7	5,631	26%	6,746	30%
8-10	5,102	23%	4,935	22%
11-13	2,216	10%	2,211	10%
14-15	327	1%	301	1%
Non-performing assets[2)	165	1%	249	1%
Subtotal	**21,224**	**97%**	**21,689**	**97%**
Risk transferred to third parties[3)	613	3%	650	3%
Total	**21,837**	**100%**	**22,339**	**100%**

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

The volume in the best rating category 1-4 increased as a result of slight rating improvements in the banking and financial sector in rating category 5-7, which more than offset the reduction in the public sector.

Non-performing assets

Table: Non-performing assets[1) – Group

	30 Sep. 2017 in € million	31 Mar. 2017 in € million	Change in € million	Change in %
Assets with specific risk provisioning	116	194	-78	-40%
Non-impaired	49	55	-6	-11%
Total	**165**	**249**	**-84**	**-34%**
as % of credit volume	0.8%	1.1%		

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:
- Risks transferred to third parties for non-performing assets where these risks have been assumed by other banks, public sector entities or via collateralised loan obligations (CLOs) and are therefore assigned to the party assuming liability (change in credit rating).
- Unutilised commitments for debtors whose residual exposure is classified as a non-performing asset and
- Structured securities transferred to Rio Debt Holdings in connection with the financial crisis – see the "Counterparty default risk"/"Structured credit products" subsection in “section 3. Risk report" and note (29) "Significant events after 30 September 2017".

Non-performing assets again declined significantly by € 84 million or 34% as against 31 March 2017. The majority of this development was due to exposure improvements. The Bank again reversed the specific risk provisions it had previously recognised.

Provisions for possible loan losses

Table: Provisions for possible loan losses – Group

	30 Sep. 2017 in € million	30 Sep. 2016 in € million	Change in %	31 Mar. 2017 in € million
Development of specific impairment losses/provisions[1)]				
Opening balance	89.0	206.9	-57%	206.9
Utilisation	-4.9	-32.5	-85%	-99.9
Reversal	-35.2	-35.9	-2%	-63.2
Reclassification and net interest expense and discounting	-0.5	0.3		12.2
Unwinding	-1.0	-3.1	-68%	-5.1
Additions to specific risk provisions/provisions[2)]	16.9	27.8	-39%	37.7
Effect of changes in exchange rates	0.1	0.3	-67%	0.4
Total specific risk provisions/provisions	**64.4**	**163.8**	**-61%**	**89.0**
Global allowances[3)]				
Opening balance	156.3	166.2	-6%	166.2
Addition/reversal	-14.1	28.4		-10.5
Reclassification	-	-0.7		0.6
Total general allowances	**142.2**	**193.9**	**-27%**	**156.3**
Total provisions for possible loan losses (including provisions)	**206.6**	**357.7**	**-42%**	**245.3**

1) excluding provisions for embedded derivatives, excluding general allowance for contingent liabilities recognised as provisions
2) excluding general allowance for contingent liabilities recognised as provisions
3) including general allowance for contingent liabilities recognised as provisions

The volume of specific risk provisions and loan loss provisions again declined in the period under review, primarily as a result of reversals due to further post-workout derecognitions and exposure recovery. Additions decreased once again.

The development in general allowances is explained in more detail in the Notes (see note (5) "Risk provisions").

Structured credit products

In connection with the financial crisis, structured securities with ABS underlyings (ABS and CDO of ABS) were transferred to the special-purpose entity Rio Debt Holdings. As at 30 September 2017, these securities had a nominal volume of € 108 million (31 March 2017: € 122 million) and a carrying amount of € 50 million (31 March 2017: € 54 million).

Disposals after the reporting date are discussed in note (29) "Significant events after 30 September 2017".

Liquidity risk

Refinancing situation

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

As at 30 September 2017, the secured refinancing volume on the interbank market including refinancing via the ECB amounted to around € 2.5 billion (31 March 2017: € 2.2 billion).

The volume of refinancing secured via the Deposit Protection Fund amounted to just under € 7.1 billion as at 30 September 2017 (31 March 2017: € 7.4 billion).

The volume of issued unsecured bearer bonds in the private customer segment amounted to around € 0.7 billion as at 30 September 2017 (31 March 2017: € 0.7 billion).

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

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 € 3.8 billion over the next twelve months.

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

IKB had secured its liquidity situation for the longer term as at 30 September 2017. The limited minimal liquidity balance is around € 0.4 billion higher than the liquidity limit. This adequate liquidity situation is also underlined by the fact that, taking into account the legal maturities of the Bank's asset and liability positions and its options for borrowing with the ECB and on the secured interbank market and excluding its planned new lending business ceteris paribus (i.e. in particular assuming unchanged market values), IKB is financed for an extended period.

In the period under review, the average liquidity ratio was 2.6, thereby comfortably exceeding the regulatory minimum of 1.00. From 1 January 2018, CRR banks will no longer have to meet the requirements of the German Liquidity Regulation (LiqV), meaning that this ratio will not be applied as a key financial performance indicator starting from 2018.

The minimum liquidity coverage ratio has been 80% since 1 January 2017. The Bank's aim is to maintain a significantly higher ratio in excess of 100%. These minimum requirements were met at all times in the first half of the financial year 2017/18.

Market price risk

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

Table: Market price risk profile

in € million	Value at 30 Sep. 2017	Value at 31 Mar. 2017
Interest rate basis point value (BPV)	**-1.2**	**-1.4**
Credit spread BPV	**-7.3**	**-7.0**
VaR – interest rate and volatility	-16.6	-15.0
VaR – credit spread	-23.2	-29.3
VaR – FX and volatility	-4.5	-3.8
VaR – inflation and volatility	0.0	-0.8
Correlation effect	15.4	10.4
VaR (total)	**-28.9**	**-38.5**

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

Operational risk

The gross loss volume in the first half of the financial year 2017/18 totalled € 1.0 million at Group level (full prior-year total restated to reflect more recent information[1)]: € 4.3 million). Around € 0.1 million of this figure related to IKB AG (full prior-year total restated to reflect more recent information: € 1.3 million). In individual cases, the loss amounts are still based on estimates for which it may not be possible to obtain accurate figures until considerably later in some cases.

Legal risk

The changes since the report as at 31 March 2017 are as follows:

Derivatives trading

In individual cases, customers criticised the advisory services provided by the Bank in connection with certain swap products. Two cases are still pending. Around € 5.6 million is currently being contested in the context of pre-trial disputes.

Dissenting view of the tax authorities

In August 2015, IKB AG received tax assessment notices in which the dissenting view of the tax authorities on the application of section 8c of the German Corporate Income Tax Act (KStG)/section 10a of the German Trade Tax Act (GewStG) in connection with the capital increase implemented by IKB AG during the course of the year and the subsequent sale of KfW's shares in IKB to Lone Star in the financial year 2008/09 was implemented. IKB had appealed against the tax assessments. The corporation tax and the solidarity surcharge for 2009 including interest were paid (totalling € 141 million including interest). In the financial year 2016/17, the assessment of corrected tax returns for 2009 resulted in the tax authorities reimbursing a total of € 8 million (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 has since received decisions on its appeal proceedings and brought actions before the Düsseldorf Fiscal Court. In light of an ongoing appeal with the German Federal Court of Justice (I R 31/11) and the order

1 The prior-year figures were primarily restated to reflect losses at a subsidiary and a system error.

for reference issued by the Hamburg Fiscal Court on 29 August 2017 (2 K 245/17), the proceedings have been stayed by the Düsseldorf Fiscal Court. The relevant gains/income for the offsetting of taxable losses relate in particular to IVG Kavernen GmbH, which was acquired in 2008. The acquired company was merged into IKB Beteiligungen GmbH in the financial year 2008/09. IKB had supported IVG Kavernen GmbH in structuring a sales transaction and reorganising its Caverns division. In addition to this acquisition in the 2008/09 financial year, there were similar transactions in each of the 2007/08 and 2010/11 financial years, in which there was no detrimental acquisition and sections 8c KStG/10a GewStG therefore did not apply. In each of the financial years in which IKB AG suffered heavy losses, the associated profits resulted in an urgently needed strengthening to the own funds of IKB AG and the regulatory IKB Group. Nonetheless, it must be assumed that the tax authorities will make an issue of these transactions in ongoing audits as well.

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

By way of a decision dated 29 August 2017 (2 K 245/17), the Second Senate of the Hamburg Fiscal Court made a further submission to the German Federal Constitutional Court on the question of whether section 8c sentence 2 KStG as amended by the German Business Tax Reform Act 2008 (now section 8c (1) sentence 2 KStG) is also unconstitutional.

These decisions serve to support the legal position IKB has held to date. IKB continues to believe that it would have a good chance of success with regard to corporation tax and the solidarity surcharge and a very good chance of success with regard to trade tax when it comes to enforcing its legal position in the court of last instance.

As previously no provision was recognised for trade tax or the corresponding interest on account of IKB's extremely good chance of success in the court of last instance, and hence the extremely positive assessment of the corresponding risk. At the same time, there is a possibility that this risk will need to be reassessed as proceedings continue. The risk for trade tax currently amounts to around € 109.6 million plus interest of 0.5% per month and cost allocations for Chamber of Commerce and Industry membership fees in the amount of € 1.2 million. The potential interest rate risk amounted to € 41.8 million as at 30 September 2017 and around € 0.5 million for each additional month. If this risk were to occur, this would have the following impact on the key financial performance indicators:

- The regulatory tier 1 ratio or common equity tier 1 ratio calculated as at 30 September 2017 would deteriorate by 1.0 percentage points at the level of the IKB Group and by 1.3 percentage points at the level of IKB AG.
- The leverage ratio calculated as at 30 September 2017 would decline by 0.6 percentage points for the regulatory Group and by 0.8 percentage points for IKB AG.
- Net income after taxes and before additions to/reversals of the fund for general banking risks (section 340g HGB) as at 30 September 2017 would decline by € 152 million.

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

In late April 2016, Aleanta GmbH (a wholly-owned subsidiary of IKB AG with which no profit and loss transfer agreement has been agreed, meaning it is not included in the income tax group) received initial written notification that, as part of the tax audit of a company of which it is the universal successor (Olessa GmbH), the tax authorities are intending to treat the retrospective merger of Olessa GmbH into Aleanta GmbH in the financial year 2010/11 as a case covered by section 42 of the German Tax Code (AO). The tax audit is still in progress. Aleanta GmbH has commented on the matter and the current assessment of the tax audit. The maximum risk encompasses taxes of approximately € 27 million plus interest (calculated as approximately € 8.6 million up to and including 30 September 2017) and additional Chamber of Commerce and Industry contributions of € 0.2 million. An appeal will be lodged if necessary. This concerns the transaction referred to above from the 2010/11 financial year.

Personnel risk

The capacity reductions to April 2018 as part of the current reconciliation of interests and redundancy scheme are progressing on schedule and as planned. The front office units have already achieved the targets set out in the current reconciliation of interests, and the same is true for almost all of the back office units and central divisions.

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

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

Other risks

Information on risks relating to information security and IT, compliance, business, strategic, reputational and participation risks can be found in IKB's Group management report for the year ended 31 March 2017. There have been no significant changes since this date.

Overall assessment of the risk situation

In terms of the regulatory capital and liquidity ratios, IKB had a satisfactory position at the end of the first half of the financial year 2017/18. The capital ratios are in excess of the capital requirements resulting from the banking supervisory review and evaluation process (SREP). The leverage ratio is also above 7%, while the liquidity ratio in accordance with LiqV averaged 2.6 in the first half of the financial year 2017/18, thereby comfortably exceeding the statutory minimum requirements. This means that IKB has sufficient scope to expand its business volume as planned.

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

IKB also selectively enters into market price risks in the form of interest rate and credit spread risks in order to additionally strengthen its net interest income. The market price risk position declined significantly in the first half of the financial year 2017/18 in response to the comparatively calm markets, and the Bank is not anticipating any significant changes.

Liquidity is ensured with a buffer both currently and going forward. The level of operational risk is considered to be moderate.

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

However, there remains not inconsiderable uncertainty due to a number of current banking supervisory projects (e.g. the Basel IV package, revision of the regulatory guidelines on the assessment of risk-bearing capacity) that are expected to be realised cumulatively over the coming months and in the medium term. All of these projects share the common characteristic that they tend to lead to an increase in the existing capital requirements. The development of earnings and the business model as planned will ensure that the necessary strengthening of the capital base can take place successively.

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

In addition to the aforementioned regulatory projects, the Bank's development naturally also depends on the potential impact of existing geopolitical tensions (implementation of Brexit, unstable situation in the Middle East) and the resulting uncertainty with respect to the development of the world economy as well as the monetary policy of central banks and the associated impact of low interest rate policy. These factors are observed continuously and analysed in terms of their consequences for the Bank in the form of various stress analyses.

4. Report on opportunities

IKB reports on its opportunities in detail on pages 51 and 52 of its 2016/17 annual report. There have been the following changes to this information since its publication.

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

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

5. Outlook

Future general economic conditions

Sentiment indicators suggest that the global economy is enjoying buoyant development in the second half of 2017. According to the joint forecast by the research institutes published in autumn 2017, the global economy is expected to continue to record robust growth in 2018 and 2019.

In the USA, macroeconomic activity is likely to be impacted by the aftermath of the hurricanes. However, the moderate growth trend is expected to continue on the whole. The institutes are forecasting GDP growth of 2.1% in the current year. After accelerating to 2.3% in 2018, the GDP growth rate is set to slow to 1.9% in 2019.

For the Chinese economy, the institutes expect the pace of growth in production to continue to slow gradually over the next two years. GDP growth of 6.7% is forecast for 2017, followed by 6.4% in 2018 and 6.0% in 2019.

The Brexit referendum is weighing on the United Kingdom. The British economy will see only muted growth, with reluctance on the part of private households set to be accompanied by weak investment activity as long as the uncertainty involved in the Brexit process continues.

The institutes are forecasting sustained strong growth rates in the euro zone in the current year. However, the pace of economic growth is set to slow slightly in the next two years. This is due in particular to the moderate slowdown in foreign business as a result of the strong euro. At the same time, investment and private consumption are expected to continue to grow at broadly the same rate as previously. GDP growth is expected to amount to 2.2% in the current year, 2.0% in 2018 and 1.8% in 2019.

The institutes expect Germany to continue to enjoy strong macroeconomic expansion. This forecast is supported by the extremely good sentiment among companies and consumers, high order levels in the construction industry and sustained growth in employment. Exports are also likely to see further growth. All in all, the institutes are forecasting GDP growth of 1.9% in 2017, with the upturn continuing in the next two years (2018: 2.0%; 2019: 1.8%). This growth momentum will again be driven substantially by foreign business. As production will increasingly approach maximum capacity utilisation, companies are likely to look to spend more on expansion investments, which is expected to stimulate demand for lending. This is supported by the financing conditions, which remain favourable and are unlikely to see much change within the forecast period. The first moderate increase in capital market interest rates is not expected until during 2019.

Any less expansive policy approach on the part of the ECB will only be introduced slowly and gradually. While the financial conditions for companies and households will deteriorate slightly as a result, they will remain fundamentally favourable. The ECB will begin to withdraw from its bond purchase programme in 2018 and is likely to raise interest rates for the first time in 2019 in response to the growing shortage of available production capacity and rising inflationary expectations. The slow tightening of monetary policy over the next two years is likely to prompt a moderate increase in long-term interest rates.

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

As previously, the outlook for future development is subject to risk. The German economy is susceptible to disruptions in the international environment. Although the risks of protectionism have been alleviated slightly, they cannot be ruled out. The outcome of the Brexit negotiations could also have an impact on the external economic environment, while the prospect of an economic slowdown in China and renewed problems in the euro zone remain relevant risk factors. Expansionary monetary policy could lead to a build-up of systemic risk; on the other hand, the rapid withdrawal from this policy approach could lead to disruption on the financial markets and have an adverse impact on banks.

Net assets

For a forecast of its net assets, the Bank refers to the information on the net assets in “section 5. Outlook" on page 54 of IKB's 2016/17 annual report and is also maintaining this forecast for the second half of the financial year 2017/18. Above and beyond this, IKB is planning to follow up the issue of subordinated bonds in the first half of the financial year with further issues in the second half of the year. In light of the agreed sale of its leasing business, IKB expects the risk-weighted assets of the IKB Group to decline in the second half of the financial year. Following the partial early repurchase of a debtor warrant in the first half of the financial year, IKB is examining the further simplification of its capital structure. The CET 1 ratio is expected to remain at the same level as in the previous year.

Liquidity situation

For a forecast of its liquidity situation, the Bank refers to the information on the liquidity situation in “section 5. Outlook" on page 54 of IKB's 2016/17 annual report and is also maintaining this forecast – with the addition of the issue of subordinated bonds – for the second half of the financial year 2017/18.

Leverage ratio

For a forecast of its leverage ratio, the Bank refers to the information on the leverage ratio in “section 5. Outlook" on page 55 of IKB's 2016/17 annual report. In the first half of the financial year, IKB bought back the preferred shares of IKB Funding Trust II at significantly below their nominal value, thereby indirectly eliminating the respective subordinated liabilities. As this transaction – and the measures to further simplify the capital structure that are currently being examined (see forecast on net assets) – will have a corresponding impact on IKB's leverage ratio due to systemic factors, a leverage ratio of between 6% and 7% is forecast for the IKB Group for the second half of the financial year (IKB AG: between 7% and 9%). Even taking into account potential measures to simplify the capital structure, this remains well above the statutory minimum of 3% as prescribed by the CRR.

Results of operations

For a forecast of its results of operations, the Bank refers to the information on the results of operations in “section 5. Outlook" on page 55 of IKB's 2016/17 annual report. Notwithstanding this information, IKB now expects its net fee and commission income for the full 2017/18 financial year to remain at the prior-year level, as fee and commission business has developed considerably more slowly than anticipated. The forecast for operating earnings is being maintained. The Bank is examining the implementation of additional measures to simplify its capital structure in the second half of the year. The implementation of these measures would result in substantial extraordinary expenses in the current financial year but would improve the Bank's results of operations in future financial years. In general, the Bank expects to generate a significant increase in consolidated net income in the current financial year even allowing for these potential measures. At the same time, there is considerable uncertainty as to whether the income generated in the second half of the year will be sufficient to offset the expenses incurred in connection with the measures. If income is not generated to the extent anticipated, a substantial consolidated net loss may be recorded.

Overall assessment

IKB generated consolidated positive net income in the first half of the 2017/18 financial year. Loan default rates are at a historically low level. As a result, IKB is anticipating a further improvement in the result on risk provisioning in the second half of the year. IKB is maintaining its forecast for operating earnings.

The second half of the financial year is likely to be characterised by non-recurring effects. The Bank is examining the implementation of additional measures to simplify its capital structure in the second half of the year. The realisation of these measures would result in substantial extraordinary expenses in the current financial year but would improve the Bank's earnings situation in future financial years. In general, the Bank expects to generate a significant increase in consolidated net income in the current financial year even allowing for these potential measures. At the same time, there is considerable uncertainty as to whether the income generated in the second half of the year will be sufficient to offset the expenses incurred in connection with the measures. If income is not recorded to the extent anticipated, a substantial consolidated net loss is to be expected. A reduction in risk-weighted assets is also expected following the agreement on the sale of the leasing business. In any case, IKB expects the IKB Group's CET 1 ratio to remain essentially unchanged compared to the previous year even after for the implementation of measures to simplify the capital structure.

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

Consolidated balance sheet of IKB Deutsche Industriebank AG as at 30 September 2017

in € million	30 Sep. 2017	31 Mar. 2017
Assets		
Cash reserve	**40.6**	**19.7**
a) Cash on hand	-	-
b) Balances with central banks	40.6	19.7
thereof: with Deutsche Bundesbank	40.6	19.7
c) Balances in postal giro accounts	-	-
Debt instruments of public sector entities and bills of exchange eligible for refinancing of central banks	**-**	**-**
Receivables from banks	**1,298.4**	**1,669.7**
a) Repayable on demand	1,242.6	1,597.4
b) Other receivables	55.8	72.3
Receivables from customers	**10,397.1**	**9,925.4**
thereof: mortgage loans	818.8	815.1
thereof: public sector loans	419.0	436.4
Bonds and other fixed-income securities	**4,797.3**	**5,329.7**
a) Money market securities	-	-
b) Bonds and notes	4,777.5	5,309.2
ba) Public sector issuers	2,882.8	3,430.9
thereof: eligible as collateral for Deutsche Bundesbank	2,831.3	3,380.4
bb) Other issuers	1,894.7	1,878.3
thereof: eligible as collateral for Deutsche Bundesbank	1,788.4	1,764.4
c) Own bonds	19.8	20.5
Nominal amount	19.3	20.0
Equities and other non-fixed-income securities	**471.5**	**472.5**
Assets held for trading	**-**	**-**
Equity investments	**0.7**	**3.6**
thereof: banks	0.2	0.2
thereof: financial services institutions	-	-
Investments in associates	**16.2**	**16.3**
thereof: banks	-	-
thereof: financial services institutions	16.2	16.3
Investments in affiliated companies	**0.9**	**0.9**
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	**947.3**	**928.4**
Intangible assets	**10.1**	**11.0**
a) Internally generated industrial and similar rights and assets	-	-
b) Purchased concessions, industrial and similar rights and assets and licences in such rights and assets	6.3	6.7
c) Goodwill	3.4	3.6
d) Advance payments made	0.4	0.7
Tangible assets	**206.5**	**213.6**
Called unpaid capital	**-**	**-**
Other assets	**198.6**	**222.6**
Deferred income	**110.7**	**113.1**
Deferred tax assets	**249.4**	**255.0**
Excess of plan assets over post-employment benefit liability	**7.5**	**7.3**
Total assets	**18,752.8**	**19,188.8**

in € million	30 Sep. 2017	31 Mar. 2017
Equity and liabilities		
Liabilities to banks	**7,498.1**	**7,642.5**
a) Repayable on demand	192.8	44.0
b) With agreed lifetime or notice period	7,305.3	7,598.5
Liabilities to customers	**7,172.3**	**7,550.9**
a) Savings deposits	-	-
b) Other liabilities	7,172.3	7,550.9
ba) Repayable on demand	1,248.1	1,359.2
bb) With agreed lifetime or notice period	5,924.2	6,191.7
Securitised liabilities	**807.2**	**822.9**
a) Bonds issued	807.2	822.9
b) Other securitised liabilities	-	-
Assets held for trading	**-**	**-**
Liabilities held in trust	**-**	**-**
Other liabilities	**767.2**	**485.1**
Deferred income	**130.9**	**126.5**
Deferred tax liabilities	**-**	**-**
Provisions	**268.6**	**241.2**
a) Provisions for pensions and similar obligations	43.1	31.4
b) Tax provisions	47.6	46.1
c) Other provisions	177.9	163.7
Subordinated liabilities	**459.3**	**695.8**
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	**1,064.2**	**1,038.9**
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	5.2	5.2
ca) Legal reserve	2.4	2.4
cb) Reserve for shares in a parent or majority investor	-	-
cc) Statutory reserves	-	-
cd) Other revenue reserves	2.8	2.8
d) Difference in equity from currency translation	-3.2	-4.3
e) Net accumulated losses	-2,311.5	-2,335.6
f) Non-controlling interests	1.5	1.4
Total equity and liabilities	**18,752.8**	**19,188.8**

Contingent liabilities	**2,389.2**	**1,238.4**
a) Contingent liabilities from rediscounted and settled bills of exchange	-	-
b) Liabilities from guarantees and indemnity agreements	2,389.2	1,238.4
c) Liability arising from the provision of collateral for third-party liabilities	-	-
Other obligations	**1,894.7**	**1,550.3**
a) Repurchase obligations from non-genuine repurchase agreements	-	-
b) Placement and underwriting obligations	-	-
c) Irrevocable loan commitments	1,894.7	1,550.3

Balance sheet of IKB Deutsche Industriebank AG as at 30 September 2017

in € million	30 Sep. 2017	31 Mar. 2017
Assets		
Cash reserve	**40.5**	**19.7**
a) Cash on hand	-	-
b) Balances with central banks	40.5	19.7
thereof: with Deutsche Bundesbank	40.5	19.7
c) Balances in postal giro accounts	-	-
Debt instruments of public sector entities and bills of exchange eligible for refinancing of central banks	**-**	**-**
Receivables from banks	**1,207.9**	**1,505.1**
a) Repayable on demand	1,166.4	1,453.4
b) Other receivables	41.5	51.7
Receivables from customers	**11,681.4**	**11,348.8**
thereof: mortgage loans	818.8	815.1
thereof: public sector loans	419.0	436.4
Bonds and other fixed-income securities	**4,720.3**	**4,714.5**
a) Money market securities	-	-
b) Bonds and notes	4,700.5	4,694.0
ba) Public sector issuers	2,881.9	3,158.8
thereof: eligible as collateral for Deutsche Bundesbank	2,830.4	3,108.3
bb) Other issuers	1,818.6	1,535.2
thereof: eligible as collateral for Deutsche Bundesbank	1,811.1	1,474.3
c) Own bonds	19.8	20.5
Nominal amount	19.3	20.0
Equities and other non-fixed-income securities	**2.2**	**2.2**
Assets held for trading	**-**	**-**
Equity investments	**0.2**	**0.6**
thereof: banks	0.2	0.2
thereof: financial services institutions	-	-
Investments in affiliated companies	**247.9**	**260.9**
thereof: banks	-	-
thereof: financial services institutions	-	-
Assets held in trust	**-**	**-**
Compensation receivables on the public sector including debt securities arising from their exchange	**-**	**-**
Intangible assets	**3.9**	**3.9**
a) Internally generated industrial and similar rights and assets	-	-
b) Purchased concessions, industrial and similar rights and assets and licences in such rights and assets	3.9	3.9
c) Goodwill	-	-
d) Advance payments made	-	-
Tangible assets	**4.8**	**4.0**
Called unpaid capital	**-**	**-**
Other assets	**104.4**	**166.4**
Deferred income	**122.2**	**136.9**
Deferred tax assets	**249.0**	**249.0**
Excess of plan assets over post-employment benefit liability	**7.3**	**7.2**
Total assets	**18,392.0**	**18,419.2**

in € million	30 Sep. 2017	31 Mar. 2017
Equity and liabilities		
Liabilities to banks	**7,436.4**	**7,593.6**
a) Repayable on demand	192.3	40.5
b) With agreed lifetime or notice period	7,244.1	7,553.1
Liabilities to customers	**7,473.0**	**7,605.3**
a) Savings deposits	-	-
b) Other liabilities	7,473.0	7,605.3
ba) Repayable on demand	1,543.1	1,407.2
bb) With agreed lifetime or notice period	5,929.9	6,198.1
Securitised liabilities	**767.1**	**751.9**
a) Bonds issued	767.1	751.9
b) Other securitised liabilities	-	-
Assets held for trading	**-**	**-**
Liabilities held in trust	**-**	**-**
Other liabilities	**152.4**	**165.6**
Deferred income	**71.6**	**84.3**
Deferred tax liabilities	**-**	**-**
Provisions	**315.9**	**205.5**
a) Provisions for pensions and similar obligations	30.1	18.7
b) Tax provisions	46.3	44.7
c) Other provisions	239.5	142.1
Subordinated liabilities	**459.3**	**220.7**
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	**1,131.3**	**1,207.3**
a) Called-up capital	1,621.5	1,621.5
Subscribed capital	1,621.5	1,621.5
Less uncalled unpaid contributions	-	-
Contingent capital	800.0	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	-	-
d) Difference in equity from currency translation	-	-
e) Net accumulated losses	-2,243.3	-2,167.3
Total equity and liabilities	**18,392.0**	**18,419.2**

Contingent liabilities	**2,461.5**	**2,184.4**
a) Contingent liabilities from rediscounted and settled bills of exchange	-	-
b) Liabilities from guarantees and indemnity agreements	2,461.5	2,184.4
c) Liability arising from the provision of collateral for third-party liabilities	-	-
Other obligations	**1,966.0**	**1,357.3**
a) Repurchase obligations from non-genuine repurchase agreements	-	-
b) Placement and underwriting obligations	-	-
c) Irrevocable loan commitments	1,966.0	1,357.3

Consolidated income statement of IKB Deutsche Industriebank AG for the period from 1 April 2017 to 30 September 2017

in € million	2017/18	2016/17
Expenses		
Lease expenses	**-90.5**	**-92.1**
Interest expenses	**-214.7**	**-282.0**
thereof: positive interest	9.9	8.7
Commission expenses	**-8.5**	**-7.3**
Net trading results	**-**	**-**
General administrative expenses	**-126.5**	**-134.7**
a) Personnel expenses	-80.8	-89.7
aa) Wages and salaries	-67.7	-75.4
ab) Social security, post-employment and other employee benefit costs	-13.1	-14.3
thereof: for pensions	-4.2	-4.3
b) Other administrative expenses	-45.7	-45.0
Depreciation and write-downs of intangible fixed assets and tangible fixed assets	**-146.8**	**-153.6**
a) On lease assets	-141.0	-146.9
b) On intangible and tangible assets	-5.8	-6.7
Other operating expenses	**-232.5**	**-458.9**
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	**-**	**-17.6**
Depreciation and write-downs of equity investments, investments in affiliated companies and long-term investments	**-0.9**	**-8.1**
Costs of loss absorption	**-**	**-**
Extraordinary expenses	**-136.6**	**-17.1**
Income taxes	**-17.5**	**-19.9**
Other taxes not reported under “Other operating expenses”	**-0.7**	**-1.0**
Profit transfer on the basis of profit-pooling, profit transfer and partial profit transfer agreements	**-**	**-**
Net income for the financial year	**-24.2**	**-10.1**
Total expenses	**-999.4**	**-1,202.4**

in € million	2017/18	2016/17
Income		
Lease income	**259.7**	**270.2**
Interest income from	**336.8**	**393.1**
a) Lending and money market transactions	294.1	344.9
thereof: negative interest	10.1	4.6
b) Fixed-income securities and government-inscribed debts	42.7	48.2
thereof: negative interest	-	-
Current income from	**1.1**	**1.8**
a) Equities and other non-fixed-income securities	0.1	0.3
b) Equity investments	0.1	0.6
c) Investments in associates	0.9	0.9
d) Investments in affiliated companies	-	-
Income from profit-pooling, profit transfer and partial profit transfer agreements	**-**	**-**
Commission income	**28.9**	**24.6**
Net trading results	**-**	**-**
Income from reversals of write-downs on receivables and certain securities and from the reversal of loan loss provisions	**9.5**	**-**
Income from reversals of write-downs of equity investments, investments in affiliated companies and long-term investment securities	**90.3**	**165.8**
Other operating income	**91.4**	**346.9**
Income from the reversal of the fund for general banking risks	**-**	**-**
Extraordinary income	**181.7**	**-**
Income from assumption of losses	**-**	**-**
Net loss for the financial year	**-**	**-**
Total income	**999.4**	**1,202.4**
Net income for the financial year	**24.1**	**10.1**
Non-controlling interests	**0.1**	**-**
Loss carryforward from the previous year	**-2,335.6**	**-2,361.1**
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	**-2,311.5**	**-2,351.0**

Income statement of IKB Deutsche Industriebank AG for the period from 1 April 2017 to 30 September 2017

in € million	2017/18	2016/17
Expenses		
Interest expenses	**-222.3**	**-292.3**
thereof: positive interest	9.7	8.7
Commission expenses	**-2.8**	**-2.1**
Net trading results	**-**	**-**
General administrative expenses	**-101.4**	**-107.5**
a) Personnel expenses	-59.1	-66.4
aa) Wages and salaries	-49.7	-56.0
ab) Social security, post-employment and other employee benefit costs	-9.4	-10.4
thereof: for pensions	-3.6	-3.7
b) Other administrative expenses	-42.3	-41.1
Depreciation and write-downs of intangible fixed assets and tangible fixed assets	**-1.4**	**-3.5**
Other operating expenses	**-187.2**	**-431.8**
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	**-**	**-16.1**
Depreciation and write-downs of equity investments, investments in affiliated companies and long-term investments	**-1.2**	**-2.3**
Costs of loss absorption	**-143.7**	**-**
Extraordinary expenses	**-46.5**	**-13.0**
Income taxes	**-10.7**	**-18.9**
Other taxes not reported under “Other operating expenses”	**-**	**-0.2**
Profit transfer on the basis of profit-pooling, profit transfer and partial profit transfer agreements	**-**	**-**
Net income for the financial year	**-**	**-3.6**
Total expenses	**-717.2**	**-891.3**

in € million	2017/18	2016/17
Income		
Interest income from	**331.8**	**392.8**
a) Lending and money market transactions	294.2	352.8
thereof: negative interest	10.0	4.6
b) Fixed-income securities and government-inscribed debts	37.6	40.0
thereof: negative interest	-	-
Current income from	**0.1**	**0.4**
a) Equities and other non-fixed-income securities	0.1	0.1
b) Equity investments	-	0.3
c) Investments in affiliated companies	-	-
Income from profit-pooling, profit transfer and partial profit transfer agreements	**0.2**	**-**
Commission income	**24.5**	**21.2**
Net trading results	**-**	**-**
Income from reversals of write-downs on receivables and certain securities and from the reversal of loan loss provisions	**11.2**	**-**
Income from reversals of write-downs of equity investments, investments in affiliated companies and long-term investment securities	**49.7**	**142.7**
Other operating income	**38.9**	**334.2**
Income from the reversal of the fund for general banking risks	**-**	**-**
Extraordinary income	**184.8**	**-**
Income from assumption of losses	**-**	**-**
Net loss for the financial year	**76.0**	**-**
Total income	**717.2**	**891.3**
Net income/loss for the financial year	**-76.0**	**3.6**
Loss carryforward from the previous year	**-2,167.3**	**-2,167.3**
Withdrawals from capital reserves	**-**	**-**
Withdrawals from revenue reserves	**-**	**-**
Withdrawals from profit participation capital	**-**	**-**
Withdrawals from silent partnership contributions	**-**	**-**
Allocations to revenue reserves	**-**	**-**
Replenishment of profit participation capital	**-**	**-**
Net accumulated losses	**-2,243.3**	**-2,163.7**

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

Applied accounting principles

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

The interim financial statements of IKB Deutsche Industriebank AG (IKB AG), Düsseldorf, entered in the commercial register of the Düsseldorf Local Court under HRB 1130, and the IKB Group (Group) for the period ended 30 September 2017 is prepared in accordance with the provisions of the *Handelsgesetzbuch* (HGB – German Commercial Code) in conjunction with the *Verordnung über die Rechnungslegung der Kreditinstitute und Finanzdienstleistungsinstitute* (RechKredV – German Bank Accounting Directive) and taking into account the relevant regulations of the *Aktiengesetz* (AktG – German Stock Corporation Act). The consolidated interim financial statements also take into account the standards promulgated by the German Standardisation Council (DSR) and endorsed by the Federal Ministry of Justice in accordance with section 342 (2) HGB. These interim financial statements and consolidated interim financial statements should be read together with the annual financial statements and consolidated financial statements of IKB AG for the year ended 31 March 2017 as audited by PricewaterhouseCoopers.

The interim report 2017/18 of IKB AG as of 30 September 2017 comprises the consolidated balance sheet, the balance sheet, the consolidated income statement, the income statement and selected explanatory disclosures in the condensed notes to the interim financial statements and consolidated interim financial statements in addition to an interim group management report. It was opted against the voluntary preparation of a (condensed) (consolidated) statement of changes in equity and a (condensed) (consolidated) cash flow statement. With respect to the events and items arising in the current interim reporting period that are relevant for an understanding of the material changes in items of the consolidated balance sheet and the consolidated income statement in comparison to the comparative figures shown, please refer to the information on the results of operations, financial and assets position in the interim group management report in addition to the disclosures in the condensed notes to the consolidated interim financial statements.

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

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

Amounts are disclosed in millions of euro. Minor deviations can occur in the total figures in the notes due to the rounding of figures. Amounts under € 50 thousand and zero values are shown in the interim financial statements and consolidated interim financial statements of IKB AG as "-".

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

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

The same accounting policies were applied in preparing the interim financial statements and consolidated interim financial statements as for the annual financial statements and consolidated financial statements for the year ended 31 March 2017 with the following exceptions:

(2) Changes in presentation and measurement

IKB applies a different definition of credit derivatives recognised as guarantees compared with the previous year. This results in a change in the presentation of premiums received for credit derivatives under which IKB is the pledgor. Applying this new definition, other operating income would have been € 13.1 million lower as at 31 March 2017, while commission income would have increased by the same amount. In addition, contingent liabilities from credit derivatives would have been € 1,323.5 million higher as at 31 March 2017. If the new definition had been applied from 31 March 2017, the unrealised losses reported in the "Unrealised gains and losses" table would have been € 13.2 million higher.

(3) Consolidated group

In addition to IKB AG, 47 (31 March 2017: 48) subsidiaries were included in the consolidated interim financial statements as of 30 September 2017.

ikb Data GmbH, Düsseldorf, was sold to DATAGROUP SE on 15 August 2017. The company was therefore deconsolidated on 31 August 2017. The deconsolidation resulted in income of € 1.5 million.

One associated company is still included in the consolidated interim financial statements using the equity method (31 March 2017: one).

For further information, please refer to note (24).

(4) Consolidation methods

The consolidated interim financial statements were prepared in accordance with the uniform accounting policies of IKB AG. The interim financial statements of the subsidiaries included that are neither credit nor financial services institutions have been reconciled to the structure of the RechKredV formats. If a Group company does not prepare interim financial statements as of 30 September, the material transactions that have occurred between its balance sheet date and 30 September 2017 are taken into account.

The same principles of consolidation were applied in the consolidated interim financial statements as in the consolidated financial statements as at 31 March 2017.

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

Assets, liabilities, deferred income and expenses as well as 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.

(5) Provisions for possible loan losses

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

For information on the calculation of general allowances and globally calculated loan loss provisions, please refer to the information on risk provisioning on page 74 of IKB's 2016/17 annual report.

General allowances, including country risk provisioning for customer receivables, receivables from banks, contingent liabilities and irrevocable loan commitments, totalled € 142.2 million in the Group (31 March 2017: € 156.3 million). The net decrease of € 14.0 million in the period under review is primarily attributable to the reduced risk of loss following the sale of non-strategic assets with a focus on medium-term to long-term project finance and the termination of sales activities.

General allowances for securities were recognised in the amount of € 2.0 million in the Group (31 March 2017: € 3.3 million). The reduction is attributable to lower securities holdings and slightly improved ratings within the portfolio.

Notes on the balance sheet

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

	Group		IKB AG	
in € million	**30 Sep. 2017**	**31 Mar. 2017**	**30 Sep. 2017**	**31 Mar. 2017**
Receivables from banks[1)]	**55.8**	**72.3**	**41.5**	**51.7**
remaining term				
up to 3 months	17.9	22.0	4.0	2.4
between 3 months and 1 year	4.0	13.1	3.6	12.1
between 1 and 5 years	27.7	24.7	27.7	24.7
more than 5 years	6.2	12.5	6.2	12.5
Receivables from customers	**10,397.1**	**9,925.4**	**11,681.4**	**11,348.8**
remaining term				
up to 3 months	993.8	828.8	1,039.3	862.7
between 3 months and 1 year	1,416.1	1,066.6	1,610.7	1,262.4
between 1 and 5 years	6,077.0	5,922.6	6,600.9	6,550.0
more than 5 years	1,910.2	2,107.4	2,430.5	2,673.7
Liabilities to banks[1)]	**7,305.3**	**7,598.5**	**7,244.1**	**7,553.1**
remaining term				
up to 3 months	494.7	552.9	488.2	546.4
between 3 months and 1 year	739.3	881.7	726.8	872.9
between 1 and 5 years	4,901.1	4,949.1	4,859.7	4,919.6
more than 5 years	1,170.2	1,214.8	1,169.4	1,214.2
Liabilities to customers[1)]	**5,924.2**	**6,191.7**	**5,929.9**	**6,198.1**
remaining term				
up to 3 months	819.5	914.2	826.0	921.8
between 3 months and 1 year	1,375.3	1,800.4	1,374.7	1,799.2
between 1 and 5 years	3,225.4	2,998.0	3,225.2	2,998.0
more than 5 years	504.0	479.1	504.0	479.1

1) not including receivables or liabilities repayable on demand

€ 317.0 million (31 March 2017: € 375.7 million) of bonds and other fixed-income securities have a remaining term of up to one year in the Group and € 277.8 million (31 March 2017: € 369.6 million) have a remaining term of up to one year at IKB AG. € 300.0 million (31 March 2017: € 285.7 million) of the bonds issued and reported under securitised liabilities have a remaining term of up to one year in the Group and € 259.8 million (31 March 2017: € 233.3 million) have a remaining term of up to one year at IKB AG.

(7) Repurchase agreements

The carrying amount of the assets reported in the balance sheet at the reporting date and transferred in repurchase agreements is € 407.5 million (31 March 2017: € 369.7 million) in the Group and € 407.3 million (31 March 2017: € 374.0 million) at IKB AG.

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

	Group			
	30 Sep. 2017		31 Mar. 2017	
in € million	Affiliated companies	Investees and investors	Affiliated companies	Investees and investors
Receivables from banks	-	-	-	-
Receivables from customers	8.9	49.8	5.5	49.7
Other assets	-	-	-	-

	IKB AG			
	30 Sep. 2017		31 Mar. 2017	
in € million	Affiliated companies	Investees and investors	Affiliated companies	Investees and investors
Receivables from banks	-	-	-	-
Receivables from customers	2,522.8	49.7	2,524.2	49.5
Other assets	4.9	-	22.2	0.1

(9) Fixed assets

Group:

in € million	Intangible assets	Tangible assets	Lease assets	Equity investments	Investments in associated companies	Investments in affiliated companies	Bonds and other fixed-income securities	Equities and other non-fixed-income securities	Total
Acquisition costs as at 31 Mar. 2017	**71.0**	**260.8**	**1,786.2**	**9.1**	**11.1**	**4.8**	**5,320.9**	**477.3**	**7,941.2**
Additions	1.7	3.2	191.9	-	-	-	939.2	-	1,136.0
Reclassifications	-	-	-0.1	-	-	-	-	-	-0.1
Effects of currency translation	-	-	0.1	-	-	-	-6.1	-	-6.0
Disposals from the consolidated group	-6.5	-24.8	-	-	-	-	-	-	-31.3
Disposals	-	-1.3	-199.9	-3.0	-	-	-1,467.4	-0.9	-1,672.5
Acquisition costs as at 30 Sep. 2017	**66.2**	**237.9**	**1,778.2**	**6.1**	**11.1**	**4.8**	**4,786.6**	**476.4**	**7,367.3**
Cumulative depreciation/ amortisation, write-downs and reversals thereof by 31 Mar. 2017	**-60.0**	**-47.2**	**-857.8**	**-5.5**	**5.2**	**-3.9**	**-11.6**	**-4.8**	**-985.6**
Reversals of write-downs	-	-	-	0.1	-	-	1.5	-	1.6
Depreciation/amortisation and write-downs	-1.7	-4.0	-141.0	-	-0.1	-	-0.4	-0.1	-147.3
Reclassifications	-	-	-	-	-	-	-	-	-
Effects of currency translation	-	-	-	-	-	-	0.8	-	0.8
Disposals from the consolidated group	5.6	18.6	-	-	-	-	-	-	24.2
Disposals	-	1.2	167.9	-	-	-	0.6	-	169.7
Cumulative depreciation/ amortisation, write-downs and reversals thereof by 30 Sep. 2017	**-56.1**	**-31.4**	**-830.9**	**-5.4**	**5.1**	**-3.9**	**-9.1**	**-4.9**	**-936.6**
Residual book value as at 30 Sep. 2017	**10.1**	**206.5**	**947.3**	**0.7**	**16.2**	**0.9**	**4,777.5**	**471.5**	**6,430.7**
Residual book value as at 31 Mar. 2017	**11.0**	**213.6**	**928.4**	**3.6**	**16.3**	**0.9**	**5,309.3**	**472.5**	**6,955.6**

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

IKB AG:

in € million	Intangible assets	Tangible assets	Equity investments	Investments in affiliated companies	Bonds and other fixed-income securities	Equities and other non-fixed-income securities	Total
Acquisition costs as at 31 Mar. 2017	**88.7**	**12.8**	**1.2**	**1,261.5**	**4,696.6**	**2.2**	**6,063.0**
Additions	1.1	1.2	-	-	1,491.6	-	1,493.9
Reclassifications	-	-	-	-	-	-	-
Effects of currency translation	-	-	-	-	-5.0	-	-5.0
Disposals	-	-	-0.5	-13.0	-1,481.2	-	-1,494.7
Acquisition costs as at 30 Sep. 2017	**89.8**	**14.0**	**0.7**	**1,248.5**	**4,702.0**	**2.2**	**6,057.2**
Cumulative depreciation/ amortisation, write-downs and reversals thereof by 31 Mar. 2017	**-84.8**	**-8.8**	**-0.6**	**-1,000.6**	**-2.6**	**-**	**-1,097.4**
Reversals of write-downs	-	-	0.1	-	1.3	-	1.4
Depreciation/amortisation and write-downs	-1.1	-0.4	-	-	-0,2	-	-1.7
Reclassifications	-	-	-	-	-	-	-
Effects of currency translation	-	-	-	-	-	-	-
Disposals	-	-	-	-	-	-	-
Cumulative depreciation/ amortisation, write-downs and reversals thereof by 30 Sep. 2017	**-85.9**	**-9.2**	**-0.5**	**-1,000.6**	**-1.5**	**-**	**-1,097.7**
Residual book value as at 30 Sep. 2017	**3.9**	**4.8**	**0.2**	**247.9**	**4,700.5**	**2.2**	**4,959.5**
Residual book value as at 31 Mar. 2017	**3.9**	**4.0**	**0.6**	**260.9**	**4,694.0**	**2.2**	**4,965.6**

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

At the reporting date, the Group had two (31 March 2017: two) items of land and buildings partially used for banking operations in its portfolio with a total carrying amount of € 200.1 million (31 March 2017: € 202.5 million), while IKB AG had no such items in its portfolio.

Operating and office equipment is included in tangible assets in the amount of € 6.3 million (31 March 2017: € 11.0 million) in the Group and € 4.8 million (31 March 2017: € 4.0 million) at IKB AG.

The disposals from the consolidated group in terms of intangible and tangible assets at Group level relate to the deconsolidation of ikb Data GmbH following its sale.

Disposals of equity investments at IKB AG and the Group in the amount of € 0.5 million relate to the capital reduction at AXA Immoselect Hauptverwaltungsgebäude GmbH & Co. Objekt Düsseldorf Uerdinger Straße KG, Düsseldorf, which was realised with effect from 28 June 2017. In the Group, disposals of equity investments also included the sale of the equity investment in Ring International Holding AG, Vienna, in the amount of € 2.5 million.

The disposals of investments in affiliated companies at IKB AG in the amount of € 13 million relate to the sale of ikb Data GmbH to a non-Group buyer with effect from 31 August 2017.

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

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

In total, the Group reported unrealised losses from long-term investments of € 71.3 million (31 March 2017: € 85.1 million) based on the carrying amounts of € 1,975.5 million (31 March 2017: € 1,863.1 million) and the fair values of € 1,904.2 million (31 March 2017: € 1,778.0 million). At IKB AG, unrealised losses from long-term investments totalled € 1,677.2 million (31 March 2017: € 1,310.4 million) on the back of carrying amounts of € 1,625.4 million (31 March 2017: € 1,246.8 million) and fair values of € 51.8 million (31 March 2017: € 63.6 million).

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

In the current financial year, write-downs on fixed assets for impairment that is expected to be permanent were recognised in the amount of € 1.7 million (previous year: € 4.5 million) in the Group and € 0.0 million (previous year: € 0.4 million) at IKB AG.

The reported amounts do not include deferred interest.

(10) Subordinated assets

	Group		IKB AG	
in € million	**30 Sep. 2017**	**31 Mar. 2017**	**30 Sep. 2017**	**31 Mar. 2017**
Receivables from customers	250.3	234.4	204.8	234.4
Bonds and other fixed-income securities	-	-	-	-
Total	**250.3**	**234.4**	**204.8**	**234.4**

(11) Other assets

Other assets include the following:

	Group		IKB AG	
in € million	**30 Sep. 2017**	**31 Mar. 2017**	**30 Sep. 2017**	**31 Mar. 2017**
Foreign currency adjustment item	20.1	27.9	20.1	27.9
Receivables from leasing business	44.3	42.0	-	-
Receivables from tax authorities	25.5	26.9	17.3	19.4
Hire-purchase properties not yet realised	10.7	10.5	-	-
Receivables from derivatives	6.6	7.1	6.6	7.1
Deferred interest on derivatives	51.6	80.1	51.7	80.2
Trade receivables	2.3	4.0	0.8	0.7
Receivables from affiliated companies	-	-	4.9	22.2
Miscellaneous assets	37.5	24.1	3.0	8.9
Total	**198.6**	**222.6**	**104.4**	**166.4**

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

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

(12) Prepaid expenses

Prepaid expenses primarily include discounts on liabilities recognised at their nominal amount of € 3.6 million (31 March 2017: € 3.5 million) in the Group and € 3.6 million (31 March 2017: € 3.5 million) at IKB AG and prepaid expenses for derivatives business of € 90.0 million (31 March 2017: € 91.8 million) in the Group and € 113.8 million (31 March 2017: € 125.2 million) at IKB AG.

(13) Deferred tax assets

	Group		IKB AG	
in € million	**30 Sep. 2017**	**31 Mar. 2017**	**30 Sep. 2017**	**31 Mar. 2017**
Excess deferred tax assets	249.4	255.0	249.0	249.0

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

	Group			
	30 Sep. 2017		31 Mar. 2017	
in € million	**Affiliated companies**	**Investees and investors**	**Affiliated companies**	**Investees and investors**
Liabilities to banks	-	-	-	-
Liabilities to customers	2.2	0.5	2.2	0.5
Securitised liabilities	-	-	-	-
Other liabilities	606.7	-	329.5	-

	IKB AG			
	30 Sep. 2017		31 Mar. 2017	
in € million	**Affiliated companies**	**Investees and investors**	**Affiliated companies**	**Investees and investors**
Liabilities to banks	-	-	-	-
Liabilities to customers	340.5	0.5	96.2	0.5
Securitised liabilities	-	-	-	-
Other liabilities	0.1	-	19.7	-
Subordinated liabilities	75.1	-	-	-

(15) Other liabilities

Other liabilities break down as follows:

	Group		IKB AG	
in € million	**30 Sep. 2017**	**31 Mar. 2017**	**30 Sep. 2017**	**31 Mar. 2017**
Liabilities from the disposal of lease receivables	606.7	329.5	-	-
Synthetic securitisations	-	-	-	0.8
Obligations from derivatives	32.5	31.6	32.5	31.6
Deferred interest on derivatives	100.5	59.5	99.0	57.7
Liabilities to tax authorities	7.4	10.0	5.5	8.2
Deferred income for subordinated liabilities	5.4	2.2	5.4	2.2
Trade payables	1.7	11.2	1.4	9.5
Miscellaneous liabilities	13.0	41.1	8.6	55.6
Total	**767.2**	**485.1**	**152.4**	**165.6**

At Group level, lease receivables were sold to unconsolidated special-purpose entities. The transaction did not result in an accounting disposal, hence corresponding other liabilities are reported for the leasing receivables sold. To ensure more transparent presentation, these liabilities are reported separately as "Liabilities from the disposal of lease receivables".

(16) Deferred income

Deferred income primarily includes discounts on receivables recognised at their nominal amount of € 20.9 million (31 March 2017: € 21.1 million) in the Group and € 20.9 million (31 March 2017: € 21.1 million) at IKB AG, deferred income for leasing business of € 72.8 million (31 March 2017: € 66.9 million) at the Group, and deferred income for derivatives business of € 31.1 million (31 March 2017: € 33.7 million) in the Group and € 47.7 million (31 March 2017: € 61.2 million) at IKB AG.

(17) Pension provisions

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

30 Sep. 2017 **in € million**	**Group**	**IKB AG**
Measurement of obligation using the ten-year average market interest rate	361.1	317.5
Measurement of obligation using the seven-year average market interest rate	410.8	358.6
Difference in accordance with section 253 (6) HGB	**49.7**	**41.1**

(18) Other financial obligations

There have been the following significant changes in "Other financial obligations" compared with the report as at 31 March 2017:

Other financial obligations in the form of purchase commitments in connection with IT service and software agreements in the Group increased to € 49.5 million (31 March 2017: € 1.5 million) primarily as a result of the sale of ikb Data GmbH to a non-Group buyer.

Following the partial repurchase of a debtor warrant, the other financial obligations of the Group and IKB AG as a result of the waiver of receivables by shareholders in exchange for a debtor warrant declined to € 1,120.3 million (31 March 2017: € 1,151.5 million).

Dissenting view of the tax authorities

In August 2015, IKB AG received tax assessment notices in which the dissenting view of the tax authorities on the application of section 8c of the German Corporate Income Tax Act (KStG)/section 10a of the German Trade Tax Act (GewStG) in connection with the capital increase implemented by IKB AG during the course of the year and the subsequent sale of KfW's shares in IKB to Lone Star in the financial year 2008/09 was implemented. IKB has appealed against the tax assessments. The corporation tax and the solidarity surcharge for 2009 were paid including interest. Payment was made in the amount of around € 140 million from the provisions recognised as at 31 March 2015 and in the amount of € 1 million from net other operating income (further interests). At its application, IKB was granted a suspension of execution for trade tax. The trade tax and the associated interest were therefore not yet payable.

If, contrary to expectations, IKB is unsuccessful in the court of last instance in any judicial appeal proceedings against the application of section 8c of the German Corporate Income Tax Act (KStG)/section 10a of the German Trade Tax Act (GewStG) to the offsetting of trade tax losses within the tax group, this could result in a payment obligation of around € 153 million for trade tax, interest on this (with interest calculated until 30 September 2017) and additional Chamber of Commerce and Industry (CCI) contributions. A further € 0.5 million would be added per month by the end of the proceedings. IKB has appealed against the corresponding assessments.

In late April 2016, Aleanta GmbH (a wholly-owned subsidiary of IKB AG with which no profit and loss transfer agreement has been agreed, meaning it is not included in the income tax group) received initial written notification that, as part of the tax audit of a company of which it is the universal successor (Olessa GmbH), the tax authorities are intending to treat the retrospective merger of Olessa GmbH into Aleanta GmbH in the financial year 2010/11 as a case covered by section 42 of the German Tax Code (AO). The tax audit is still in progress. Aleanta GmbH has commented on the matter and the current assessment of the tax audit. The maximum risk encompasses taxes of approximately € 35 million including interest (up to and including 30 September 2017) and additional CCI contributions. An appeal will be lodged if necessary.

Notes on the income statement

(19) Extraordinary income and expenses

At the reporting date, the item "Extraordinary expenses" contained expenses for structural measures (particularly measures to simplify the capital structure) in the amount of € 134.5 million in the Group (previous year: € 10.7 million) and € 44.4 million at IKB AG (previous year: € 10.7 million). The expenses in the Group relate in particular to repurchases of the bonds issued by Capital Raising and Hybrid Raising (€ 70.4 million), as well as to the sale of IKB Leasing (€ 47.0 million) and the partial early repurchase of a debtor warrant (€ 15.1 million). The expenses at IKB AG relate to the sale of the IKB Leasing (€ 26.4 million) and the partial early repurchase of a debtor warrant (€ 15.1 million).

These extraordinary expenses were offset by extraordinary income of € 181.7 million in the Group (previous year: € 0.0 million) and € 184.8 million at IKB AG (previous year: € 0.0 million) resulting from the termination of the Funding Trust II structure in particular.

(20) Other operating expenses

Other operating expenses include essentially:

	Group		IKB AG	
in € million	**2017/18**	**2016/17**	**2017/18**	**2016/17**
Expenses from the reversal of swap agreements	-136.7	-393.2	-136.7	-393.5
Expenses from derivatives in the non-trading book	-32.5	-28.1	-32.5	-28.1
Expenses from currency translation	-39.8	-23.0	-0.8	-
Pension scheme expense (CTA-funded)	-13.5	-6.3	-11.6	-5.6

The expenses from the reversal of swap agreements relate to strategic close-outs of derivative transactions in the banking book.

(21) Costs of loss absorption

Costs of loss absorption at IKB AG in the amount of € -143.7 million (previous year: € 0.0 million) relate to the addition to a provision for loss absorption obligations in connection with the profit and loss transfer agreement with IKB Beteiligungen GmbH. The anticipated expenses primarily relate to the write-down of the carrying amount of the investment in MATRONA GmbH (€ 113 million) as part of the measures to simplify the capital structure, as well as to the planned sale of the IKB Leasing Group (€ 20 million).

(22) Income taxes

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

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

(23) Other operating income

Other operating income is composed primarily as follows: Group

	Group		IKB AG	
in € million	**2017/18**	**2016/17**	**2017/18**	**2016/17**
Income from the reversal of swap agreements	0.2	280.7	0.2	294.8
Income from derivatives in the non-trading book	32.1	19.6	32.1	19.8
Income from currency translation	39.7	32.9	0.1	11.7
Income from compensation payments[1)]	6.7	0.2	0.1	-

1) from out-of-court settlements

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

Other disclosures

(24) Consolidated group as at 30 September 2017

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

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

(25) List of shareholdings as at 30 September 2017

30 Sep. 2017		Financial year	Letter of comfort	Equity interest in %	Equity in € thousand	Result in € thousand
1. German subsidiaries (consolidated)						
Aleanta GmbH, Düsseldorf		1.4. - 31.3.		100.00	1,456	121
IKB Beteiligungen GmbH, Düsseldorf	3)	1.4. - 31.3.		100.00	79,742	0
IKB Beteiligungsgesellschaft 1 mbH, Düsseldorf	3)	1.1. - 31.12.		100.00	55	0
IKB Beteiligungsgesellschaft 2 mbH, Düsseldorf	3)	1.1. - 31.12.		100.00	80	0
IKB Beteiligungsgesellschaft 3 mbH, Düsseldorf	3)	1.1. - 31.12.		100.00	55	0
IKB Beteiligungsgesellschaft 5 mbH, Düsseldorf	3)	1.4. - 31.3.		100.00	54	0
IKB Equity Capital Fund GmbH, Düsseldorf		1.4. - 31.3.	X	100.00	18,037	9,733
IKB Grundbesitzgesellschaft Düsseldorf GmbH & Co. KG, Düsseldorf	5)	1.4. - 31.3.		94.90	20,000	1,893
IKB Grundbesitzgesellschaft Frankfurt GmbH & Co. KG, Düsseldorf	5)	1.4. - 31.3.		94.90	7,200	502
IKB Grundstücks GmbH & Co. Objekt Holzhausen KG, Düsseldorf	5), 6)	1.1. - 31.12.	X	100.00	9,500	2,053
IKB Grundstücks GmbH, Düsseldorf		1.1. - 31.12.	X	100.00	98	0
IKB Grundstücksgesellschaft Düsseldorf GmbH, Düsseldorf		1.4. - 31.3.		100.00	28	7
IKB Invest GmbH, Düsseldorf	3)	1.4. - 31.3.		100.00	263,408	0
IKB Leasing Beteiligungsgesellschaft mbH, Hamburg	3)	1.4. - 31.3.		100.00	825	0
IKB Leasing GmbH, Hamburg	3)	1.4. - 31.3.		100.00	169,223	0
IKB Projektentwicklung GmbH & Co. KG i.L., Düsseldorf	4),6)	1.1. - 31.12.	X	100.00	2,377	90
IKB Real Estate Holding GmbH, Düsseldorf	3)	1.4. - 31.3.		100.00	87,554	0
IKB Struktur GmbH, Düsseldorf	3)	1.4. - 31.3.		100.00	103,750	0
Istop 1 GmbH, Düsseldorf	3)	1.1. - 31.12.		100.00	115,975	0
Istop 2 GmbH, Düsseldorf	3)	1.1. - 31.12.		100.00	155,025	0
Istop 4 GmbH, Düsseldorf	3)	1.1. - 31.12.		100.00	93,525	0
Istop 6 GmbH, Düsseldorf	3)	1.1. - 31.12.		100.00	114,445	0
MATRONA GmbH, Düsseldorf	3)	1.4. - 31.3.		100.00	45,025	0
Projektbeteiligung TH GmbH & Co. KG, Düsseldorf	5) 6)	1.1. - 31.12.		100.00	1	-4
Tempelhofer Hafen GmbH & Co. KG, Düsseldorf	5)	1.1. - 31.12.		100.00	0	-825
UTA Truck Lease GmbH, Neu-Isenburg	3)	1.4 - 31.3.		100.00	9,028	0
2. Foreign subsidiaries (consolidated)						
AO IKB Leasing geschlossene Aktiengesellschaft, Moscow, Russia		1.1. - 31.12.		100.00	11,521	9,987
IKB Finance B.V., Amsterdam, Netherlands		1.4. - 31.3.	X	100.00	6,383	270
IKB Funding LLC II, Wilmington, United States of America	2)	1.4. - 31.3.	X	100.00	280	-46
IKB Funding LLC II, Wilmington, United States of America	2)	1.4. - 31.3.	X	100.00	677	81
IKB International S.A. i.L., Munsbach, Luxembourg	4)	1.4. - 31.3.	X	100.00	42,403	2,749
IKB Leasing Austria GmbH, Vienna, Austria		1.1. - 31.12.		100.00	714	-56
IKB Leasing CR s.r.o., Prague, Czech Republic		1.1. - 31.12.		100.00	31,703	515
IKB Leasing Finance IFN S.A., Bucharest, Romania		1.1. - 31.12.		100.00	5,946	1,341
IKB Leasing France S.A.R.L., Marne La Vallée, France		1.1. - 31.12.		100.00	3,525	1,294
IKB Leasing Kft., Budapest, Hungary		1.1. - 31.12.		100.00	6,383	1,144
IKB Leasing Polska Sp.z.o.o, Poznan (Posen), Poland		1.1. - 31.12.		100.00	11,209	48
IKB Leasing S.R.L., Bucharest, Romania		1.1. - 31.12.		100.00	1,915	329
IKB Leasing SR, s.r.o., Bratislava, Slovakia		1.1. - 31.12.		100.00	2,731	-201
IKB Lux Beteiligungen S.à.r.l., Munsbach, Luxembourg		1.4. - 31.3.	X	100.00	13,207	2,995
IKB Pénzügyi Lizing Zrt., Budapest, Hungary		1.1. - 31.12.		100.00	4,044	903
IKBL Asset spólka z ograniczona odpowiedzialnoscia & Co. spólka komandytowa, Poznan, Poland	5)	1.1. - 31.12.		100.00	97	40

30 Sep. 2017	Financial year	Letter of comfort	Equity interest in %	Equity in € thousand	Result in € thou-sand
IKBL ASSET Spolka z ograniczona odpowiedzialnoscia, Poznan, Poland	1.1. - 31.12.		100.00	9	-9
IKBL Renting and Service S.r.l., Lainate (MI), Italy	1.1. - 31.12.		100.00	756	-398
STILL LOCATION S.à.r.l., Marne La Vallée, France	1.1. - 31.12.		100.00	26,969	3,645
3. Special-purpose entities (special-purpose entities included in the interim consolidated financial statements in accordance with section 290 (2) no. 4 HGB)					
German Mittelstand Equipment Finance S.A., Luxembourg, Luxembourg					
RIO DEBT HOLDINGS (IRELAND) LIMITED, Dublin 2, Ireland					

30 Sep. 2017		Financial year	Letter of comfort	Equity interest in %
4. German subsidiaries (not included in consolidation due to section 296 HGB)	1)			
Brunnenstraße 105-109 Berlin Grundbesitz GmbH, Düsseldorf		1.1. - 31.12.		100.00
Feldmühleplatz 1 Verwaltungsgesellschaft mbH, Düsseldorf		1.1. - 31.12.		100.00
FRANA Grundstücks-Vermietungsgesellschaft mbH, Düsseldorf		1.1. - 31.12.		100.00
GAP 15 GmbH i.L., Düsseldorf	4)	1.1. - 31.12.		92.80
GARUMNA GmbH, Düsseldorf	3)	1.4. - 31.3.		100.00
HAUSTUS Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Yachtzentrum Berlin KG i.L., Düsseldorf	4)	1.1. - 31.12.		94.67
IKB Beteiligungsgesellschaft 7 mbH, Düsseldorf	3)	1.1. - 31.12.		100.00
IKB Beteiligungsgesellschaft 8 mbH, Düsseldorf	3)	1.1. - 31.12.		100.00
IKB Beteiligungsgesellschaft 9 mbH, Düsseldorf	3)	1.1. - 31.12.		100.00
IKB Beteiligungsgesellschaft 10 mbH, Düsseldorf	3)	1.1. - 31.12.		100.00
IKB Projektentwicklungsverwaltungsgesellschaft mbH i.L., Düsseldorf	4)	1.10. - 30.09.	X	100.00
IKB NewCo 1 GmbH, Düsseldorf		1.1. - 31.12.		100.00
IKB NewCo 3 GmbH, Düsseldorf		1.1. - 31.12.		100.00
IKB NewCo 5 GmbH, Düsseldorf		1.4. - 31.3.		100.00
IKB Real Estate GmbH, Düsseldorf	3)	1.1. - 31.12.		100.00
ILF Immobilien-Leasing-Fonds Verwaltung GmbH & Co. Objekt Boxdorf KG i.L., Düsseldorf	4)	1.1. - 31.12.		94.26
IMAS Grundstücks-Vermietungsgesellschaft mbH, Düsseldorf		1.4. - 31.3.	X	100.00
ISOG Technology Holding GmbH, Weilheim		1.4. - 31.3.		57.70
ISTOS Beteiligungsverwaltungs- und Grundstücks-Vermietungsgesellschaft mbH, Düsseldorf		1.1. - 31.12.		100.00
Ligera GmbH, Düsseldorf	3)	1.1. - 31.12.		100.00
MFRSI Beteiligungsholding Verwaltungsgesellschaft mbH, Düsseldorf		1.1. - 31.12.		100.00
Restruktur 2 GmbH i.L., Düsseldorf	4)	1.4. - 31.3.		100.00
Restruktur 3 GmbH, Düsseldorf		1.4. - 31.3.		100.00
Rhodana GmbH, Düsseldorf	3)	1.1. - 31.12.		100.00
SEQUANA GmbH, Düsseldorf	3)	1.4. - 31.3.		100.00
5. Foreign subsidiaries (not included in consolidation due to section 296 HGB)	1)			
IKB Funding Trust I, Wilmington, United States of America		1.4. - 31.3.		100.00
IKB Funding Trust II, Wilmington, United States of America		1.4. - 31.3.		100.00
Valin Asset Management S.à.r.l., Luxembourg, Luxembourg		1.4. - 31.3.		100.00
6. Special-purpose entities (not included in consolidation due to section 296 HGB)	1)			
Capital Raising GmbH, Norderfriedrichskoog				
Corelux Purchaser No. 1 S. A., Luxembourg, Luxembourg				
German Mittelstand Equipment Finance 3 S.à.r.l., Luxembourg, Luxembourg				
HIMERA Grundstücks- Vermietungsgesellschaft mbH, Pullach i. Isartal				
Hybrid Raising GmbH, Norderfriedrichskoog				
Rosaria Grundstücks-Vermietungsgesellschaft mbH Objekt Heimstetten KG, Grünwald				
Weinberg Capital Ltd., Dublin, Ireland				
7. German associates	1)			
Linde Leasing GmbH, Wiesbaden		1.1. - 31.12.		30.00
8. German associates/joint ventures (not accounted for using the equity method due to section 311(2) HGB)	1)			
Argantis Beteiligungs-Holding GmbH i.L., Cologne	4)	1.1. - 31.12.		50.00
Argantis GmbH i.L., Cologne	4)	1.1. - 31.12.		50.00
Chemtura Verwaltungs GmbH, Bergkamen		1.1. - 31.12.		50.00
Dritte Hubschraubertechnologiepark Donauwörth GmbH, Düsseldorf		1.1. - 31.12.		50.00

30 Sep. 2017		Financial year	Letter of comfort	Equity interest in %
equiNotes Management GmbH, Düsseldorf		1.1. - 31.12.		50.00
FUNDIS Projektentwicklungsholding GmbH & Co. KG, Düsseldorf		1.1. - 31.12.		50.00
FUNDIS Verwaltungsgesellschaft mbH, Düsseldorf		1.1. - 31.12.		50.00
HABITO Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt EINS KG, Pullach i. Isartal		1.1. - 31.12.		6.00
Hafenspitze Verwaltungsgesellschaft mbH, Hamburg		1.1. - 31.12.		25.00
LOUDA SYSTEMS GmbH, Triptis		1.1. - 31.12.		45.00
MFRSI Beteiligungsholding GmbH & Co. KG, Düsseldorf		1.1. - 31.12.		50.00
Mike's Sandwich GmbH, Hamburg		1.1. - 31.12.		35.59
MOTORRAD-ECKE GmbH, Villingen-Schwennigen		1.1. - 31.12.		38.86
ODS Business Services Group GmbH, Hamburg		1.1. - 31.12.		32.00
Vermögensverwaltungsgesellschaft DVD Dassow GmbH, Dassow		1.1. - 31.12.		30.00
9. Equity investments in corporations and partnerships in which the interest exceeds 5% of voting rights	1)			
AXA Immoselect Hauptverwaltungsgebäude GmbH & Co. Objekt Düsseldorf Uerdinger Straße KG i.L., Cologne	4)	1.1. - 31.12.		5.10
Könemann Verlagsgesellschaft mbH, Cologne		1.1. - 31.12.		12.50
pgam advanced technologies AG, Georgsmarienhütte		1.1. - 31.12.		5.16

1) The information in accordance with section 285 no. 11 HGB on equity and results is not shown for companies not included in the interim consolidated financial statements in accordance with section 286 (3) sentence 1 no. 1 HGB.
2) Subordinated letter of comfort
3) Profit and loss transfer agreement
4) In liquidation
5) IKB AG or a Group company is a shareholder with unlimited liability
6) Company exercised exemption under section 264b HGB and did not prepare notes

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

(26) 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.

(27) Derivative financial instruments not recognised at fair value

Group:

	Nominal	Fair value		Carrying amount	
30 Sep. 2017 in € million		**positive**	**negative**	**Assets**	**Equity and liabilities**
Interest-related derivatives	21,519.5	850.2	1,541.7	105.8	123.4
Credit-related derivatives	48.3	-	48.3	-	48.3
Currency-related derivatives	1,771.3	27.8	26.4	15.0	16.2
Derivatives assigned to several categories	1,040.2	113.6	89.1	21.8	7.3
Total	**24,379.3**	**991.6**	**1,705.5**	**142.6**	**195.2**

IKB AG:

	Nominal	Fair value		Carrying amount	
30 Sep. 2017 in € million		**positive**	**negative**	**Assets**	**Equity and liabilities**
Interest-related derivatives	21,796.9	859.7	1,541.5	129.5	138.4
Credit-related derivatives	-	-	-	-	-
Currency-related derivatives	1,771.3	27.8	26.4	15.0	16.1
Derivatives assigned to several categories	1,040.2	113.6	89.2	22.0	7.6
Total	**24,608.4**	**1,001.1**	**1,657.1**	**166.5**	**162.1**

(28) Unrealised gains and losses

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

Group	**30 Sep. 2017**			**31 Mar. 2017**		
in € million	**Carrying amount**	**Fair value**	**Difference**	**Carrying amount**	**Fair value**	**Difference**
Receivables from banks	1,298.4	1,300.0	1.6	1,669.7	1,671.4	1.7
Receivables from customers	10,397.1	10,861.5	464.4	9,925.4	10,390.1	464.7
Bonds and other fixed-income securities	4,797.2	4,931.9	134.7	5,329.7	5,485.5	155.8
Equities and other non-fixed-income securities	471.5	469.3	-2.2	472.5	469.4	-3.1
Derivative financial instruments not recognised at fair value	142.6	991.6	849.0	193.0	1,169.4	976.4
Subtotal	**17,106.8**	**18,554.3**	**1,447.5**	**17,590.3**	**19,185.8**	**1,595.5**
Liabilities to banks	7,498.1	7,541.4	-43.3	7,642.5	7,710.9	-68.4
Liabilities to customers	7,172.3	7,247.9	-75.6	7,550.9	7,625.3	-74.4
Securitised liabilities	807.2	810.9	-3.7	822.9	826.5	-3.6
Subordinated liabilities	459.3	365.4	93.9	695.8	327.0	368.8
Silent partnership contributions	0.0	24.4	-24.4	0.0	99.1	-99.1
Derivative financial instruments not recognised at fair value	195.2	1,705.5	-1,510.3	171.0	2,010.9	-1,839.9
Subtotal	**16,132.1**	**17,695.5**	**-1,563.4**	**16,883.1**	**18,599.7**	**-1,716.6**
Total			**-115.9**			**-121.1**

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

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

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

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

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

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

(29) Significant events after 30 September 2017

The following major developments have arisen since 30 September 2017:

Sale of the Rio junior and mezzanine loans

The special-purpose entity Rio Debt Holdings (Ireland) holds a portfolio of RMBS securities. The purchase of the securities was financed using structured loans. The junior loan and a mezzanine loan held by IKB AG subsidiaries are still outstanding. To reduce complexity at the Bank, the two loans were sold at their fair value in November 2017 and the proceeds from the disposal were used for the partial repurchase of the debtor warrants. In addition to the deconsolidation of the special-purpose entity Rio Debt Holdings (Ireland), this measure involves the recognition of an eight-digit expense by IKB AG and in the Group.

Solicitation of consent to the holders of trust preferred securities of IKB Funding Trust I and unwinding of IKB Funding Trust I

On 4 October 2017, IKB Funding Trust I (IKB FT I) issued a solicitation of consent to an amendment to the trust agreement of IKB FT I to the holders of the securities of IKB FT I (nominal value € 75 million). The offer period expires on 4 December 2017. The amendment is intended to facilitate the merger between IKB FT I and a newly formed trust. If the required majority of the holders consent to the proposed amendment and the merger between IKB FT I and the newly formed trust is implemented, the holders of IKB FT I will receive a cash payment of € 70 in exchange for each € 100 held (nominal value). The trust preferred securities issued by IKB FT I would be held by IKB AG following the merger.

Profit participation suits

A further two suits with a total value in dispute of € 95 million were filed against IKB by profit participation certificate bearers after the reporting date. In these cases, too, the Bank is defending its position and expects any such claims to be unsuccessful.

(30) Executive bodies

Board of Managing Directors

Dr Michael H. Wiedmann (Chairman)

Claus Momburg

Dr Jörg Oliveri del Castillo-Schulz

Dirk Volz

Supervisory Board

Dr Karl-Gerhard Eick (Chairman)

Dr Claus Nolting (Deputy Chairman)

Sven Boysen*

Mark Coker

Benjamin Dickgießer

Dr Lutz-Christian Funke

Arndt G. Kirchhoff

Bernd Klein*

Nicole Riggers*

*elected by the employees

Düsseldorf, 20 November 2017

IKB Deutsche Industriebank AG

The Board of Managing Directors

Dr Michael H. Wiedmann

Claus Momburg

Dr Jörg Oliveri del Castillo-Schulz

Dirk Volz

Note on forward-looking statements

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

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

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