Annual Report 2020
(1 April – 31 December 2020)

IKB
Deutsche Industriebank

IKB Group key figures

Income statement (in € million)	1 Apr. - 31 Dec. 2020	1 Apr. 2019 - 31 Mar. 2020	1 Apr. 2018 - 31 Mar. 2019
Net interest income	165	201	193
Net fee and commission income	20	40	37
Gross income	186	241	230
Administrative expenses	-104	-156	-192
Operating profit before risk provisions	82	85	37
Net other income	1	-47	106
Net risk provisioning	-20	-30	-36
Tax expense/income	10	-1	64
Consolidated net income	73	8	-41
Interest margin on loan book (%)	1.93	1.99	1.80
Risk costs of loan book (%)	0.27	0.29	0.35
Return on equity (%)	8.3	0.6	-2.8
Cost/income ratio (%)	55.7	64.6	83.8

Balance sheet (€ million)	31 Dec. 2020	31 Mar. 2020	31 Mar. 2019
Own funds component CET 1 (fully phased)	1,273	1,367	1,360
Total assets	16,929	16,622	16,123
Loan book	9,417	10,108	10,447[1)]
Loan to deposit ratio (%)	70	80	90

Regulatory key figures (%)[2)]	31 Dec. 2020	31 Mar. 2020	31 Mar. 2019
Risk-weighted assets (€ billion, fully phased)	8.9	11.4	11.3
CET 1 ratio (fully phased)	14.3	12.0	12.1
Tier 1 ratio (fully phased)	14.3	12.0	12.1
Own funds ratio (fully phased)	21.4	18.1	18.7
CET 1 ratio IKB Group Basel IV (fully phased)	15.3	12.8	-
NPL ratio in accordance with EBA definition	1.6	1.3	1.4
Capital ratios (fully phased)	7.4	7.1	7.3
Liquidity coverage ratio	271	235	318

Employees	31 Dec. 2020	31 Mar. 2020	31 Mar. 2019
Full-time employees (FTE) on the reporting date	581	607	673

Ratings	Moody's (15 Jan. 2021)	Fitch (14 Jan. 2021)
Issuer rating (long term)	Baa1 (outlook: stable)	BBB (outlook: negative)

Any differences in totals are due to rounding effects.

1) March 2019 without leasing

2) Figures taking account of the phase-in and phase-out provisions of the CRR; the CET 1 ratios have been calculated in accordance with the current version of the CRR as of the respective reporting date and the interpretations published by the regulatory authorities. The possibility that future EBA/ECB standards and interpretations or other supervisory actions will lead to a retrospective change in the CET 1 ratio cannot be ruled out.

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Letter from the Chairman of the Board of Managing Directors

Ladies and Gentlemen,

Despite the ongoing coronavirus pandemic, we have kept IKB on course in all areas and supported our corporate customers with our lending operations. During the challenging times caused by the coronavirus, our clients in the medium-sized corporate segment rely on our tailored financing solutions and rapid lending decisions, particularly in respect of the special public programme loans established in response to the pandemic. All customers are receiving intensive support and assistance in dealing with potential liquidity shortages. This is our contribution to stabilising Germany's medium-sized corporate sector.

By changing our financial year to the calendar year from a March year end previously, we have reduced the complexity of accounting, tax and supervisory matters and established better comparability with other institutions. The financial year 2020 is hence a shortened financial year covering the nine-month period from April to December. We have introduced segment reporting and visibly enhanced the transparency of our financial reporting. The Public Programme Loans, Corporate Bank and Corporate Centre segments are aligned with the Bank's product units.

Despite the continuing COVID-19 pandemic, IKB achieved a solid net income in the financial stub year 2020. Consolidated net income after tax from operating activities amounted to €73 million – including the release of tax provisions in the amount of €10 million – and thus exceeded the Bank's own forecast of €60 million. We are targeting a net income of €100 million for the financial year 2021. Our return on equity increased from 5.9% in the prior financial year to 8.3%. We expect to further increase our return on equity to 9% in the financial year 2021 and to more than 10% in the medium term. In the nine months of the financial stub year, operating profit before risk provisions amounted to €82 million compared to €85 million in the twelve months of the financial year 2019/20. This resulted above all from a reduction in administrative expenses to €104 million in the nine-month period. We are aiming to further reduce this to €130 million in 2021 and €105 million in the medium term. We reduced the cost/income ratio from 65% to 56% and expect a figure of slightly above 50% for 2021 as well as below 40% in the medium term.

After the Bank has successfully completed its transformation and given our strong capital position, we have proposed a dividend payout for the first time in 15 years, taking into account the recommendations issued by the ECB and BaFin in this respect. Even after the planned dividend payout, IKB's Common Equity Tier 1 ratio of 14.3% (fully phased-in) will still significantly exceed the regulatory minimum requirements. Moreover, we have decided to introduce a dividend policy with a target of distributing between 60% and 80% of the after-tax profit.

Our risk provisions were kept at a low level. Despite the coronavirus pandemic, our risk provisions amounted to €20 million compared to €30 million in the prior financial year. The ratio of risk provisions in the lending business to total corporate loan book stood at 27 basis points in the reporting period. The proportion of non-performing assets remained almost unchanged at a low level with a NPL ratio (in accordance with the EBA definition) of 1.6%. This was above all due to our robust loan book of €9.4 billion of which only a small proportion in the amount of €183 million relate to sectors that have been hit particularly hard by the coronavirus pandemic. IKB is maintaining its high lending standards even in the current economic environment.

With regards to new lending, thanks to our strong market position in the public programme loans business, IKB supported its customers in accessing the special KfW loan programmes. We maintained a conservative approach to granting corporate loans. This resulted in new lending volumes totalling around €1.5 billion. Compared with financial year 2019/20, the share of the public programme loans business as percentage of the total volume increased by 31% to 74%. This makes the Bank one of the top ten on-lending institutions for the KfW special programmes. For 2021, we anticipate that the new lending business will be substantially higher at around €2.5 billion. With our 30% stake in fundingport GmbH, a joint venture with Hypoport SE, IKB will be collaborating in future with Hypoport to originate loans for this platform.

IKB has a strong capital and liquidity position. The rating agencies share this view and in mid-January 2021, we received investment-grade ratings from both Moody's and Fitch. Moody's assigned IKB a deposit and issuer rating of Baa1 with a stable outlook. Fitch assigned IKB a long-term issuer default rating of BBB with a negative outlook. Fitch's negative outlook reflects the current market conditions in the banking sector rather than an IKB-specific outlook. IKB's solid capital position significantly exceeded all regulatory requirements. As of 31 December 2020, the CET 1 ratio (fully phased-in) for the IKB Group stood at 14.3%, an increase from 12.0% as of 31 March 2020 and also significantly exceeding the minimum SREP requirement of 8.1%. Under the Basel IV regulations, the pro forma CET 1 ratio is estimated to increase to 15.3%. The leverage ratio was 7.4% and the liquidity coverage ratio in the IKB Group was 271% as of 31 December 2020. The loan to deposit ratio in the shortened financial year stood at 70%.

Although our employees have now adapted to the extraordinary circumstances resulting from the coronavirus pandemic, many are confronting significant strains – e.g. ranging from reduced social contacts through the communication challenges of working from home to providing home schooling for children. This is all the more reason for me to thank our employees for their commitment to and support for the Bank. Together, we have managed to steer the Bank successfully through the crisis thus far. We have reached key milestones and pressed ahead with new projects.

Düsseldorf, March 2021

Dr Michael H. Wiedmann

Report of the Supervisory Board

By resolution of the Annual General Meeting on 3 September 2020, IKB Deutsche Industriebank AG changed its financial year to the period from 1 January to 31 December of the respective year with effect from 1 January 2021. A short financial year was formed for the period from 1 April 2020 to 31 December 2020. The change in the financial year was entered in the commercial register on 11 November 2020.

In the short financial year 2020, the Supervisory Board fulfilled the duties and obligations incumbent upon it in accordance with law, regulations, Articles of Association and its by-laws. The Supervisory Board supervised management by the Board of Managing Directors and advised it on the management of the company. The Supervisory Board was involved in all decisions of fundamental importance to the bank.

Overview

In its supervisory and advisory activities, the Supervisory Board received regular, timely and comprehensive reports from the Board of Managing Directors, in both oral and written form. The Board of Managing Directors informed the Supervisory Board of the business operations and the economic and financial development of the IKB Group and IKB AG. Other focal points of regular reporting were the general development of IKB and the development of the Group's risk situation. Furthermore, the Supervisory Board addressed Group planning and the actual development of business in the short financial year 2020.

Reports by the Board of Managing Directors on the business situation and on specific issues were supplemented by written presentations and documentation which each member of the Supervisory Board received prior to the meeting for preparation purposes. The members of the Supervisory Board were also provided with the annual financial statements and consolidated financial statements, the combined management report, the dependent company report and the auditors' reports in due time prior to the meeting convened to review the annual financial statements; the same applies to the separate the non-financial report. The members of the Risk and Audit Committee and the Supervisory Board plenary meeting also received the half yearly financial report and quarterly reports in due time for preparation purposes.

A total of 19 meetings of the Supervisory Board and its committees were held. Where necessary, individual resolutions were passed by circular between meetings. The Chairmen of the Supervisory Board and the Board of Managing Directors also consulted regularly on key developments and decisions. If members of the Supervisory Board were unable to attend the meetings, they were absent with valid excuse.

Topics of the Supervisory Board plenary meeting

The Supervisory Board held six meetings in the short financial year 2020. Regular meetings were held in May, June, September, November and December. One of meetings of the Supervisory Board in September took place as constitutive meeting after the Annual General Meeting for the financial year 2019/20.

Throughout the short financial year, the Board of Management kept the Supervisory Board continuously informed about the Bank's current business performance in the wake of the ongoing coronavirus pandemic and, in particular, presented and explained in detail the Bank's liquidity, risk, and earnings position. The Board of Managing Directors was also in close contact with the Chairman of the Supervisory Board on specific occasions.

At all regular Supervisory Board meetings in the short financial year 2020, the Supervisory Board was able to form a detailed opinion on the general development of the bank based on written and oral reporting by the Board of Managing Directors. In this respect, the Board of Managing Directors also provided the Supervisory

Board with explanations concerning the development of business volume and result of the Group. Furthermore, the Board of Managing Directors examined in detail the development in the individual business segments and reported on the capital position, financial situation including taxes and Group risk. The Supervisory Board was continuously informed by the Board of Managing Directors about the regulatory capital position of the IKB Group and the status of material legal disputes.

At its meeting convened to review the annual financial statements in May 2020, the Supervisory Board examined inter alia the annual financial statements and consolidated financial statements, the combined management report and the dependent company report and the non-financial report prepared by the Board of Managing Directors for the past financial year 2019/20. The Board of Managing Directors also gave a comprehensive written and oral explanation of the risk situation of the IKB Group including the recovery indicators defined in the recovery plan. Group Internal Audit and the Chief Compliance Officer gave their respective annual reports for the 2019/20 financial year. Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft ("EY"), Stuttgart, reported on the audit findings, and the Chairman of the Risk and Audit Committee on preparations for the auditing of the annual financial statements and consolidated financial statements as of 31 March 2020 with the combined management report and dependent company report, and the combined non-financial report for the financial year 2019/20. The annual financial statements and consolidated financial statements were adopted resp. approved by the Supervisory Board. No objections were raised to the declaration of the Board of Managing Directors in the closing statement of the dependent company report and against the combined non-financial report. The report of the Supervisory Board for the financial year 2019/20 was also approved. The agenda of the Supervisory Board meeting in June 2020 included the verification of the target achievement and corresponding determination of the variable remuneration for the individual members of the Board of Managing Directors for the financial year 2019/20, as well as the verification and decision on the granting of the retained variable remuneration for the members of the Board of Managing Directors for past financial years.

At its following meetings in September and November 2020, the Supervisory Board deliberated respectively on the business development and Group risk including the recovery indicators stipulated in the recovery plan and also addressed in this context the regulatory capital position, especially with respect to the further supervisory requirements. The meetings in each case also addressed the quarterly Internal Audit report. The Board of Managing Directors informed the Supervisory Board on all these topics both in written and oral form.

The Board of Managing Directors provided timely comprehensive information to the Supervisory Board in written and oral form on the business policy and fundamental management questions including the strategic further development of IKB; in addition to the business and risk strategy, the topic of dividend policy was presented and discussed this year. The Board of Managing Directors also provided information on plans and possibilities for future capital measures.

The Supervisory Board took note of the Report of the Remuneration Officer, dealt with the remuneration systems of the Bank. In this context, it also resolved to adjust the sustainability ratio used to calculate the deferred variable remuneration of the Board of Managing Directors. The Supervisory Board also determined the total amount of variable remuneration, considering Section 7 of the InstitutsVergV. It had the personnel development as well as the quantitative and qualitative medium-term personnel planning explained to it and concluded the target agreements with the members of the Board of Managing Directors in office in the short financial year 2020 for the coming financial year. The Supervisory Board was also consulted in the context of the appointment of a new Remuneration Officer.

In addition, the Supervisory Board dealt with the Annual General Meeting of IKB in September 2020 and adopted the respective resolution proposals of the Supervisory Board to the Annual General Meeting. The Supervisory Board dealt in particular with the proposed resolutions for the forthcoming elections to the

Supervisory Board and the amendment of the Articles of Association to be made within the framework of the change of the financial year.

In the course of the change of the financial year, the rules of procedure for the Board of Managing Directors as well as the employment contracts of the members of the Board of Managing Directors also had to be adapted and adjusted and to the financial year beginning on 1 January of each year in the future.

The Supervisory Board also dealt again with the non-financial statement to be submitted by the Board of Managing Directors and decided again not to have a voluntary external audit of the non-financial report for the short financial year 2020 carried out.

Activities of the Committees

To ensure that the Supervisory Board exercises its functions efficiently, the Supervisory Board has set up different committees: The Supervisory Board Executive Committee, the Risk and Audit Committee, the Remuneration Control Committee and the Nomination Committee. The Committees prepare the deliberations and resolutions for approval in the plenary meeting. Furthermore, the authority to approve resolutions has also been delegated to the Committees themselves. The Supervisory Board Executive Committee held five meetings, the Risk and Audit Committee held four meetings, the Remuneration Control Committee held three meetings, and the Nomination Committee held one meeting in the short financial year 2020.

The Supervisory Board Executive Committee essentially prepared the meetings of the Supervisory Board and

in addition to the business and risk strategy, it also dealt with IKB's future dividend policy and the Annual General Meeting of the year. In its meetings, the Supervisory Board Executive Committee also focused on business development and the strategic orientation of the bank and the Group. This also included the discussion of strategies for the implementation of planned capital measures The Supervisory Board Executive Committee also discussed and passed resolutions on other management measures requiring approval, such as various resolutions on large exposures.

The activities of the Risk and Audit Committee focused on monitoring accounting procedures, the efficiency of the internal control system, risk management, the internal audit system, risk strategy and compliance as well as the audit of the financial statements. The Committee deliberated extensively on the preparation of the annual financial statements and the consolidated financial statements with the non-financial report and the appointment of the auditor. The Risk and Audit Committee commissioned the auditor to carry out the audit and concluded the fee agreement with him. One focus was on reviewing the independence of the auditor in the course of which the Committee reviewed the audit fees and decided again on a catalogue of permissible non-audit services (pre-approval catalogue), the provision of which by the auditor is possible without the further prior consent of the Risk and Audit Committee. The Risk and Audit Committee separately approved the provision of a further non-audit service not included in this catalogue.

The Remuneration Control Committee addressed the bank's remuneration systems, especially that of the Board of Managing Directors and reviewed their principles for adequacy. In this context, it also discussed and proposed to the Supervisory Board the adjustment of the sustainability ratio, which is used to calculate the deferred variable remuneration of the Board of Managing Directors. The Remuneration Control Committee also prepared the resolutions of the Supervisory Board relating to remuneration. It also had the Remuneration Control Report explained and dealt with the change of the Remuneration officer.

The Nomination Committee discussed the proposals to the Supervisory Board regarding the election of Supervisory Board members by the Annual General Meeting on 3 September 2020. The Nomination Committee furthermore fulfilled the duties incumbent upon it according to Section 25 d (11) KWG [German Banking Act].

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

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

Audit of the annual financial statements and consolidated financial statements

Acting on the proposal of the Supervisory Board, the Annual General Meeting appointed Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft as auditors for the annual financial statements for the short financial year 2020 ending on 31 December 2020 and the consolidated financial statements and for any reviews or any audits of all other interim financial statements resp. interim consolidated financial statements and interim management reports resp. interim Group management reports which are prepared prior to the Annual General Meeting for the financial year 2021. EY audited the annual financial statements of IKB AG and the Group and the combined management report for IKB AG and the Group and issued unqualified audit opinions. Examination of and deliberation on the annual financial statements, the consolidated financial statements and the relevant combined management report and the related written audit reports of EY for the short financial year 2020 by the Risk and Audit Committee and the plenary meeting of the Supervisory Board took place on 17 and 18 March 2021. The auditors participated in these deliberations. At the meeting of the Supervisory Board on 18 March 2021, they reported on the key findings of their audit, including findings in respect of the internal control and risk management system relating to the accounting process of the bank, answered questions and provided additional information. There were no circumstances which gave reason to doubt the impartiality of the auditors. The auditors furthermore informed the Supervisory Board of all additional services provided by them in connection with the audit.

The Supervisory Board approved the result of the audit of the financial statements at its meeting held on 18 March 2021. According to the result of the Supervisory Board’s own reviews of the annual financial statements and the consolidated financial statements and the combined management report, no objections were raised. The Supervisory Board approved the annual financial statements and the consolidated financial statements of 12 March 2021, prepared by the Board of Managing Directors, at its meeting on 18 March 2021. The annual financial statements for the short financial year 2020 have, therefore, been adopted.

The Supervisory Board also examined the proposal for the appropriation of profits. In particular, it has assessed the situation of the company, also taking into account possible burdens due to the Corona pandemic. The Supervisory Board concurs with the Board of Managing Director's proposal for the appropriation of profits.

Review and approval of the dependent company report

The report on business relationships with affiliated companies for the short financial year 2020 (dependent company report) which was presented by the Board of Managing Directors was also examined by the auditors. The dependent company report was issued with the following unqualified audit opinion: “Having duly examined and assessed this report, we confirm that the factual statements made in the report are correct, the company’s consideration with respect to the legal transactions listed in the report was not inappropriately high, and there are no circumstances that indicate a materially different assessment of the measures listed in the report from that given by the Board of Managing Directors.”

At the meetings held on 17 and 18 March 2021, first the Risk and Audit Committee and then the Supervisory Board also deliberated on and reviewed the dependent company report. The members of the Supervisory Board resp. Committees received both the dependent company report and the related audit report of the auditors in good time before the respective meeting, enabling them to address the respective contents intensively. The auditors also participated in the deliberations on the dependent company report of the Supervisory

Board and the Risk and Audit Committee. At the meeting of the Supervisory Board on 18 March 2021, they reported on the result of their audit and were available to answer questions. The Supervisory Board approved the result of the dependent company report at its meeting on 18 March 2021.

In accordance with the result of its own review by the Supervisory Board, no objections were raised against the declaration of the Board of Managing Directors at the end of the dependent company report for the short financial year 2020.

Personalia – Supervisory Board

On the side of the shareholders, Mark Coker and Arndt H. Kirchhoff, whose terms of office each ended at the close of the Annual General Meeting on 3 September 2020 were re-elected to the Supervisory Board by resolutions of the Annual General Meeting on 3 September 2020.

On the employee side, Ms Nicole Riggers, whose term of office as employee representative on the Supervisory Board also ended at the end of the Annual General Meeting on 3 September 2020, was re-elected in the course of the election of new employee representatives. In the constituent meeting of the Supervisory Board following the Annual General Meeting on 3 September 2020, Ms Riggers was also re-elected as a member of the Executive Committee of the Supervisory Board and the Nomination Committee.

Personalia – Board of Managing Directors

There were no personnel changes on the Board of Managing Directors in the short financial year 2020. Dr Ralph Müller and Dr Patrick Alfred Trutwein were appointed as members of the Board of Managing Directors as of 1 February 2021. Dr Ralph Müller and Dr Patrick Alfred Trutwein expand the previous two-member team of the Board of Managing Directors with Dr Michael Wiedmann as CEO and CFO and Claus Momburg as Chief Sales Officer. As CDO/COO, Dr Ralph Müller will be responsible for strategy, digitalisation and operations. As Chief Risk Officer (CRO), Dr Patrick Alfred Trutwein takes over risk management and auditing.

The Supervisory Board thanked the members of the Board of Managing Directors and all employees of the IKB Group for their personal commitment and contributions in the past short financial year.

Düsseldorf, 18 March 2021

The Supervisory Board

Dr Karl-Gerhard Eick

Chairman

Combined management report for the 2020 financial year

Business highlights

Note: Previously, IKB's financial year ended on 31 March of any given year; the financial year end has now changed to a calendar year end, ending on 31 December. As a result, the 2020 financial year, hereinafter referred to as stub financial year, comprises nine months and its financial figures can only be compared to a limited extent with the 2019/20 financial year.

- Consolidated net income after risk provisions of €73 million in the financial stub year; return on equity (ROE) increased to 8.3%
- Earnings guidance for full-year 2021: net income of almost €100 million and ROE of about 9% expected
- Administrative costs reduced to €104 million, cost/income ratio (CIR) improved from 65% to 56%
- Risk provisions of €20 million and NPL ratio (EBA definition) of 1.6% at low level
- Common Equity Tier 1 (CET 1) ratio significantly increased to 14.3% (financial year 2019/20: 12.0%), pro forma CET 1 ratio in accordance with Basel IV of 15.3%
- Leverage ratio increased to 7.4% (financial year 2019/20: 7.1%)
- Solid liquidity: loan to deposit ratio of 70% and liquidity coverage ratio (LCR) of 271%
- Investment grade ratings received by Moody's (Baa1) and Fitch (BBB)
- Resumption of dividend distributions after 15 years

1. Basic information on the Group

The business model of IKB Deutsche Industriebank AG (IKB is used as a synonym for the Group and IKB AG for the individual company) is focused on the German upper midmarket, mainly comprising companies with annual revenues of more than €100 million. IKB has access to 2,900 focus customers including 500 existing customers. German corporate customers in the upper midmarket are among IKB's preferred target groups due to what in some cases are their outstanding market position, their strong equity base and liquidity resources and, resulting from this, their particularly low default rates. The Bank is characterised by long-standing and stable customer relationships and a pronounced understanding of the concerns of mid-cap companies. Thanks to its own mid-cap structures, IKB meets its customers at eye level and understands their needs. Competence and mutual trust are fundamental values underpinning customer relations. IKB's structures also enable quick processes and short decision-making for financing solutions. The corporate values – "professional, committed and reliable" – are the values by which IKB measures itself.

IKB concentrates on its strengths, adopting lean structures at an early stage and has reduced its costs since 2015, driven its digital transformation forward and clearly defined its business segments. The Public Programme Loans segment includes income and expenses from public programme loans granted to mid-cap customers as well as advisory services for obtaining and applying for public programme loans. The Corporate Bank segment comprises the services related to internally financed corporate banking business. In addition to financing and advisory services in traditional lending business, this also includes supporting customers in their capital market activities. The income and expense items from Funding & Asset Liability Management and the investment portfolio are reported in the Corporate Centre.

Since it was founded in 1924, IKB has been an independent private bank with close relationships to German companies and businesses, specialising primarily in long-term corporate and project finance. As of 31 December 2020, IKB employed around 581 employees and, with six locations, has a sales network covering all regions of Germany. Its integrated business approach comprising regional sales, industry groups and product groups aims to ensure solution-oriented, high-quality support for customers. IKB's customer business focuses on lending and structuring advice (including capital market products). The key factors here are a disciplined loan pricing policy and an appropriate risk-return profile. Each loan must be profitable in its own right. The Bank also arranges financing solutions for its customers outside its own balance sheet. This includes assisting companies in accessing the capital market, for example the issuance of promissory note loans or bonds. As a specialist, IKB offers its customers access to public loan programmes. Every corporate customer advisor has the knowledge needed to provide professional advice to companies in the upper midmarket concerning appropriate public programme loan solutions, supported by a highly specialised development loan product team.

As of 31 December 2020, IKB had a share of 3.2% in the market for long-term corporate loans to the German manufacturing sector. At the same time, its share of the market for loans under the development loan programmes offered by KfW Bankengruppe (KfW) relevant for IKB stood at 8.4%. IKB's competitors are large universal banks as well as a number of larger institutions from the public-sector banking sector.

IKB is an institution with a solid Tier 1 capital base. It is able to draw on a stable and diversified deposit base for funding its operations. Private investors (via pure online banking) and corporate customers are offered investment opportunities that contribute to the financing of Germany's mid-cap sector. This is supplemented by the use of public loan programmes for mid-cap companies, which do not require any further funding on the part of IKB. Exposure to the capital market is low.

IKB is subject to supervision by the German regulatory authorities, i.e. the German Federal Financial Supervisory Authority (BaFin) and the German Bundesbank. IKB is currently not classified as a systemically relevant institution.

Regulation gives rise to a framework that can also influence the business model. One burden arises from the complex system of conditions for integrated bank management that has evolved and will continue to do so as a result of the various regulations. Regulatory requirements now touch upon almost all areas and processes and are woven into the entire organisational and operational structure. For this reason, a high level of cost discipline, particularly also in the implementation of regulatory requirements, optimisation of risk-weighted assets and anticipation of possible future regulatory requirements remain highly relevant for the business model. In addition, IT security together with the need to establish an IT architecture that efficiently ensures flexible and timely reporting is growing in importance.

2. Economic report

Macroeconomic and industry-specific conditions

The coronavirus pandemic plunged the global economy into a deep recession in 2020. Although the crisis bottomed out relatively quickly in the second quarter of the year, with infection figures falling and containment measures being lifted, resulting in a swift recovery, the pandemic began to spread again in a number of countries after the summer. A renewed lockdown was necessary in many cases, with the result that the economic recovery faltered again in the autumn and winter.

In China, on the other hand, the pandemic was successfully contained. The Chinese economy has been on a clear upward trajectory again since the second quarter and has more or less returned to its pre-crisis growth path. China is thus one of the few countries to have achieved positive gross domestic product (GDP) growth in 2020. In the United States and the Eurozone, there was a clear macroeconomic revival in the third quarter of 2020 following the severe slump in the second quarter. However, the rekindled momentum of the pandemic combined with renewed containment measures placed a damper on economic activity. In 2020, total economic output contracted by 3.5% in the United States and by 6.8% in the Eurozone year-on-year. However, the prospect of an effective vaccine could at least brighten the business outlook for 2021 in Europe.

The German economy also recovered sharply following the slump in spring 2020, after the spread of infections was temporarily brought under control. However, the rebound petered out in the fourth quarter of 2020 due to a renewed increase in infections and the adoption of containment measures from November onwards. It was possible to avoid a slump of the type seen in the spring as the measures were not quite as extensive and there were no significant disruptions in international production chains. Against this backdrop, the manufacturing sector spurred economic momentum in the fourth quarter of 2020. The German economy contracted by 5.3% year-on-year in 2020. The number of government-funded short-time workers stood at 0.6 million at the end of the year.

Monetary policy became even more expansionary on a broad front. For example, the Fed had already cut its rates to close to zero in March and adopted various measures to stabilise the financial system. The European Central Bank (ECB) also announced a series of measures in March in response to the coronavirus crisis, relaxing the conditions for ongoing funding transactions, significantly stepping up its asset-purchasing operations (Pandemic Emergency Purchase Programme – PEPP) and approving additional longer term funding operations. In response to the pronounced economic uncertainty, the ECB adopted further measures in December 2020; among other things, the PEPP programme was enlarged again and extended until at least March 2022, while further incentives were provided to support lending.

Fiscal policy also responded expansively in the advanced economies. In the EU, the individual member countries launched extensive fiscal aid packages. In addition, agreement was reached on a €750 billion European reconstruction fund to be set up by the EU, which is to provide €390 billion in grants and €360 billion in loans.

There were also a number of relief efforts in Germany, where coronavirus aid from the federal and state governments is composed of the Economic Stabilisation Fund, tax relief, guarantees and KfW loans, as well as emergency and bridging aid. Compared with the rest of Europe, Germany provided a very large volume of state aid, although the take-up rate was comparatively low.

With the announcement of monetary and fiscal policy measures, the situation on the financial markets stabilised, causing the general uncertainty to subside in the course of the second quarter. Bank lending is also likely to have benefited from the measures, together with regulatory easing. For example, German banks continued to lend to companies and provide credit facilities during the coronavirus crisis. Lending to companies increased by 3.2% and 1.6% quarter-on-quarter in each of the first two quarters of 2020 but fell slightly by 0.7% in the third quarter compared with the previous quarter. By contrast, the volume of long-term loans also expanded by 0.8% in the third quarter. Demand for investment loans remained subdued.

Although the obligation for insolvent companies to file for creditor protection came into effect again on 1 October (only remaining suspended until the end of the year for over-indebted companies), there was initially no increase in the number of regular insolvencies in October 2020 according to preliminary data from the Federal Statistical Office. Nevertheless, German banks have tightened lending standards and conditions since the first quarter of 2020 in response to elevated default risks. In addition, persistently low interest rates remained a source of strain on traditional lending business in the banking sector.

Important events during the reporting period

Changes in the Group

IKB's investment portfolio was continiously reduced with the following changes:

- The liquidation of IKB Leasing SR, s.r.o. v likvidácii was completed in May 2020 with the deletion of the company from the commercial register.
- Rhodana GmbH was merged with IKB Invest GmbH with effect as of 25 August 2020.
- Ligera GmbH was merged with IKB Invest GmbH with effect as of 2 September 2020.
- IKB Invest GmbH transferred parts of its assets under a spin-off and transfer agreement of 8 September 2020, specifically parts of a bank deposit as well as pension obligations and the legal position under a trust agreement as a whole, to IKB AG as the acquiring legal entity.
- IKB Projektentwicklung GmbH & Co. KG i.L. sold all its shares in FRANA Grundstücks-Vermietungsgesellschaft mbH to Restruktur 3 GmbH with effect as of 8 September 2020 .
- The liquidation of FUNDIS Verwaltungsgesellschaft mbH i.L. was completed with the deletion of the company from the commercial register on 12 November 2020.
- IKB Grundstücksgesellschaft Düsseldorf mbH was merged with IKB Real Estate Holding GmbH with effect from 17 November 2020.
- IKB Lux Beteiligungen S.à r.l. was placed under liquidation by a shareholder resolution dated 29 September 2020. In the course of the liquidation process, IKB Lux Beteiligungen S.à.r.l. i.L. transferred its shares in IKB International S.A. i.L. to IKB Deutsche Industriebank AG, Luxembourg branch, by way of a non-

cash distribution on 16 November 2020. The liquidation proceedings for IKB Lux Beteiligungen S.à r.l. i.L. were completed on 15 December 2020. The company has thus been terminated.

- Tempelhofer Hafen GmbH & Co. KG i.L. was deleted from the commercial register on 26 November 2020, following the completion of the liquidation proceedings.
- IKB AG entered into a sale and assignment agreement with an external third party for the sale of all its limited partner interests in IKB Projektentwicklung GmbH & Co. KG i.L. on 3 July 2020. Effective 15 December 2020, the limited partner interests were transferred to a third party outside the Group by way of special legal succession. At the same time, the following subsidiaries of the former IKB Projektentwicklung GmbH & Co. KG i.L. left the Group with effect from 15 December 2020: MFRSI Beteiligungsholding GmbH & Co. KG, MFRSI Beteiligungsholding Verwaltungsgesellschaft mbH, Dritte Hubschraubertechnologiepark Donauwörth GmbH, Hafenspitze Verwaltungsgesellschaft mbH, Brunnenstr. 105 – 109 Berlin Grundbesitz GmbH i.L.
- IKB Real Estate Holding GmbH was merged with IKB Deutsche Industriebank AG with effect from 15 December 2020.
- IKB Grundbesitzgesellschaft Düsseldorf GmbH & Co. KG was dissolved without liquidation and merged with IKB Deutsche Industriebank AG with effect from 15 December 2020.
- The following Group companies passed resolutions to change their financial year and to amend their articles of association accordingly with effect from 1 January 2021. In the future, the financial year of these companies will begin on 1 January of each year and end on 31 December of the same year. The period from 1 April 2020 to 31 December 2020 is a shortened financial year: IKB Finance B.V., IKB International S.A. i.L., IKB Invest GmbH, IKB Struktur GmbH, IKB Beteiligungsgesellschaft 5 GmbH, Aleanta GmbH, IKB Funding LLC I and IKB Funding Trust I.

Legally relevant events

Repayment of Silent Participations

Following the termination of the respective contracts on setting up a silent participation with Capital Raising GmbH and Hybrid Raising GmbH (collectively the “Silent Partners”), with effect as of 31 March 2020, a repayment of €200,000,000 each, i.e. a total of €400,000,000, was paid to the paying agent of the bonds issued by the Silent Participations (ISIN DE0007490724 and ISIN DE000A0AMCG6) (the “Bonds”) for the account of the Silent Partners in July 2020. In line with the bonds’ terms of issue, the Silent Partners used the repayment to redeem the bonds on 15 July 2020.

Changing the financial year to the calendar year

IKB’s Annual General Meeting on 3 September 2020 passed a resolution to change the financial year and revise the Articles of Association accordingly with effect as of 1 January 2021. The financial year will now begin on 1 January of each year and end on 31 December of the same year. The period from 1 April 2020 to 31 December 2020 has been designated a shortened financial year. The change in the financial year was entered in the commercial register on 11 November 2020. The change is particularly intended to reduce the complexity of accounting, tax and supervisory matters and ensure better comparability with peer-group institutions.

Profit participation rights

Three second-instance rulings by the Düsseldorf Higher Regional Court (OLG) on 24 September 2020 fully settled core issues arising from claims asserted in connection with various profit participation rights in IKB’s favour. Some of the lawsuits were ruled inadmissible and all the other lawsuits were dismissed in full. No appeal was allowed in any of the cases, two appeals against non-admission were lodged. As a result, a large number of lawsuits pending against IKB before the Düsseldorf Regional Court were withdrawn. IKB considers the claims asserted in connection with various profit participation rights to be without merit and expects them to be dismissed. Please refer to Section 3 Risk Report.

Subparticipation in proceeds from lawsuits

In consideration of payment of an amount modelled on the basis of market data derived from external information, IKB AG acquired a 100% share in potential payments that could accrue to IKB Invest GmbH in connection with various lawsuits pending in the United States. The relevant lawsuits, which were filed by IKB AG among others, are directed at arrangers and trustees of structured credit products; the claim for the recovery of the proceeds is based on contractual agreements between IKB Invest GmbH, IKB AG and other parties. Pricing was heavily influenced by assumptions and estimates concerning the compensation claimed, the probability of prevailing at the various stages of the proceedings and the date of the various court rulings. These estimates may differ significantly from actual revenues as a result of future estimates. The Bank believes that the opportunities arising from the pending court proceedings substantially outweigh the risks from the subparticipation which are valued in the mid-double-digit million range.

Cooperation between IKB AG and Hypoport on fundingport corporate finance platform

IKB AG and the Hypoport Group intend to cooperate in certain segments of corporate financing by establishing a digital B2B tender platform for finance, which will be operated by fundingport GmbH. Among other things, the agreement, which is still subject to approval by supervisory authorities as of the reporting date, provides for the IKB Group to initially take a 30 percent interest in fundingport GmbH.

Personnel changes

Supervisory Board

Mr Mark Coker and Mr Arndt G. Kirchhoff were re-elected to the Supervisory Board as shareholder representatives by resolutions of the Annual General Meeting on 3 September 2020. Ms Nicole Riggers was likewise re-elected to the Supervisory Board as the employee representative in the election held on 19 August 2020 with effect as of the end of the Annual General Meeting on 3 September 2020.

In the constitutive meeting of the Supervisory Board following the Annual General Meeting on 3 September 2020, Ms Nicole Riggers was also re-elected from among the employee representatives as a member of the Supervisory Board Executive Committee and a member of the Nomination Committee and as the appointed substitute in the Remuneration Control Committee.

Board of Managing Directors

There were no changes to the composition of the Board of Managing Directors in the nine months of the shortened financial year in 2020 (1 April until 31 December 2020). After the end of the period under review, IKB's Supervisory Board appointed Dr Patrick Trutwein and Dr Ralph Müller to the Board of Managing Directors on 28 January 2021 with effect from 1 February 2021. This expands the IKB Board of Managing Directors from two members to four. Dr Trutwein takes on responsibility for risk management and internal audit as chief risk officer (CRO). Dr Müller takes on responsibility for strategy, digitalisation and operations as chief digital officer (CDO)/chief operating officer (COO).

Results of operations, asset position and financial situation

Unless indicated otherwise, the following statements apply to both the Group management report (Group) and the management report of IKB AG (IKB AG). Due to the shortened nine-month financial year (1 April 2020 to

31 December 2020), the results of operations in particular are not fully comparable with the twelve-month prior-year period (1 April 2019 to 31 March 2020).

In the shortened financial year 2020, segment reporting was prepared in accordance with the guidance contained in DRS 28 for the first time (see chapter entitled “Notes on segment reporting”). Reporting is based on a product approach and comprises the following business segments: Public Programme Loans, Corporate Bank and Corporate Center. The Public Programme Loans segment includes income and expenses from development loans granted to mid-cap customers as well as consulting services for obtaining and applying for development loans. The Corporate Bank segment is composed of the services provided in connection with internally financed corporate banking business. In addition to financing and advisory services in traditional lending business, this also includes supporting customers in capital market activities. The income and expense items from Funding & Asset Liability Management and the investment portfolio are reported in the Corporate Centre. Non-attributable costs of other central functions are also allocated to this segment.

Business performance

Business performance in the shortened financial year was particularly impacted by the ongoing coronavirus pandemic. With its good position in public programme loans, IKB was able to support its customers with the special KfW loan programmes. Together with the rather subdued demand for corporate loans, this resulted in total new business of approximately €1.5 billion in the 9-month period of the shortened financial year (twelve months of the previous year: €2.8 billion), with the share in the total volume accounted for by public programme loans business increasing by 31 % year-on-year to 74%.

Results of operations

In the shortened financial year 2020 (1 April to 31 December 2020), the Group generated consolidated net profit of €73 million (twelve months of the previous year: consolidated net profit of €8 million), which was thus in excess of the forecast figure of €60 million. The Public Programme Loans segment accounted for €29 million, the Corporate Bank segment for €35 million and the Corporate Centre segment for €9 million. Adjusted for proceeds from the unplanned reversal of tax provisions of €10 million, Group net profit for the year was in line with the forecast.

At IKB AG, net profit in the 9-month period of the shortened financial year came to €164 million (twelve months of the previous year: net loss of €116 million), thus exceeding the forecast. In addition to the income from the unplanned reversal of tax provisions, this was due in particular to the proceeds from an intragroup transaction (subparticipation in proceeds from lawsuits).

	Group		IKB AG	
in € million	2020 9 months	2019/20 12 months	2020 9 months	2019/20 12 months
Net interest income	**165**	**201**	**216**	**190**
Interest income	226	303	278	296
Interest expenses	-55	-92	-56	-96
Net interest expenses for derivatives	-5	-10	-5	-10
Net fee and commission income	**20**	**40**	**21**	**41**
Gross income	**186**	**241**	**237**	**231**
Administrative expenses	**-104**	**-156**	**-103**	**-153**
Personnel expenses	-65	-81	-65	-81
Other administrative expenses	-39	-75	-38	-72
Operating profit before risk provisions	**82**	**85**	**134**	**78**
Net risk provisioning	**-20**	**-30**	**-20**	**-29**
Operating profit	**63**	**56**	**115**	**48**
Net other income	**1**	**-47**	**39**	**-164**
Earnings before tax	**63**	**9**	**153**	**-116**
Tax expense/income	**10**	**-1**	**11**	**-1**
Net profit after tax	**73**	**8**	**164**	**-116**
Adjustment for extraordinary result (previous year only)	-	71	-	422
Adjusted net profit after tax	**73**	**80**	**164**	**306**

Any differences in totals are due to rounding effects.

Other key figures	Group	
	2020 9 months	2019/20 12 months
New business (€ billion)	**1.5**	**2.8**
of which corporate loans	0.4	1.6
of which public programme loans business	1.1	1.2
Interest margin on loan book (%)	**1.93**	**1.99**
Risk costs of loan book (%)	**0.27**	**0.29**
Cost/income ratio (%)	**55.7**	**64.6**
Return on equity (%)	**8.3**	**5.9**
Return on equity reported (%)	**8.3**	**0.6**

The interest margin equals the quotient of net interest income and net risk costs from net risk provisioning in the Public Programme Loans and Corporate Bank segments relative to the corresponding volumes of the loan book. The cost/income ratio is calculated as the quotient of administrative expenses and gross income (net interest income and net fee and commission income). The return on equity is calculated as the ratio of net profit after tax (adjusted in accordance with the above table) to the average allocated equity derived from a 12-percent imputed capital charge for risk-weighted assets in accordance with the CRR. The return on equity reported is calculated as the ratio of net profit after tax to the average allocated equity derived from a 12-percent imputed capital charge for risk-weighted assets in accordance with the CRR (Capital Requirements Regulation). The calculation of the average risk-weighted assets also retrospectively takes account of the effects of the IRBA (Internal Ratings Based Approach) model change for the previous quarters. The figures for the shortened financial year were extrapolated to twelve months to determine the key figures.

Net interest income

Net interest income includes interest income and expenses, current income from equities and other non-fixed income securities, investments and shares in affiliated companies, income from profit pooling, profit-transfer agreements and partial profit-transfer agreements.

Net interest income in the shortened nine-month financial year came to €165 million (twelve months of the previous year: €201 million) for the Group, with the Public Programme Loans segment contributing €64 million, the Corporate Bank segment €78 million and the Corporate Center €23 million. The Group generated interest income from lending business of €146 million (twelve months of the previous year: €231 million) and interest income from securities and recurring income from equities and other non-fixed income securities (funds invested primarily in bonds) of €79 million (twelve months of the previous year: €73 million). On the other hand, interest expenses for funding came to €55 million (twelve months of the previous year: €92 million). Net interest expenses for derivatives stood at €5 million (twelve months of the previous year: net expenses of €10 million), comprising interest expenses of €34 million (twelve months of the previous year: €204 million) net of interest income of €29 million (twelve months of the previous year: €194 million).

At the level of IKB AG, interest income from lending business stood at €148 million in the nine months of the reporting period (twelve months of the previous year: €230 million), with interest income on securities and recurring income from equities and other non-fixed-income securities and investments and shares in affiliated companies coming to €28 million (twelve months of the previous year: €63 million) and interest expenses on funding operations equalling €56 million (twelve months of the previous year: €96 million) Net interest expenses for derivatives came to €5 million (twelve months of the previous year: net expenses of € 10 million) and comprised interest expenses of €34 million (twelve months of the previous year: €204 million) net of interest income of €29 million (twelve months of the previous year: €194 million). In addition, income from profit and loss transfer agreements came to €102 million (twelve months of the previous year: €4 million). This increase was primarily due to income from the shares in investment funds held by subsidiaries (from the return of shares and distributions). Net interest income at IKB AG thus came to €216 million (twelve months of the previous year: €190 million).

Net fee and commission income

In the nine months of the shortened financial year, net fee and commission income amounted to €20 million (twelve months of the previous year: €40 million) for the Group and €21 million (twelve months of the previous year: €41 million) for IKB AG, thus falling short of the original forecast. At the Group level, the Public Programme Loans segment accounted for net commission income of €3 million, the Corporate Bank segment €13 million and the Corporate Center segment €4 million. Against the backdrop of the protracted coronavirus pandemic, IKB, as a specialist in public programme loans, was able to increasingly support customers with the special programmes launched by KfW. However, this was accompanied by restrained demand for corporate loans and, thus, lower commission income from structuring.

Administrative expenses

Administrative expenses comprise personnel expenses, other administrative expenses and depreciation, amortisation and impairments.

As a result of the ongoing cost-cutting and optimisation measures, administrative expenses in the nine-month period of the shortened financial year came to €104 million (twelve months of the previous year: €156 million) for the Group and €103 million (twelve months of the previous year: €153 million) for IKB AG. At the Group level, administration expenses of €32 million arose in the Public Programme Loans segment, €31 million in the Corporate Bank segment and €40 million in the Corporate Center segment.

Personnel expenses came to €65 million (twelve months of the previous year: €81 million) for both the Group and IKB AG. The continuation of further cost reduction and optimisation measures is particularly reflected in other administration expenses as well as in depreciation, amortisation and impairments, which amounted to €39 million (twelve months of the previous year: €75 million) for the Group and €38 million (twelve months of the previous year: €72 million) for IKB AG. In this connection, savings were particularly achieved with IT costs, the cost of premises and legal and consulting costs.

Net other income

Net other income comprises other operating and extraordinary income and expenses and impairments and reversals of impairments of equity investments, shares in affiliated companies and securities held as fixed assets.

In the nine months of the shortened financial year, net other income comprised income of €1 million (twelve months of the previous year: expense of €47 million) for the Group and income of €39 million (twelve months of the previous year: expense of €164 million) for IKB AG. This is due to the following main factors:

- The derivative positions in the banking book resulted in net expenses of €173 million (IKB AG: net expenses of €173 million) compared with expenses of €346 million (IKB AG: net expenses of €346 million) in the twelve months of the previous year.
- Securities held as fixed assets generated net income of €214 million (IKB AG: net income of €217 million) particularly from the sale of fixed-income securities, compared with net income of €367 million (IKB AG: net income of €368 million) in the twelve months of the previous year.
- The discount factor unwind on pension obligations resulted in expense of €23 million (IKB AG: €23 million) in the nine-month period of the shortened financial year compared with expense of €33 million (IKB AG: €33 million) in the twelve months of the previous year.
- The performance of the assets transferred under contractual trust arrangements (CTAs) resulted in net income of €21 million (IKB AG: income of €21 million) in the nine-month period under review, compared with net expenses of €12 million (IKB AG: net expenses of €12 million) in the twelve months of the previous year.
- In addition, net other income includes expenses of €39 million (previous year: €4 million) for hedging business risks in the Group primarily relating to an impairment recognised at a subsidiary and €2 million (previous year: €0 million) at the level of IKB AG.

Net risk provisioning

Net risk provisioning comprises adjustments and impairments of receivables and certain securities and additions to loan loss provisions. In the shortened financial year of 2020, net risk provisioning comprised expense of €20 million (previous year: expense of €30 million) for the Group and expense of €20 million (previous year: expense of €29 million) for IKB AG. Of this, the Public Programme Loans segment accounted for €2 million and the Corporate Bank segment for €17 million.

Net risk provisioning is made up of net expenses from impairments and single loan loss allowances on loans and advances and certain securities as well as provisions in lending business amounting to €35 million (previous year: €28 million) for the Group and €36 million (previous year: €27 million) for IKB AG as well as net income from the reversal of portfolio loan loss allowances amounting to €16 million (previous year: net expense of from allocations of €1 million) for the Group and to €16 million (previous year: net expense of from allocations of €2 million) for IKB AG. Additional information on risk provisioning can be found in the section “3. Risk report” in the table on risk provisions.

Taxes

Tax income amounted to €10 million (IKB AG: €11 million) in the reporting period, compared with tax expense of €1 million (IKB AG: €1 million) in the previous year, and is attributable in particular to the reversal of tax provisions for earlier years.

Net income

Consolidated net profit for the shortened nine-month financial year came to €73 million (twelve months of the previous year: consolidated net profit of €8 million) and thus exceeded the forecast issued in the 2019/20 Annual Report, due in particular to income from the unplanned reversal of tax provisions of €10 million.

At IKB AG, net profit came to €164 million (twelve months of previous year: net loss of €116 million) and thus also exceeded the forecast contained in the 2019/20 Annual Report. In addition to the income from an unplanned reversal of tax provisions of €10 million, this was due in particular to the proceeds from an intragroup transaction (subparticipation in proceeds from lawsuits).

Net assets

In the reporting period, the Group's total assets rose by €0.3 billion to €16.9 billion (IKB AG: decline of €0.4 billion to €17.3 billion).

The Group's gross loan volume, which also includes off-balance-sheet business (see also "Chapter 3. Risk Report"), increased from €18.3 billion to €18.7 billion as of the reporting date (IKB AG: decrease from €19.3 billion to €18.9 billion) and mainly comprises medium- and long-term loans to banks, loans to customers, bonds, the positive market values of the derivatives held in the non-trading book and guarantees.

Assets

The cash reserve held as a credit balance with the ECB rose by €2.0 billion to €2.3 billion for the Group (IKB AG: by €2.0 billion to €2.3 billion) primarily as a result of the funds raised under a long-term ECB refinancing programme. Receivables from banks dropped by €0.2 billion to €2.0 billion for the Group (IKB AG: from €2.2 billion to €2.0 billion) as of the reporting date.

In line with the forecast, the Group's receivables from customers came to €8.8 billion, falling short of the previous year's figure of €9.5 billion. Given the persistently subdued market demand for loans, selective lending by IKB and the still highly competitive situation, the volume of new business was unable to offset the effects of repayments. Reflecting this, receivables from customers dropped by €1.3 billion to €9.2 billion at IKB AG.

Bonds and other fixed-income securities were reduced from €3.8 billion to €3.2 billion in the Group (IKB AG: from €3.8 billion to €3.2 billion) as part of ongoing portfolio management in line with the forecast which had been adjusted in the half-year report dated 30 September 2020.

Equities and other non-fixed-income securities held by IKB AG fell to €0.0 billion (previous year: €0.4 billion) due to the redemption of the intra-Group bonds issued by the former silent participations Capital Raising and Hybrid Raising.

Liabilities

Liabilities to banks increased by €0.9 billion to €8.5 billion for the Group (IKB AG: increase of €0.9 billion to €8.5 billion), particularly as a result of funds raised under an ECB long-term refinancing programme in tandem with a reduction in secured Eurex funding.

Liabilities to customers dropped by €0.4 billion to €5.8 billion (IKB AG: by €0.5 billion to €6.0 billion) mainly due to lower deposits from business customers and the decline in promissory note loans issued.

The Group's portfolio of securitised liabilities declined by €0.1 billion over the previous year to €0.2 billion. At IKB AG, the portfolio declined by €0.4 billion to €0.2 billion.

Other liabilities dropped by €0.4 billion to €0.0 billion for IKB AG, primarily due to the discharge of an intra-Group repayment obligation resulting from the termination of silent participations with Capital Raising GmbH and Hybrid Raising GmbH.

At €0.8 billion, the Group's subordinated liabilities are on a par with the previous year (IKB AG: at €0.8 billion on a par with the previous year).

The fund for general banking risks is unchanged over the previous year at €0.6 billion.

Equity

The Group's equity increased from €789 million to €862 million due to the consolidated net profit for the year (IKB AG: increase in equity from €750 million to €915 million due to net profit for the year).

When calculating regulatory capital, the fund for general banking risks of €0.6 billion must be taken into account as Common Equity Tier 1 capital.

Unrealised gains and losses arose on financial instruments in the non-trading book in the form of securities, derivatives and from funding the loan book without matching maturities in the reporting period and in earlier financial years as a result of changes in market interest rates, exchange rates and credit ratings. In future financial years, unrealised losses could lead to a lower level of net interest income or losses on disposals. The measurement of the banking book at the lower of cost or market in accordance with the IDW RS BFA 3 accounting guidance did not result in any provisioning requirements as of 31 December 2020.

Financial position

IKB's funding mix means that its liquidity position is stable and funding can generally be obtained at more favourable conditions than in the previous periods. In addition to purpose-tied and other secured funding operations, IKB accepts revolving deposits from corporate and retail customers and engages in new lending business selectively.

The maturities of liabilities are shown in the breakdown of remaining maturities in the notes. Please refer to the "Section 3. Risk report" for further details concerning the liquidity and financing situation

Overall assessment

Both the Group and IKB AG generated positive earnings in the shortened 2020 financial year. The forecast was exceeded despite the difficult economic environment caused by the coronavirus pandemic. Even after adjustments to allow for the income from an unplanned reversal of tax provisions, the forecast was still met. Cash flows and the financial position are orderly.

From the Bank's perspective, business performance was generally positive.

Financial and non-financial performance indicators

Non-financial performance indicators are of minor importance for management purposes at IKB. In addition to a large number of management-related sub-indicators, IKB uses the following financial indicators as key performance indicators for management purposes both for the Group and for the individual segments.

Regulatory tier 1 ratio

The regulatory Common Equity Tier 1 ratio (CET 1 ratio) is calculated as the ratio of the regulatory Common Equity Tier 1 capital (CET 1) to the 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 the section "3. Risk report".

As of 31 December 2020, the CET 1 ratio (fully phased) was 14.3% for the IKB Group and 15.3% for IKB AG (see Section "3. Risk report" for details). This means that, in line with its forecast, IKB significantly increased its Common Equity Tier 1 ratio and exceeded the statutory minimum (CRR – Capital Requirements Regulation) for the CET 1 ratio of 4.5% plus a capital conservation buffer of 2.5% and the SREP (Supervisory Review and Evaluation Process) capital add-on for CET1 of 1.125%.

Leverage ratio

The leverage ratio measures the largely unweighted sum of on-balance-sheet and off-balance-sheet transactions relative to regulatory Tier 1 capital. At present, this indicator is disclosed solely for monitoring purposes and in line with CRR II will become binding only from 28 June 2021.

The following table provides an overview of the leverage ratio in accordance with Article 429 of the CRR.

	IKB Group		IKB AG	
in %	2020 9 months	2019/20 12 months	2020 9 months	2019/20 12 months
Leverage ratio (transitional)	**7.5**	**7.1**	**7.7**	**6.8**
Capital ratios (fully phased)	**7.4**	**7.1**	**7.7**	**6.8**

This significantly exceeds the future minimum ratio and means that, as forecast in the 2019/20 annual report, the IKB Group's leverage ratio has been maintained at the previous financial year's level.

Net income after taxes

The Group's consolidated net profit and IKB AG's net profit exceeded the forecast included in the 2019/20 Annual Report.

Cost/income ratio

The cost/income ratio expresses the ratio of administrative expenses to the sum of net interest, fee and commission income; the ratio was 55.7% for the Group in the shortened 2020 financial year, compared with 64.6% in the twelve-month period of the previous year, and thus in line with the significant improvement that had been forecast.

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 weighted cash inflows and outflows in the next 30 calendar days. The minimum required LCR has equalled the final statutory requirement of 100% since 1 January 2018.

The following table provides an overview of the LCR compared with the previous year.

	IKB Group		IKB AG	
in %	2020 9 months	2019/20 12 months	2020 9 months	2019/20 12 months
Liquidity coverage ratio	**271**	**235**	**244**	**225**

As forecast, the ratio was thus above the minimum target of 100% defined in the Annual Report for the year ending 31 March 2020 at all times during the full 2020/21 financial year.

Combined separate non-financial report

The non-financial Group report for the 2020 financial year pursuant to Section 340i (5) of the German Commercial Code (HGB) in conjunction with Section 315b of the German Commercial Code (HGB), which is combined with the parent company's non-financial report pursuant to Section 340a (1a) of the German Commercial Code (HGB) in conjunction with Section 289 of the German Commercial Code (HGB), will be published on the Company's website at https://www.ikb.de/en/investor-relations/reports-and-presentations as a combined separate non-financial report by 30 April 2021.

3. Risk report

Risk management organisation

The Bank operates a risk management system covering all material Group companies and segment risk types in accordance with the Minimum Requirements for Risk Management (MaRisk) and other applicable pronouncements by regulatory authorities. The Bank performs an annual risk inventory to gain an overview of the materiality of individual risk types and to identify any concentrations of risk and income. The risk management system, including its tasks and areas of responsibility, is documented in the Bank's written rules.

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

The Board of Managing Directors of IKB AG is responsible for risk management. Based on the strategic business focus and risk-bearing capacity, it defines the principles for risk management policy which, together with the limit structure, are reflected in the business and risk strategy and in the limit book. Special committees assist the Board of Managing Directors in managing risks and making decisions. The Board of Managing Directors discusses the risk situation, the business and risk strategy and the Bank's risk management at quarterly meetings with the Supervisory Board.

IKB's risk management is based on the "three lines of defence" principle, with each individual unit (front office, back office, as well as central divisions and staff departments) forming the first line of defence as part of its operational responsibility.

The second line of defence controls and monitors the risk management functions of the first line of defence. This includes defining risk management methods and procedures as well as monitoring identified material risks and reporting to the Board of Managing Directors. Mr. Momburg is responsible for the independent portfolio-related monitoring of counterparty, market and liquidity risks as well as non-financial risks by Risk Controlling and bears departmental responsibility for the compliance functions. Dr Wiedmann is responsible for monitoring profit/loss management and capital resources. The Board of Managing Directors as a whole is responsible for managing risks associated with the business strategy and reputation risks.

The third line of defence in IKB's risk management is Internal Audit, which is a separate, process-independent and neutral monitoring unit within the IKB Group. It works on behalf of the entire Board of Managing Directors, is not bound by any instructions and reports directly to the Board of Managing Directors. All relevant activities and processes throughout the Group and the functionality of the internal control system (ICS) are reviewed on the basis of risk-oriented process audits. The processes and activities outsourced by IKB to other service providers are monitored as part of continuous outsourcing controlling and the independent audit activities performed by Internal Audit at the outsourcing companies. In quarterly reports and an annual report, Internal Audit summarises for the Board of Managing Directors and the Supervisory Board significant and serious audit findings, the agreed measures and their processing status and, specifically, the audits conducted and compliance with the audit plan. In addition, the Board of Managing Directors is kept continuously informed of the audit results in detail on the basis of the reports prepared for all audits. Independently of this, steps are taken to ensure that the Chairman of the Supervisory Board or the Risk and Audit Committee can obtain information directly from the head of Internal Audit with the involvement of the Board of Managing Directors.

Regulatory capital resources and risk-bearing capacity

Regulatory capital

The Bank calculates its regulatory capital resources in accordance with the requirements of the CRR. It has received approval to apply the IRB approach for counterparty default risk. The Bank uses the standardised approach to calculate the credit valuation adjustment charge, the base indicator approach for operational risk and the prescribed standard method for market price risk. The Bank continues to use the regulatory netting approach to determine the net basis of measurement for derivatives, taking existing netting agreements into account. The following tables provide an overview of the regulatory risk assets, the Bank's own funds base and ratios as they take effect when the balance sheet is adopted (transitional and fully phased). The Capital Requirements Regulation (CRR) includes various provisions which are being fully phased in over time. Accordingly, the term "transitional" refers to the situation in the light of the requirements prevailing as of the relevant reporting date, while the term "fully phased" refers to the situation in which the rules apply in their final form.

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

	31 Dec. 2020[2)]		31 Mar. 2020	
Figures in € million	Transitional	Fully phased	Transitional	Fully phased
Counterparty default risk (including CVA charge)	8,093	8,230	10,237	10,237
Market risk equivalent	170	170	559	559
Operational risk	515	515	609	609
Total risk-weighted assets (RWA)	**8,779**	**8,916**	**11,405**	**11,405**
Common Equity Tier 1 (CET 1)	1,277	1,273	1,368	1,367
Additional tier 1 (AT 1)	15	0	15	0
Total tier 1 (T 1)	**1,292**	**1,273**	**1,383**	**1,367**
Tier 2 (T 2)	625	635	693	701
Own funds	**1,917**	**1,907**	**2,076**	**2,068**
CET 1 ratio	**14.5%**	**14.3%**	**12.0%**	**12.0%**
T1 ratio	14.7%	14.3%	12.1%	12.0%
Own funds ratio	21.8%	21.4%	18.2%	18.1%

Any differences in totals are due to rounding effects.

1) Figures taking account of the phase-in and phase-out provisions of the CRR; the CET 1 ratios have been calculated in accordance with the current version of the CRR as of 31 December 2020 and 31 March 2020 respectively and the interpretations published by the regulatory authorities. The possibility that future EBA/ECB standards and interpretations or other supervisory actions will lead to a retrospective change in the CET 1 ratio cannot be ruled out.

2) IKB has already anticipated the planned payout equalling IKB AG's net profit for the year in its regulatory capital by recognising a correction item.

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

	31 Dec. 2020		31 Mar. 2020	
Figures in € million	Transitional	Fully phased	Transitional	Fully phased
Counterparty default risk (including CVA charge)	8,105	8,242	10,196	10,196
Market risk equivalent	0	0	411	411
Operational risk	425	425	479	479
Total risk-weighted assets (RWA)	**8,530**	**8,667**	**11,085**	**11,085**
Common Equity Tier 1 (CET 1)	1,329	1,326	1,324	1,322
Additional tier 1 (AT 1)	0	0	0	0
Total tier 1 (T 1)	**1,329**	**1,326**	**1,324**	**1,322**
Tier 2 (T 2)	565	559	633	625
Own funds	**1,894**	**1,886**	**1,957**	**1,947**
CET 1 ratio	**15.6%**	**15.3%**	**11.9%**	**11.9%**
T1 ratio	15.6%	15.3%	11.9%	11.9%
Own funds ratio	22.2%	21.8%	17.7%	17.6%

Any differences in totals are due to rounding effects.

1) Figures taking account of the phase-in and phase-out provisions of the CRR; the CET 1 ratios have been calculated in accordance with the current version of the CRR as of 31 December 2020 and 31 March 2020 respectively and the interpretations published by the regulatory authorities. The possibility that future EBA/ECB standards and interpretations or other supervisory actions will lead to a retrospective change in the CET 1 ratio cannot be ruled out.

At 14.3% for the Group and 15.3% for the Bank, IKB's CET 1 ratios (fully phased) are above the statutory minimum for CET 1, including the capital conservation buffer, countercyclical capital buffer and the SREP capital requirements set by the German Federal Financial Supervisory Authority (BaFin) in the banking supervisory review and evaluation process (SREP).

The following table provides an overview of the capital requirements imposed on IKB at the level of the individual Bank and at the Group level.

Table: Regulatory capital requirements

	31 Dec. 2020		
Ratios (%)	**Common Equity Tier 1 capital**	**Tier 1 capital**	**Total capital**
Capital requirement			
Pillar I requirements (Art. 92 CRR)	4.50	6.00	8.00
Pillar II requirements (SREP)	1.13	1.50	2.00
Capital conservation buffer (CCB)	2.50	2.50	2.50
Countercyclical capital buffer (CCyB)	0.01	0.01	0.01
Total	**8.14**	**10.01**	**12.51**
For information purposes: net target own funds indicator	0.90	0.90	0.90
Capital ratios – IKB AG			
Current capital ratio (transitional)	15.58	15.58	22.20
MDA surplus	744 bps	557 bps	969 bps
Capital ratios – IKB AG			
Current capital ratio (transitional)	14.55	14.72	21.84
MDA surplus	641 bps	471 bps	933 bps

The MDA (maximum distributable amount) surplus is therefore 471 bps in the IKB Group's Core Tier 1 capital in the relevant perspective.

Minimum requirements for eligible liabilities (MREL)

IKB is not required by BaFin to comply with any requirements relating to an MREL ratio beyond the existing pillar 1 requirements, i.e. no recapitalisation amount within the meaning of Article 2 of the Delegated Regulation (EU) 2016/1450 has been stipulated.

Risk-bearing capacity

To ensure its risk-bearing capacity in accordance with the guidelines on the supervisory assessment of bank-internal capital adequacy concepts, the Bank applies two perspectives: a normative perspective to ensure its ability to continue as a going concern and an economic perspective to protect creditors.

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

In addition to the plan scenario, bank planning must include at least one adverse scenario that ensures compliance with the increased capital requirements in accordance with Section 10 (3) or (4) of the German Banking Act (Kreditwesengesetz – KWG).

The IKB scenario of a “severe economic downturn” with its consequences for capital planning has been defined as an adverse scenario for the normative perspective and can be regarded as an extreme stress scenario with a low probability of occurrence with respect to economic growth.

All regulatory requirements for the normative perspective are met in both the plan scenario and this adverse scenario.

In addition to the normative perspective, the Bank also analyses its overall risk position and the risk coverage from an economic perspective and monitors it on a daily basis.

Risk coverage in the economic perspective is derived from all capital components used by the Bank including the fund for general banking risks (§ 340g HGB) and subordinate capital less deferred tax assets and intangible assets. At the same time, hidden liabilities/reserves from loans, securities, derivatives and pensions obligations are taken into account.

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

Table: Capital requirements – economic perspective

	31 Dec. 2020 in € million	**31 Dec. 2020 in %**	**31 Mar. 2020 in € million**	**31 Mar. 2020 in %**
Counterparty default risk	529	45%	531	32%
Market price risk	524	44%	658	40%
Operational risk	59	5%	394	24%
Business risk	69	6%	76	4%
Total	**1,181**	**100%**	**1,660**	**100%**
less diversification effects	-136		-175	
Overall risk position	**1,045**		**1,485**	
Risk coverage potential	**1,767**		**1,849**	

Any differences in totals are due to rounding effects.

The risk-bearing capacity over the next twelve months is unchanged.

Forecast calculations and stress tests

To allow for macroeconomic developments, the Bank prepares different forecasts to calculate the expected utilisation of the risk-bearing capacity for the next two financial years in the economic perspective and for the next five financial years in the normative perspective. These forecasts are based on the Bank's plan scenario with current expectations with respect to the macroeconomic effects of the coronavirus pandemic. In addition, the Bank conducts various stress tests with different levels of severity on a quarterly and ad hoc basis. In this connection, macroeconomic and historical stress scenarios covering multiple risk types as well as specific stress events are analysed. The outcome is that, assuming the plan scenario occurs in reality, all regulatory requirements will be complied with in the normative perspective and the risk coverage potential will exceed the capital requirements for unexpected risks in the economic perspective.

The results of the stress test are presented to the Board of Managing Directors and the Supervisory Board and the resulting recommendations for action are discussed.

Risk strategy

The overall risk strategy is a component of the integrated business and risk strategy and covers all key risk types (counterparty default risks, market price risks, liquidity risks, non-financial risks in various forms, business risks and strategic risks) and risk concentrations to which the Bank is exposed. Further detail is added to the overall risk strategy in the form of sub-risk strategies for the key risk types, and it also defines the risk strategy guidelines for IKB's business activities. In the shortened financial year 2020, all sub-risk strategies were reviewed and revised to reflect the current business focus and the economic situation as required.

Credit risk strategy

In its lending business, the Bank seeks to limit overall risk exposure and provisioning requirements. In addition to restricting new business to borrowers with good credit ratings in order to improve or stabilise the average credit rating over time, this also includes limiting concentration risks at the level of individual borrowers and borrower groups.

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

With regard to its target customers in the upper midmarket segment, industry diversification is also significant. In setting its limits, the Bank is guided both by the significance of the industry for the German economy and an analysis of the expected outlook for the industry. IKB does not fundamentally exclude any sectors from its lending business. Rather, it adopts a "best-in-class" approach and focuses on (potential) borrowers in a sector with solid business foundations and a sustainable and future-oriented strategic alignment. Environmental, climate, social and governance aspects are particularly taken into account in the sector analyses and for the purpose of specific lending decisions.

The portion of the loan portfolio attributable to foreign borrowers primarily relates to bonds and receivables from borrowers in the financial and public sectors, which the Bank holds in its investment portfolio for diversification purposes and as cash investments.

Market price risk strategy

The market price risk strategy describes the risk profile that IKB is willing to accept when assuming market price risks and the measures taken to avoid unwanted risks. The main risk drivers here are credit spread risks and interest rate risks, which the Bank will continue to focus on in view of the low interest rates expected in the 2021 financial year with regard to forecast net interest income.

In the dichotomy between achieving stable and adequate net interest income, on the one hand, and the willingness to accept market price risks, on the other, the Bank fundamentally needs to accept market price risks to a reasonable degree in the light of its risk-bearing capacity. The increase in value at risk in the year under review is due to the heavy volatility in the financial and capital markets as a result of the coronavirus pandemic.

Liquidity strategy

The current liquidity position is primarily underpinned by customer deposits guaranteed by the Deposit Protection Fund, secured borrowing on the interbank market and funding via the ECB (TLTRO III). In addition to ensuring the Bank's solvency at all times, the aim of liquidity management is to secure access to inexpensive, diversified funding options at all times. A diversified portfolio of ECB-eligible liquid securities serves as a liquidity reserve.

Strategy for non-financial risks

The purpose of managing non-financial risks is to achieve a balance between risk acceptance and the costs associated with mitigating and avoiding risk and to mitigate losses resulting from non-financial loss events. Business continuity plans have been drawn up for all risks classified as “critical” on the basis of data from the business impact analysis, which tracks and evaluates the non-financial risks inherent in the Bank's business, processes and systems.

Strategy for sustainability risks

As a supra-regional credit institution, IKB shares responsibility for combating climate change and, with its financing solutions, is helping to promote the transition to a low-carbon economy and a more socially responsible society. The Bank therefore considers environmental and social factors to be part of responsible corporate conduct and systematically incorporates them in the development of conventional financing solutions as part of its lending and investment decisions, as well as in risk management.

Counterparty default risks

Within counterparty default risk, IKB distinguishes between credit risk and counterparty risk in accordance with the requirements of the Capital Requirements Regulation (Article 5 of the CRR) and the Minimum Requirements for Risk Management (MaRisk, AT 2.3). Accordingly, risks from equity investments and derivatives as well as country risks form part of the counterparty default risk provided that they can be assigned to individual loans or counterparties. They are reconciled in the chapter entitled “Structure of the counterparty default risk”.

Credit approval process and individual exposure monitoring

Key tasks in the credit approval process (credit analysis, cash flow analysis, loan approval independent of the front office) and exposure monitoring (including intensive support, problem exposure processing) are handled by the Credit Risk and Contract Management division, which is segregated from the front office, and thus separately from the front-office functions (acquisition and business initiation) in accordance with regulatory requirements.

Loan and collateral agreements and subsequent adjustments are prepared by lawyers from the same division. Collateral agreements are drawn up on the basis of standard contract templates by Operations, Program and Transformation Management employees, who act independently of the front office, with the involvement of lawyers in the Credit Risk and Contract Management division in more complex individual cases. Every credit decision is preceded by a risk-oriented credit analysis that identifies the information necessary and available for the decision, evaluates it and documents it in a loan approval form. The assessment of buy-side and sell-side markets, the borrower's position in the relevant market, its future prospects and an exit scenario are of great importance in the credit analysis in addition to an analysis of the borrower's financial situation based on annual financial statements, budgeted figures and liquidity planning. At the same time, emphasis is placed on loan mobility, i.e. eligibility for transfer or syndication.

Existing credit exposures are reviewed by Credit Risk Management every twelve months using the applicable processes and approval procedures. In addition, the risk situation of the individual sub-portfolios and key individual exposures are analysed and exposure strategies defined on an annual basis. See also "Risk reporting" for details of ongoing monitoring of and reporting on the loan book during the coronavirus crisis.

Rating process and systems

IKB uses rating systems tailored to the respective customer segment or the specific type of finance to carry out credit assessments. The development, maintenance and operation of some of these rating systems have been outsourced to external service providers. The individual rating classes are assigned probabilities of default based on historical default data. Since 21 March 2019, the "Corporate Rating" rating system has been approved for the internal ratings-based approach ("IRB approach"). In addition, IKB received regulatory approval subject to the inclusion of a PD surcharge in December 2020 for the change requested to enhance the model and implement EBA (European Banking Authority) guidelines EBA/GL/2017/16 and EBA/GL/2016/07 for the "Corporate Rating".

Quantifying credit risk

Counterparty default risk is quantified on the basis of a default-based credit portfolio model using a simulation approach. In addition to the individual loan/investment information (loan/investment amount, collateralisation, maturity, sector, group affiliation, rating), this model incorporates a large number of statistical variables, such as probabilities of default, spreads in statistical default probability, collateral recovery rates, and industry/asset correlations based on the Bank's experience or external reference sources.

As part of validation and benchmarking processes, the internal credit assessment systems and risk models as well as the approval, monitoring and control processes in lending business are tested at least once a year.

Portfolio monitoring and control

Portfolio monitoring focuses on the entire loan portfolio. Sector and market changes are monitored by back-office units specialising in sector risks with the assistance of front-office experts to supplement the overall analysis for portfolio management purposes. The aim is to identify and limit sector risks in lending business in the light of expected developments.

Structure of the counterparty default risk

The credit volume as of 31 December 2020 breaks down as follows:

Table: Credit volume

in € million	Group 31 Dec. 2020	Group 31 Mar. 2020	Group Change	IKB AG 31 Dec. 2020	IKB AG 31 Mar. 2020	IKB AG Change
Balances with central banks[1)]	2,313	344	1,969	2,313	344	1,969
Receivables from banks	2,044	2,199	-155	2,042	2,194	-152
Receivables from customers	8,774	9,530	-756	9,163	10,433	-1,270
Bonds and other fixed-income securities not including own issues	3,187	3,811	-624	3,195	3,820	-625
Equities and other non-fixed-income securities	304	304	-	-	351	-351
Subtotal: balance sheet assets	**16,622**	**16,188**	**434**	**16,713**	**17,142**	**-429**
Contingent liabilities[2)]	1,488	1,807	-319	1,565	1,883	-318
Positive fair values of derivatives in the non-trading book[3)]	445	459	-14	445	459	-14
Write-downs	164	179	-15	163	176	-13
Gross credit volume	**18,719**	**18,633**	**86**	**18,886**	**19,660**	**-774**
For information purposes: other significant counterparty default risks outside the gross credit volume						
Irrevocable loan commitments	940	762	178	1,080	868	212
Shares in associated and affiliated companies4)	1	8	-7	128	168	-40

1) Details of balances held with central banks have been added. This also applies to the following structural information as of the reporting date of 31 March 2020.
2) before deducting risk provisions
3) Including €35 million (31 March 2020: €14 million) in positive fair values from protection seller CDSs whose nominals are treated as contingent liabilities for accounting purposes.
4) IKB AG: including equity investments

Overall, the IKB Group’s gross credit volume increased slightly between 31 March 2020 and 31 December 2020. The change results from the increased balances held with the Bundesbank as a result of funding via the ECB (TLTRO III). By contrast, receivables from customers in particular fell due to subdued new business during the coronavirus pandemic. The reductions in bonds and contingent liabilities reflect sales of bonds in Europe and the closing-out of protection seller credit default swaps (CDSs). Irrevocable loan commitments, on the other hand, increased over March 2020.

The situation at IKB AG is largely comparable. Receivables from customers showed a higher decrease compared with the Group due to lower intra-Group loans. The elimination of the item “Equities and other non-fixed-income securities” of €351 million at IKB AG is attributable to the redemption of bonds issued by Capital Raising GmbH and Hybrid Raising GmbH, which are fully consolidated in the Group.

Segment structure

Table: Credit volume by sector – Group

	31 Dec. 2020 in € million	31 Dec. 2020 in %	31 Mar. 2020 in € million	31 Mar. 2020 in %
Loan book	**9,417**	**50%**	**10,108**	**54%**
of which Corporate Bank	4,013	21%	4,891	26%
of which public programme loans	5,404	29%	5,217	28%
Corporate Centre	**9,302**	**50%**	**8,525**	**46%**
of which liquidity book[1]	3,342	18%	3,947	21%
of which protection seller CDSs[2]	1,114	6%	1,262	7%
of which money market products[3]	4,846	26%	3,315	18%
of which balances with central banks	2,313	12%	344	2%
Total	**18,719**	**100%**	**18,633**	**100%**

1) Bonds and other fixed-income securities as well as equities and other non-fixed-income securities excluding own bonds and securities in the loan book
2) Without protection seller CDSs in the loan book
3) Including call accounts, loan deposits and derivatives with positive fair values, adjustments

The loan book, which consists of the Corporate Bank and Public Programme Loans segments, reflects the reduced receivables from customers in internally funded corporate business. By contrast, externally financed public programme loans business rose particularly as a result of KfW financing under the special Covid-19 programme. The increase in the Corporate Centre is due to higher central bank balances (see above).

Size category structure

Table: Credit volume by size – Group

	31 Dec. 2020					31 Mar. 2020			
	in € million	in %	Number[1]	in € million of which Loan book	in % of which loan book	in € million[3]	in %	in € million of which Loan book	in % of which Loan book
Under €5 million	474	3%	1,363	439	5%	770	4%	467	5%
Between €5 million and €10 million	796	4%	111	783	8%	997	5%	985	10%
Between €10 million and €20 million	2,168	12%	156	2,161	23%	2,563	14%	2,525	25%
Between €20 million and €50 million	3,805	20%	134	3,408	36%	4,194	23%	3,846	38%
Over €50 million	10,589	57%	57	1,740	18%	9,676	52%	1,852	18%
Subtotal	**17,832**	**95%**	**1,821**	**8,530**	**91%**	**18,200**	**98%**	**9,675**	**96%**
Risk transferred to third parties[2]	887	5%	-	887	9%	433	2%	433	4%
Total	**18,719**	**100%**	**1,821**	**9,417**	**100%**	**18,633**	**100%**	**10,108**	**100%**

1) Borrower groups in accordance with Section 19 of the German Banking Act
2) Hermes guarantees, indemnifications, risks transferred
3) The balance held with central banks was added to the details concerning structure as of 31 March 2020.

With the overall structure largely unchanged, the reduction in the credit volume is evident in all size categories below €50 million, while the increase in the balance held with the Bundesbank is noticeable in the "€50 million and above" size category.

The size categories below €50 million are very predominantly held in the loan book, which is also largely unchanged in its overall structure.

IKB AG's size category structure is not materially different from that of the Group.

Collateral, risk transfer and securitisation

Table: Credit volume by type of collateral – Group

	31 Dec. 2020				31 Mar. 2020			
	in € million	in %	in € million of which Loan book	in % of which loan book	in € million[5)]	in %	in € million of which Loan book	in % of which loan book
Property liens and charges[1)]	2,270	12%	2,270	24%	2,498	13%	2,498	25%
Transfers of ownership and leased assets[1)]	558	3%	558	6%	647	3%	647	6%
Other collateral[1) 2)]	3,648	19%	3,648	39%	4,049	22%	4,049	40%
Collateralised[1)]	392	2%	10	0%	392	2%	8	0%
Secured credit volume	**6,868**	**37%**	**6,487**	**69%**	**7,586**	**41%**	**7,201**	**71%**
Without collateral[3)]	10,964	59%	2,044	22%	10,614	57%	2,474	24%
Subtotal	**17,832**	**95%**	**8,530**	**91%**	**18,200**	**98%**	**9,675**	**96%**
Risk transferred to third parties[4)]	887	5%	887	9%	433	2%	433	4%
Total	**18,719**	**100%**	**9,417**	**100%**	**18,633**	**100%**	**10,108**	**100%**

1) including credit portions beyond collateral value
2) e.g. assignment of receivables, participation rights, assignment of shares, ownership rights, subordinations, positive/negative pledges
3) Including collateral provided by the Bank on the interbank market in the form of term money and call money for derivatives and bonds (including Pfandbriefe)
4) Hermes guarantees, indemnifications, risks transfers
5) The balance held with central banks was added to the details concerning structure as of 31 March 2020.

The provision of conventional collateral (property liens, transfers of ownership and leased assets and other collateral) continues to be of considerable importance in IKB's lending business. The share of the credit volume secured in this way amounts to 35% of the total and 69% of the loan book (31 March 2020: 39% and 71%, respectively). Loans without collateral are mainly attributable to the Corporate Centre (€9.0 billion, 31 March 2020: €8.1 billion). Where the Bank provides collateral for derivatives in the interbank market in the form of overnight and term deposits, these are also reported under "Without collateral".

Risk transfers increased as a result of public-sector collateral in connection with the coronavirus pandemic. 77% (31 March 2020: 53%) of the risk transfers relate to liability sub-participations by banks and 23% (31 March 2020: 47%) to public guarantees (mainly Hermes cover) particularly as a result of KfW funding under the special COVID-19 programme.

IKB AG's collateralisation structure is comparable to that of the Group.

Geographical structure

Table: Credit volume by region – Group

	31 Dec. 2020				31 Mar. 2020			
	in € million	in %	in € million of which Loan book	in % of which loan book	in € million[3)]	in %	in € million of which Loan book	in % of which loan book
Germany	12,802	68%	6,980	74%	11,764	63%	7,602	75%
Outside Germany	5,030	27%	1,550	16%	6,436	35%	2,073	21%
Western Europe	3,614	19%	1,190	13%	4,703	25%	1,518	15%
of which: France	762	4%	201	2%	1,066	6%	294	3%
of which: United Kingdom	415	2%	165	2%	669	4%	192	2%
of which EU[1)]	399	2%	0	0%	141	1%	0	0%
of which Spain	355	2%	83	1%	647	3%	133	1%
of which Belgium	318	2%	42	0%	318	2%	42	0%
Eastern Europe	621	3%	138	1%	692	4%	189	2%
of which Poland	217	1%	39	0%	276	1%	47	0%
of which Hungary	143	1%	43	0%	106	1%	55	1%
of which Romania	103	1%	0	0%	101	1%	0	0%
North America	705	4%	194	2%	844	5%	302	3%
Other countries	90	0%	28	0%	197	1%	64	1%
Subtotal	**17,832**	**95%**	**8,530**	**91%**	**18,200**	**98%**	**9,675**	**96%**
Risk transferred to third parties[2)]	887	5%	887	9%	433	2%	433	4%
Total	**18,719**	**100%**	**9,417**	**100%**	**18,633**	**100%**	**10,108**	**100%**

1) European Commission, ESM, Council of Europe Development and European Investment Bank
2) Hermes guarantees, indemnifications, risks transfers
3) The balance held with central banks was added to the details concerning structure as of 31 March 2020.

There was an increase in Germany due primarily to higher deposits with banks but a decrease outside Germany. In Western European countries, the reduction was primarily in the volume of bonds in Spain and the Netherlands.

The public-sector credit volume in Western Europe amounts to €59 million (31 March 2020: €77 million) in the GIIPS countries (Greece, Ireland, Italy, Portugal and Spain). As of 31 December 2020 and 31 March 2020, Ireland accounted for the entire volume, while the other countries did not figure at all in this sector.

The share of loans outside Germany in the loan book shrank again from 21% to 16%. Developments at IKB AG were the same.

Sector structure

Table: Credit volume by sector – Group

	31 Dec. 2020				31 Mar. 2020			
	in € million	in %	in € million of which Loan book	in % of which loan book	in € million[2]	in %	in € million of which Loan book	in % of which loan book
Industrial sectors	7,871	42%	7,779	83%	9,349	50%	8,989	89%
Chemical and pharmaceutical industry	722	4%	677	7%	736	4%	703	7%
Automotive	690	4%	690	7%	669	4%	669	7%
Energy supply	676	4%	673	7%	679	4%	675	7%
Food industry	574	3%	570	6%	617	3%	611	6%
Mechanical engineering	564	3%	557	6%	586	3%	578	6%
Metal production and processing	424	2%	424	4%	515	3%	515	5%
Paper industry	396	2%	396	4%	382	2%	382	4%
Metal products	347	2%	345	4%	388	2%	386	4%
Wholesale (excluding motor vehicles)	338	2%	335	4%	469	3%	464	5%
Construction industry	301	2%	290	3%	487	3%	476	5%
Other industries	2,839	15%	2,821	30%	3,820	21%	3,475	35%
Real estate	611	3%	596	6%	551	3%	536	5%
Financial sector	500	3%	138	1%	519	3%	104	1%
Banks	6,027	32%	13	0%	5,431	29%	41	0%
Public sector	2,823	15%	5	0%	2,350	13%	5	0%
Subtotal	**17,832**	**95%**	**8,530**	**91%**	**18,200**	**98%**	**9,675**	**96%**
Risk transferred to third parties[1]	887	5%	887	9%	433	2%	433	4%
Total	**18,719**	**100%**	**9,417**	**100%**	**18,633**	**100%**	**10,108**	**100%**

1) Hermes guarantees, indemnifications, risks transfers

2) The balance held with central banks was added to the details concerning structure as of 31 March 2020.

The degree of diversification in the industrial sectors remained high – no single industrial sector accounts for more than 4% of the portfolio. The other industrial sectors are composed of 27 other industry clusters. IKB has only minor exposure totalling €183 million (31 March 2020: €251 million) to sectors particularly affected by the pandemic, e.g. culture, sports and entertainment, textiles and clothing, hospitality, shipping and aviation.

Credit rating structure

The credit volume breaks down by internal rating class as follows:

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

	31 Dec. 2020				31 Mar. 2020			
	in € million	in %	in € million of which Loan book	in % of which loan book	in € million[4]	in %	in € million of which Loan book	in % of which loan book
1-4	8,929	48%	908	10%	7,295	39%	471	5%
5-7	4,194	22%	3,150	33%	4,388	24%	3,138	31%
8-10	3,124	17%	2,894	31%	4,710	25%	4,316	43%
11-13	1,151	6%	1,146	12%	1,365	7%	1,319	13%
14-15	290	2%	287	3%	288	2%	278	3%
Non-performing assets[2]	144	1%	144	2%	154	1%	153	2%
Subtotal	**17,832**	**95%**	**8,530**	**91%**	**18,200**	**98%**	**9,675**	**96%**
Risk transferred to third parties[3]	887	5%	887	9%	433	2%	433	4%
Total	**18,719**	**100%**	**9,417**	**100%**	**18,633**	**100%**	**10,108**	**100%**

1) Higher rating classes reflect lower creditworthiness
2) Before single loan loss allowances and provisions
3) Hermes guarantees, indemnifications, risks transferred
4) The balance held with central banks was added to the details concerning structure as of 31 March 2020.

The higher deposits with the Bundesbank are reflected in the increase in very good ratings (1-4), while the reduction in the good to medium ratings (8-13) is primarily due to the decline in customer receivables in the loan book.

Non-performing assets

Non-performing assets are defined as exposures to borrowers who have defaulted on their loans in accordance with Article 178 of the Capital Requirements Regulation (CRR). A default occurs when insolvency proceedings have been opened, payments of interest or principal are overdue by more than 90 consecutive days, specific risk provisions has been recognised or there are other clear indications that the borrower will not be able to meet its contractual obligations. Securities are classified as non-performing assets if the Bank considers permanent impairment to be probable.

Non-defaulting exposures that are managed by the Bank's units specialising in restructuring are not classified as non-performing assets but are subject to close monitoring together with the non-performing assets. Overall, the portfolio of non-performing assets and other exposures managed by the restructuring units amounted to €0.5 billion as of the reporting date 31 December 2020 (31 March 2020: €0.4 billion).

Table: Non-performing assets[1] – Group

	31 Dec. 2020 in € million	31 Mar. 2020 in € million	Change in € million	Change in %
Assets with single loan loss allowances	122	134	-12	-9%
Non-impaired	22	20	2	10%
Total	**144**	**154**	**-10**	**-6%**
Percentage of total loans	0.8%	0.8%		
Percentage of total loans to companies	1.5%	1.5%		
For information purposes: NPL ratio in accordance with EBA definition[2]	1.6%	1.3%		

1) Before single loan loss allowances and provisions, before write-downs of securities to the lower of cost or market.
Non-performing assets do not include:
- €9 million (31 March 2020: €5 million) in risks transferred to third parties for non-performing assets that have been assumed by other banks, public sector entities or via collateralised loan obligations (CLOs) and hence are assigned to the party assuming liability (change in credit rating).
- €2 million (31 March 2020: €5 million) in unutilised commitments for borrowers whose residual exposure is classified as a non-performing asset.

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

Despite the continued difficult macroeconomic environment due to the coronavirus pandemic, non-performing assets were lower as of the reporting date and remain at a muted level. The increase in non-performing assets for which no specific valuation allowances have been recognised is due to exposures that have been reclassified as non-performing, but for which no need for permanent impairment is foreseeable due to favourable going concern forecasts or government support measures.

The coverage ratio of non-performing assets subject to single loan loss allowances, provisions and portfolio loan loss allowances attributable to non-performing assets stands at 47% (March 2020: 44%).

Provisions for possible loan losses

If the Bank's individual analyses establish that the respective contractual obligations are highly unlikely to be fulfilled through later payment or the liquidation of collateral, the receivable is classified as permanently impaired and single loan loss allowances in the form of a provision or specific risk provisions are recognised. In determining the amount of the single loan loss allowance, IKB takes the liquidation value of the available collateral into account in addition to possible future debt service payments by borrowers.

In the event of an acute risk of default, risk provisions are recognised for possible loan losses in the form of single loan loss allowances. A provision is recognised for contingent liabilities in the event of imminent utilisation. Risk provisions are also recognised in the form of a provision for permanently impaired CDSs. See also the explanations in Note (6) "Provisions for possible loan losses".

Table: Provisions for possible loan losses – Group

	31 Dec. 2020 in € million	31 Mar. 2020 in € million	Change in %
Development of single loan loss allowances/provisions[1)]			
Opening balance	65.7	76.7	-14%
Utilisation	-35.9	-31.9	13%
Reversal	-6.9	-13.6	-49%
Unwinding	-1.2	-1.5	-20%
Additions to single loan loss allowances/provisions	44.0	36.0	22%
Effect of changes in exchange rates	-0.1	-	
Total single loan loss valuation allowances/provisions	**65.6**	**65.7**	**0%**
Portfolio loan loss allowances[2)]			
Opening balance	118.8	117.7	1%
Addition/reversal	-15.8	1.1	
Total portfolio loan loss allowances	**103.0**	**118.8**	**-13%**
Total provisions for possible loan losses (including provisions)	**168.6**	**184.5**	**-9%**

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

Single loan loss allowances and provisions are on a par with 31 March 2020. The impact of the coronavirus pandemic is reflected in higher additions in the shortened 2020 financial year compared to the 2019/20 financial year. Reversals also declined during the same period.

Total portfolio loan loss allowances including country risk provisions for receivables from customers, receivables from banks, contingent liabilities and irrevocable loan commitments amounted to €103.0 million for the Group (31 March 2020: €118.8 million) and €102.6 million for IKB AG (31 March 2020: €118.2 million). Portfolio loan loss allowances of €1.4 million for the Group (31 March 2020: €1.8 million) and €1.2 million for IKB AG (31 March 2020: €1.6 million) were recognised on securities.

The decrease in portfolio loan loss allowances is due to lower expected losses on receivables resulting from declining volumes and slightly lower expected risks from the coronavirus pandemic. Even so, the Bank recognised an additional portfolio loan loss allowance of €29 million (previous year: €32 million) to cover above-average risks from acquisition financing and corporate financing business in connection with the coronavirus pandemic.

Annualised net risk provisioning as a portion of the loan book stood at 27 basis points in the shortened financial year (fiscal 2019/20: 29 basis points).

Liquidity book by asset structure

Table: Volume by assets – Group

	31 Dec. 2020 in € million	31 Dec. 2020 in %	31 Mar. 2020 in € million	31 Mar. 2020 in %
Sovereign bonds	2,181	65%	1,922	49%
Covered bonds	251	8%	1,467	37%
Financial senior unsecured bonds	207	6%	195	5%
EU and supras	399	12%	141	4%
Corporate bonds	146	4%	115	3%
Agencies and government-guaranteed bonds	158	5%	108	3%
Total	**3,342**	**100%**	**3,947**	**100%**

The portfolio of covered bonds has been run off almost completely (sales in good credit ratings) since March 2020. On the other hand, there was an increase in all other positions, particularly government-guaranteed bonds. There are no significant changes in the geographical and credit-rating structure of the liquidity book.

Liquidity book by geographical structure

Table: Volume by countries – Group

	31 Dec. 2020 in € million	31 Dec. 2020 in %	31 Mar. 2020 in € million	31 Mar. 2020 in %
Germany	1,288	39%	1,287	33%
EU[1)]	399	12%	141	4%
France	248	7%	439	11%
Belgium	235	7%	230	6%
Poland	178	5%	228	6%
Remaining countries	994	30%	1,623	41%
Total	**3,342**	**100%**	**3,947**	**100%**

1) European Commission, ESM, Council of Europe Development and European Investment Bank

Liquidity book by credit rating structure

Table: Volume by credit ratings – Group

	31 Dec. 2020 in € million	31 Dec. 2020 in %	31 Mar. 2020 in € million	31 Mar. 2020 in %
1-4	2,953	88%	3,128	79%
5-7	179	5%	585	15%
8-10	210	6%	234	6%
11-13	0	0%	0	0%
14-15	0	0%	0	0%
Non-performing assets	0	0%	0	0%
Total	**3,342**	**100%**	**3,947**	**100%**

Risk reporting

Risk Controlling prepares all relevant information from lending business in detail in quarterly Group credit risk reports and presents these to the Board of Managing Directors with explanations. In addition, the Supervisory Board and the regulatory authorities receive an extensive risk report every quarter containing all key information on the overall risk position in the Group. During the coronavirus pandemic, the Supervisory Board is being kept informed of ongoing developments in ad hoc reports. Close monitoring of and reporting on clients' exposure to coronavirus-related risk was implemented during the pandemic crisis to ensure a swift response as part of active risk management. Reports were initially submitted to the Board of Managing Directors on a weekly basis and subsequently on a fortnightly basis.

Liquidity risk

IKB defines liquidity risk as including the components of a liquidity period transformation risk, the risk of insolvency and the macroeconomic liquidity risk.

Liquidity risk relevant for insolvency risk is identified and analysed on the basis of the expected deterministic cash flows from transactions that have already been contracted, supplemented by stochastic modelling of cash flows, the planning of liquidity measures and new business and the liquidity reserve (scope for raising funds from the ECB and cash on hand). The future liquidity balances calculated in this manner are reduced and limited via additional stress modelling. The aim of the limit is to ensure that the Bank has sufficient liquidity reserves to withstand the negative effects on liquidity of a combined stress scenario for a defined 3-month period. IKB supplements liquidity risk monitoring with an early warning system based on leading indicators which are intended to track at an early stage any developments that are likely to have an adverse effect on liquidity.

Treasury is responsible for the operational management of liquidity risks within the limit proposed by Risk Management and approved by the Board of Managing Directors. In addition, the Bank's Asset Liability Committee is regularly updated on the liquidity situation.

Liquidity situation

Depending on 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 €1.1 billion over the next twelve months.

Liquidity planning is based on a number of assumptions regarding the aforementioned and other liquidity-determining factors on the assets side and the liabilities side. If a number of these assumptions cumulatively do not materialise, this may result in liquidity shortfalls. For example, this may include market developments that do not or do not sufficiently permit the prolongation of liabilities guaranteed by the Deposit Protection Fund. IKB has a liquidity contingency plan for this eventuality, which describes a package of measures and a defined procedure for responding to a liquidity bottleneck.

As of 31 December 2020, the minimum liquidity balance is roughly €1.3 billion above the liquidity limit. Taking into account the legal maturities of the Bank's asset and liability positions, its scope for raising funds from the central bank and on the secured interbank market and excluding planned new lending business, the Bank is fully financed for a period of 13 months and has a free liquidity reserve of €2.7 billion, all other things being equal (assuming unchanged market values).

The minimum liquidity coverage ratio is 100%. The minimum requirements were complied with at all times in the 2020 financial year. The LCR stood at 271% for the IKB Group as of 31 December 2020 (IKB AG: 244%).

Funding situation

The key elements of IKB's funding operations include secured financing on the interbank market (Eurex Repo/bilateral repo transactions), funding via the ECB, and business with corporate customers, retail customers and institutional investors involving deposits and promissory note loans covered by the Deposit Protection Fund. With a ratio of 70% as of 31 December 2020, IKB has a solid loan-to-deposit ratio – calculated as the loan book excluding public programme loans relative to the total of retail and business customer deposits and promissory note loans – (31 March 2020: 80%). The calculation of the LtD ratio was updated in connection with the first-time preparation of a segment report. The figure for the previous year was restated accordingly.

The Bank also actively utilises programme loans and global loans from government development banks in its customer lending business in its funding mix.

Details are shown in the following table:

Funding source (HGB book values including deferred interest)	31 Dec. 2020 in € million	31 Mar. 2020 in € million
Customer deposits	**5,316**	**5,461**
Retail customer deposits	2,785	2,636
Business customer deposits	2,531	2,825
Secured funding	**8,499**	**7,610**
Development loans	5,407	5,223
Interbank market	100	1,129
of which Eurex	100	1,129
of which other	0	**-**
ECB	2,992	1,258
of which TLTRO	2,992	1,235
of which open market	0	**23**
Unsecured funding	**550**	**865**
of which bearer bonds (including buybacks)	139	233
of which senior preferred	-	-
of which senior non-preferred	139	233
of which promissory note loans	412	632
of which senior preferred	-	**-**
of which senior non-preferred	412	632
of which other	0	0
Subordinated/hybrid funding	**807**	**842**
of which subordinated	732	767
of which hybrid (funding trust)	75	75
Own funds	**1,447**	**1,377**
of which own funds	862	792
of which fund for general banking risks	585	585

Market price risk

IKB's market price exposure arises from risk factors such as interest rates, credit spreads, FX (foreign exchange) rates, gold, stock market indices and related volatilities. As IKB does not have a trading book, all market price risks relate solely to non-trading book positions.

IKB is exposed to interest rate risks in the form of interest-adjustment and structure risks.

IKB's credit spread risk, which is identified and quantified on the basis of market price risk, arises from securities and credit derivatives. The credit spread risks arising from securities are managed/hedged selectively on the basis of the prevailing market conditions by specifically running off positions or taking out risk-mitigating derivatives.

IKB's foreign-currency positions are mainly denominated in USD.

Quantification and assessment of market price risks

To measure market price risk, the Bank applies a value at risk (VaR) approach using a historical simulation based on the last 250 trading days, taking into account all relevant risk factors, i.e. interest rates, credit spreads, FX rates, gold, stock market indexes and related volatilities. All portfolios are measured on a daily basis. In addition, stress tests and scenario analyses are performed. The market price risk stress tests used by IKB can be divided into the three classes: historical stress tests, hypothetical stress tests and sensitivity analyses.

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

To support market risk management, risk factor sensitivities are calculated and reported regularly at the individual transaction level and aggregated by portfolio.

Daily back testing is performed to test the reliability of the model used. The Board of Managing Directors is informed of the results of back testing as part of quarterly risk reporting.

Market price risk management and hedging

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

Daily risk reporting to the Board of Managing Directors and Treasury comprises the evaluation of all positions, market price risk, net interest income and limit utilisation. In addition, the Board of Managing Directors is regularly provided with information on relevant market developments, changes in the portfolio, measurement of the portfolio, earnings performance and the market risk profile. The Supervisory Board is informed of market price risks on a quarterly basis as part of overall risk reporting.

Year-on-year comparison of market price risk profile

The following table shows the year-on-year development of the market risk profile at the level of the risk consolidation group in terms of the interest rate basis point value, the credit spread basis point value and value at risk at a 99% confidence level and applying a holding period of one day. The increase in the value at risk figures is due primarily to high volatility on the financial and capital markets as a result of the coronavirus pandemic.

Table: Market price risk profile

in € million	**Value at 31 Dec. 2020**	**Value at 31 Mar. 2020**
Interest rate basis point value (BPV)	**-1.1**	**-1.0**
Credit spread BPV	**-8.9**	**-8.4**
VaR – interest rate and volatility	-22.1	-23.5
VaR – credit spread	-52.2	-47.2
VaR – FX and volatility	-2.6	-2.6
VaR – other	-7.0	-5.1
Correlation effect	19.3	25.0
Total VaR	**-64.7**	**-53.4**

Any differences in totals are due to rounding effects.

Non-financial risks[1]

Operational risks

Operational risk is the risk of loss resulting from a deficiency in or failure of internal processes, people and systems or from external events beyond the Bank's control.

[1] IKB defines "non-financial risks" as all risks inherent in its business operations that do not primarily serve the purpose of generating income and are therefore not credit, market and liquidity risks. In addition to operating risks, examples include but are not limited to reputation, legal and IT risks. They do not include strategic and business risks.

Operational risks are quantified using a model based on statistically calculated loss frequencies and amounts. The associated economic capital is incorporated in the regular calculation of the Bank's risk-bearing capacity.

In addition to analysing and identifying weaknesses and approaches to optimising business processes, another key task is therefore to expand the security organisation and to adapt the underlying processes on the basis of the annual business impact analyses, which examine the specific risk profiles of the individual segments and divisions in order to derive impulses for risk management.

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

The gross loss volume identified in the year under review amounted to a total of €1.4 million at the Group level (previous year: €1.6 million[2]). Of this amount, around €1.4 million (previous year: €1.6 million[2]) was attributable to IKB AG. In individual cases, the loss amounts are based on estimates, and in some cases it may not be possible to obtain accurate figures on the basis of updated information for these until later.

There are currently no specific loss reports of a significant amount due to the current coronavirus crisis. Nevertheless, an increase in losses cannot be ruled out in the coming financial year due to crisis-related factors.

Legal risks

Legal risk is also included in non-financial risk and constitutes the risk of losses incurred through the violation of general statutory requirements, new statutory requirements or changes to or interpretations of existing statutory requirements (e.g. high court decisions) which are unfavourable for the Bank. Liability risks resulting from contractual agreements also form part of legal risk.

The management of legal risks is the responsibility of the Legal team. The management of tax law risks is the responsibility of the Taxes team in the Finance division. If necessary, external law firms are called in to assist.

Contract templates and standardised texts are used in lending and related business to some extent. Deviations from these standard texts/templates and individually worded agreements and transactions are reviewed and approved using the central legal resources of the Legal team or the decentralised legal resources in the Credit Risk and Contract Management division, which come within general council's responsibility. All contract templates are continuously reviewed to determine whether modifications are required to allow for legislative changes or court rulings. When new business is commenced, the legal structure and assessment of the new products is overseen by the Legal team itself or under its responsibility as part of the new business process.

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

As an additional measure, the Legal team coordinates the Legal Development taskforce to identify regulatory and banking supervisory developments in order to determine their impact and coordinate the resulting implementation requirements for the Bank.

In legal proceedings, the Legal department protects the legal positions of the Company and the Group.

With regard to issues under tax law, the Taxes team ensures the legally compliant declaration and defence of the Group's tax positions towards the tax authorities. If necessary, external tax consultants are also called

2 Figure for the previous year restated to reflect updated information.

in. At the level of IKB AG or its subsidiaries, additional tax expenses may arise from assessment periods that have not yet been audited. The last completed tax audit for the domestic consolidated group covers the assessment periods up to and including 2006 (VAT up to and including 2005). The audit of the assessment periods 2007 up to and including 2011 (VAT 2006 up to and including 2010) was completed in the year under review and a final interim report on the tax audit received. Further tax audit procedures are possible. Individual points with comparable facts at subsidiaries are still subject to final clarification in proceedings before the German Federal Fiscal Court (Bundesfinanzhof, BFH). The BFH recently ruled in favour of the taxpayer. In this respect, reference is made to the comments on “Dissenting view of the tax authorities”. IKB is subject to constant follow-up tax audits.

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

Derivatives trading

In individual cases, customers complained about the advisory services provided by the Bank in connection with certain swap products. Three lawsuits are currently pending, two of which relate to the same subject matter.

Disputes relating to subordinated securities

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

Since July 2016, investors have threatened legal action and, in some cases, asserted claims for information that have been rejected by IKB. At one stage, 50 lawsuits worth a total of €117 million were pending. In some individual cases, agreements to avoid measures suspending time-bars have been signed without prejudice.

Four lawsuits were still pending at the end of December 2020. All other actions have either become final after a ruling in IKB’s favour or have been withdrawn. Two lawsuits with an aggregate amount in dispute of around €5 million are pending before the Düsseldorf Regional Court, while two actions against the denial of leave to appeal with an aggregate value in dispute of around €26 million are pending before the Federal Court of Justice. IKB considers the claims that have been asserted to be without merit and assumes that they will be dismissed. This assessment was confirmed on 24 September 2020 by three second-instance rulings of the Düsseldorf Higher Regional Court, which were clearly in IKB’s favour. Some of the lawsuits were inadmissible and all the other lawsuits were completely dismissed. The higher regional court did not permit an appeal in any of the cases. On the basis of the present judgements, IKB expects the legal disputes to be concluded successfully in 2021.

Dissenting view of the tax authorities likely to be overruled by current court ruling

Aleanta GmbH (a wholly owned subsidiary of IKB AG with which no profit and loss transfer agreement has been entered into) had received initial written notification that, as part of the tax audit of a company of which it is the universal successor (Olessa GmbH), the tax authorities were intending to treat the retroactive merger of Olessa GmbH with Aleanta GmbH in the 2010/11 financial year as a case covered by section 42 of the German Tax Code (Abgabenordnung – AO). Aleanta GmbH had issued a statement on the matter and on the tax audit assessment at that time. In a similar case, the German Federal Fiscal Court (Bundesfinanzhof, BFH) recently ruled again in favour of the taxpayer with regard to the tax treatment of retroactive mergers of acquired companies; the ratio decidendi for the judgement has not yet been released. However, IKB continues to expect a final ruling in its favour.

Information security risk

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

The existing Information Security Management System (ISMS) is operated under the responsibility of the Chief Information Security Officer (CISO). ISMS risk management addresses the information security risks of ISO 27001 controls.

IT risk

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

IT Security Management is responsible for the Bank's operational IT security within the IT division. It works with other relevant areas to establish measures and support their implementation, continuous improvement and adaptation in the light of current and future IT security and compliance requirements. In this context, system and network security is updated on the basis of contractual agreements to address changing threats in cooperation with external service providers. The agreements provide for the use of the latest hardware and software technologies and therefore require service providers for systematic patch management. Infrastructure availability risks are minimised by segregating the data centres across two separate locations. The ISMS takes account of the risk involved in outsourcing key IT services. Measures for addressing this risk are verified through audits led by the CISO and emergency drills organised by central Operational Risk Management.

Compliance risks

As its business activities give rise to legal obligations for the handing of compliance-relevant information for trading in financial instruments and providing investment and related services, IKB is subject to a wide range of statutory and regulatory requirements, observance of which is ensured through the measures taken by the compliance functions established for this purpose. The corresponding mandatory conduct requirements and process instructions are set out in the Bank's written rules. In addition, the principles and values prescribed by IKB's Code of Conduct include requirements for the conduct of all employees at all of the Group's locations. Regular training is provided to ensure that employees are fully aware of all requirements and regulatory developments. Compliance-related technical advisory services and support for the divisions and the implementation of monitoring measures are organised on a preventive and process-concomitant basis by (1) the compliance function in accordance with the Minimum Requirements for the Compliance Function (MaComp), (2) the MaRisk compliance function and (3) the officer for the protection of financial instruments and customer funds.

Reporting by the compliance officer in accordance with the German Securities Trading Act (WpHG – Wertpapierhandelsgesetz)/MaComp and KWG/MaRisk, by the officer for the protection of financial instruments and customer funds and by the anti-money laundering officer/central office is organised on an annual and also ad-hoc basis to the Board of Managing Directors and for the MaComp and MaRisk compliance functions as well as the officer for the protection of financial instruments and customer funds to the Supervisory Board.

The MaComp and MaRisk compliance functions as well as the officer for the protection of financial instruments and customer funds perform a regular, Group-wide risk analysis (at least once a year).

IKB AG has adopted internal principles, procedures and controls for meeting the requirements for preventing money laundering/terrorist financing and other illegal acts and for ensuring compliance with financial sanctions. Employees receive regular training in typologies and current methods of money laundering and terrorist financing.

The money laundering officer/central office prepares a Group-wide risk analysis on the prevention of money laundering/terrorist financing, other illegal acts and compliance with financial sanctions annually or, if necessary, more frequently. The risk of money laundering and the risk from other illegal acts and financial sanctions are assessed on the basis of this risk analysis, taking the preventive measures defined into account. The security measures derived from the risk analysis are regularly assessed for effectiveness and revised if necessary.

In connection with the measures taken to combat the coronavirus crisis, no further material risks of relevance for the MaComp and MaRisk compliance functions, the anti-money laundering officer/central office or the officer for the protection of financial instruments and customer funds were identified.

Personnel risks

The management of personnel risks is the responsibility of the individual central and back-office divisions and front-office units in collaboration with the Human Resources department. This includes maintaining the level of knowledge and experience employees need to carry out their duties and responsibilities. IKB therefore pursues extensive and ongoing training management in order to maintain a high standard of qualification among its employees.

The number of resignations by employees does not currently represent an additional personnel risk, as these can be compensated for internally or temporarily through an external service provider, or the vacancies can be filled through recruitment. Due to the coronavirus crisis, the Group created the option of employees working from home as far as possible. In addition, greater flexibility was provided with regard to working hours, meaning that it is possible for staff to work outside of core hours and employees with children can ensure their care. IKB does not currently see elevated personnel risks in this respect. There is no increased danger of staff leaving. The Group’s stable IT systems mean all employees can work from home.

For information on IKB’s remuneration system, please refer to the Disclosure Report for the financial year 2020.

Reputation risks

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

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

Reputation risks at IKB are managed by the Board of Managing Directors. The methodology is largely the same as for non-financial risks. Responsible communication with all stakeholders is given high priority in the management of reputation risks.

Strategic risks

Strategic risks refer to the threat to the Bank’s long-term successful position. These may arise as a result of changes in the legal, regulatory or social environment and as a result of changes in market, competition and funding conditions. It is currently not possible to determine the extent of the long-term impact that the coronavirus crisis will have on strategic risks. Potential risks to the Bank’s long-term profit/loss positions are being observed and monitored.

As strategic risks do not follow any defined patterns, it is difficult to track them quantitatively as special risks in an integrated system and they are therefore assessed qualitatively. Consequently, they are monitored continuously by the Board of Managing Directors. This includes an annual and ad hoc review of the business strategy by the Board of Managing Directors, taking into account the implications for the strategic and operational planning process. Business policy objectives, measures and risks are also continuously reviewed by the Strategy and Risk Committee and at the meetings of the Board of Managing Directors. This gives rise to strategic initiatives and optimisation measures.

Business risks

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

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

The operational management of business risk - i.e. reducing the risk of a negative change in earnings performance within the business strategy agreed with the Board of Managing Directors - is the responsibility of each individual segment, central division and subsidiary. The Finance division prepares monthly performance analyses for existing and new business as part of profit/loss controlling and submits to the Board of Managing Directors weekly management reports which identify and analyse any budget deviations in income and assets. Thus, the Board of Managing Directors sees itself as being able to initiate risk-mitigating measures.

Participation risks

Participation risk (in the sense of dividend omissions, impairments of carrying amounts, losses on disposal and reductions in hidden reserves) is not classified as a material risk type in its own right because the main individual counterparty default, market price, liquidity, business and non-financial risks in the investment portfolio are already taken into account with respect to the individual risk types

Overall assessment of risk situation

In terms of the regulatory capital and liquidity ratios, IKB remained in a generally very good position in the shortened financial year despite the impact of the coronavirus pandemic: All capital ratios are currently in excess of the capital requirements resulting from the banking supervisory review and evaluation process (SREP) on the basis of the normative perspective of risk-bearing capacity, meaning IKB has sufficient scope for pursuing its business activities as planned. Assuming that earnings and the business model develop as forecast, IKB plans to successively strengthen its capital base and simultaneously distribute dividends.

Given the reduction in the risk position and a simultaneous increase in risk coverage potential, the risk-bearing capacity remains unchanged in the economic perspective not only over the next twelve months, but, based on the Bank’s planning, also for a period of at least two years beyond that.

This solid capitalisation, the good asset quality and IKB’s position in the German midmarket have also been confirmed in the investment grade ratings awarded by the rating agencies.

IKB also selectively accepts market price risks in the form of interest rate and credit spread risks in order to strengthen its net interest income and retain its liquidity with a sufficient buffer. After the substantial increase due to the extreme market turbulence at the beginning of the shortened financial year as a consequence of the coronavirus pandemic, market price risks were reduced significantly in the course of the shortened financial year. IKB expects market price risks to continue declining in the coming financial year.

The economic slump triggered by the coronavirus pandemic led to an overall decline in lending business. IKB has been increasingly supporting its customers by granting funds under the special programmes initiated by the KfW Banking Group. This had a positive impact on new business. Even though the main single loan loss allowances recognised in the shortened financial year must be viewed as a consequence of the coronavirus pandemic, net risk provisioning in the financial year 2020 was on target and remained at a moderate level. Despite the continued difficulties in the macroeconomic environment, non-performing assets were reduced and the ratio kept at a constant and still low level. Notwithstanding this, the Bank made provision for the impact of the economic situation on the loan book by recognising additional portfolio loan loss allowances. IKB is maintaining its high lending standards even in the current crisis and despite the persistently low interest rates.

Non-financial risk has decreased significantly compared with the beginning of the financial year. This is due in particular to the ruling by the Higher Regional Court in favour of IKB in the disputes on profit participation rights. The coronavirus pandemic has no negative impact on non-financial risk due to the stable arrangements under which employees are able to work from home.

The current geopolitical tensions, such as the relations between the UK and the EU following the completion of Brexit, the effects of anti-European tendencies in the Eurozone, which cannot yet be assessed, and the consequences of the coronavirus pandemic and the success of the vaccination strategy may have implications for the Bank's risk position and performance. Against this backdrop, the Bank is tracking and analysing the related economic developments, the monetary policy adopted by the central banks in response to this and government reactions as well as rising national debt. As part of its risk management, it is also analysing the effects of the low interest rates and, on this basis, the various stress scenarios. In summary, the macroeconomic uncertainty unleashed by the coronavirus pandemic is an extreme situation which IKB considers itself to be well equipped to cope with.

4. Report on opportunities

IKB has focused its business model on services for the upper midmarket with extensive advisory and financing requirements. The coronavirus, which has been spreading rapidly since the beginning of 2020, will have negative consequences for many economies and therefore also impact IKB's business performance. Since the end of March 2020, the Bank has been increasingly supporting its customers with the special loan programmes granted by the KfW Banking Group, which have been extended until June 2021, to combat the coronavirus crisis. The special loan programmes are making a positive contribution to new business.

In the Bundesbank Lending Survey, a majority of banks have reported widening margins on corporate loans since the second quarter of 2019. A return in the market to pricing permitting wider margins could open up additional business opportunities for IKB. IKB will be retaining its risk-oriented pricing. It also has various capital market solutions available for its customers.

The cost situation will continue to improve after the implementation of the current cost-cutting and optimisation measures.

Overall, IKB believes that it has the opportunity to generate increases in net profit thanks to the growth in its profitable new business, reduced funding costs and lower administrative costs. The improved perception of the Bank's credit standing as a result of this could generate further impetus for its business activities as a whole.

In addition to the adverse impacts of the generally high degree of regulation, IKB also sees an opportunity for a reduction of the RWA burden on lending business in the imminent regulatory adjustments under Basel IV. This results from the further development of existing IRBA rating systems as well as from the planned changes to the regulatory standard parameters set for the IRB approach.

The Bank has therefore additionally calculated its capital ratios for the whole Group in a pro-forma analysis in accordance with the Basel IV rules, i.e. on the basis of the new rules of the Basel Committee on Banking Supervision (BCBS), which according to the press release of 27 March 2020 will not be entering into force until 1 January 2023, and also taking CRR II into consideration. In so doing, it has taken the following standards into consideration[3]:

- Revised standardised approach for credit risk
- Revised IRB approach for credit risk
- Revised operational risk framework
- Revised CVA framework
- Revised market risk framework
- Output floor.

This pro-forma analysis resulted in the following figures:

Capital ratios as of 31 Dec. 2020 (IKB Group), fully phased	**Forecast figures (Basel IV incl. CRR II)**	**Comparative figures in line with CRR**
CET 1 ratio	**15.3%**	**14.3%**
T 1 ratio	15.3%	14.3%
Own funds ratio	22.0%	21.4%
Total risk-weighted assets (RWA)	**€8.3 billion**	**€8.9 billion**

The expected positive impact compared to the current regulations results largely from the "Revised IRB approach for credit risk" caused by a reduction of the standard LGD (Loss Given Default) from 45% to 40% in the foundation IRB approach and the reduction of the scaling factor in the formula for calculating the RWA in the IRB approach from 1.06 to 1.0.

In December 2020, IKB received regulatory approval subject to the inclusion of a PD surcharge for the requested model change for the IRBA "Corporate Rating" system, resulting in a reduction of approximately €0.8 billion in RWAs. IKB expects further potential for reducing RWAs in future financial years from a reduction in the PD surcharge imposed as a condition for approval of the change.

3 Simplified calculation, in some cases ignoring details of regulations that do not have a significant impact on the result.

5. Outlook

Future general economic conditions

The uncertainty over the progression of the coronavirus pandemic has placed question marks over the economic outlook. Meanwhile, the economy is still likely to be significantly impacted by the pandemic in the first quarter of 2021. In its autumn report (November 2020), the German Council of Economic Experts assumes that the economy should pick up again as the second wave of infection subsides. In 2021, economic output in Germany should increase by 3.7%. The V-shaped progression of the economy up until the autumn of 2020 has already resulted a fairly large statistical overhang, contributing about one percentage point to growth in 2021. For the time being, the economy will remain divided: whereas the consumer-facing service sector will continue to be affected by the lockdown measures at the beginning of the year, this will be offset by robust performance in the industrial sector. The Council of Economic Experts also expects the other industrialised countries and emerging economies to pick up in 2021, meaning that, after declining by 4.0% last year, the global economy should grow significantly again this year by 5.1%.

However, given the uncertainty over the course of the pandemic, e.g. how effective the vaccine will be and when a sufficient level of immunisation can be achieved, there are considerable downside risks in the outlook for national economies, and a renewed sharp economic downturn cannot be ruled out. This is causing significant burdens of varying degrees. For example, fiscal measures to mitigate the effects of the coronavirus pandemic and the accompanying recession pose considerable fiscal risks to individual countries, some of which are substantial. The International Monetary Fund (IMF) expects the average public debt ratio in emerging and developing countries to rise from around 53% to roughly 62% in 2020. In the developed economies, this figure should increase from just over 105% in 2019 to a good 125% of GDP in 2020. For the Eurozone, the IMF forecasts an increase in the debt-to-GDP ratio from just over 84% to around 101%. Due to the high level of debt, the debt sustainability of the countries affected the most may be called into question. The sovereign debt crisis in the Eurozone at the beginning of the 2010s showed that high debt ratios can trigger doubts about the solvency of individual member states and lead to unrest on the financial markets, resulting in higher financing costs for the countries concerned.

Credit demand is unlikely to receive much impetus from capital spending. While the growing global economy could provide a boost, a rapid normalisation of investment activity seems unlikely given continued underutilisation of production capacity and the risk of a renewed surge in infections. Thus, the strong uncertainty, particularly regarding the further course of the pandemic, is likely to dampen the recovery in capital spending in the coming quarters.

An increase in corporate insolvencies is also expected. The German Council of Economic Experts expects Germany to register a delayed increase in payment defaults in 2021. The suspension of the time period for applying for creditor protection and the extensive liquidity support may have bought time for ailing companies to some extent. Catching-up effects are possible once the restrictions have been lifted. The rising number of insolvencies is likely to weigh on banks in 2021. Bank earnings will probably come under pressure, particularly due to increased allowances for loan losses. In addition, an increase in risk-weighting requirements is likely to exert pressure on banks' capital ratios. The extent of the strain depends crucially on the further progression of the pandemic.

However, the Council of Economic Experts assumes that the reforms implemented in the financial system since the global financial crisis have strengthened banks' resilience significantly. Higher capitalisation and improved macroprudential supervision should help to cushion the elevated loan defaults and loan loss provisions. In addition, continued expansionary monetary policy should assist banks in maintaining their lending operations.

German banks’ earnings position is also likely to continue being adversely affected by factors not directly related to the coronavirus pandemic. For example, the protracted low interest rates will continue to impact traditional lending business and trigger further considerable cost-cutting pressure. In addition, investments in digitisation will remain a major challenge for the industry in the future.

The non-pandemic risks will continue. Even before the coronavirus crisis, there were signs of a significant slowdown in global economic growth, primarily due to muted industrial production. World trade was also declining. These developments can be explained, at least in part, by continuing uncertainty in the wake of the still unresolved trade conflicts. In addition, the response to structural change is continuing to exert pressure on individual sectors and could entail greater adjustment costs in some places.

General information on forecast

The following forecasts are based on a forward-looking horizon of one financial year. In addition, medium-term targets are stated for selected key figures, which are assumed to be achievable within the next five financial years. As the key figures and performance indicators mentioned in the forecast are the same for the IKB Group and IKB AG, the following statements generally refer to the IKB Group. Where there are significant differences, the figures for IKB AG are shown in brackets.

Asset position

In financial year 2021, IKB expects the Group’s risk-weighted assets (fully phased-) to be slightly up on financial year 2020 and anticipates the common equity tier 1 ratio (CET 1 ratio) to be at a level above 13% (IKB AG: above 14%) as of 31 December 2021.

The Bank projects an increase in new lending business to around €2.5 billion in the 2021 financial year. At the same time, IKB expects a decline in unscheduled repayments due to the coronavirus pandemic, so that total receivables from non-Group customers are expected to remain at the previous year’s level. Holdings of fixed-income securities as well as equities and other non-fixed-income securities are also expected to remain unchanged over the previous year.

However, a global contraction in economic output could have a negative impact on demand for loans and thus lead to a lower volume of new business than expected. On the other hand, the on-lending of government aid in connection with the pandemic still offers potential for new business due to IKB’s good market position in public programme lending business.

Financial situation

Funds are raised to refinance liabilities that are due for payment as well as for new business. The future liquidity situation also depends on the state of new business, customer drawdowns under existing loan commitments, the future development of deposit guarantee schemes and changes in the market value of collateral and derivatives. In addition, the development of the coronavirus pandemic may have an impact on the investment preferences of deposit customers and the scope for raising funds in the interbank market and with the ECB.

The main components of IKB’s funding operations are deposit business with retail customers, corporate customers and institutional investors as well as collateralised borrowing. In addition, IKB continues to actively use the public programme loans and global loans offered by the public-sector development banks for its customers. As in the previous year, liabilities will therefore be characterised by a diversified funding mix to refinance the assets in the forecast period. The Bank is also able to issue bearer bonds, subordinate capital and CET1 instruments. Possible issuing activities will be supported by the investment grade rating received by IKB in January 2021.

The Bank's business planning and all related measures depend on the market environment. Significant unexpected losses, stress-like market disruptions and additional regulatory requirements as well as other government interventions may have a negative impact on IKB's financial position.

IKB has sufficient liquidity even in stress scenarios. Under the Bank's budget, there is a sufficient liquidity buffer for the forecast period.

IKB's regulatory liquidity management is based on the liquidity coverage ratio (LCR). The Bank projects an LCR of consistently over 100% for the 2021 financial year and thus full compliance with the statutory minimum. The net stable funding ratio (NSFR), which will be mandatory from 30 June 2021, to track medium- to long-term liquidity, will also be consistently above 100% in the coming financial year and, thus, over the statutory minimum.

IKB expects the Group's leverage ratio to exceed 7% in the 2021 financial year and therefore to be on a par with the shortened financial year 2020.

Results of operations

The results forecast below may be lower due to unexpected effects of the coronavirus pandemic.

For the 2021 financial year, IKB plans to generate net interest and commission income of around €250 million.

The forecast for net risk provisioning is subject to uncertainty due to the continuing economic impact of the coronavirus pandemic in the 2021 financial year. Based on the experience of the past final year and in view of the close support we provide our customers, we expect net risk provisioning of around € -25 million.

The Group's administrative costs, which have already been continuously reduced in recent years, are to be additionally lowered by means of ongoing cost-cutting and optimisation measures. As a result, the Bank expects administrative costs of around €130 million for the 2021 financial year. IKB assumes that the cost/income ratio, which is the ratio of administrative expenses to the sum of net interest income and net fee and commission income, will improve again over the previous year to slightly above 50%. In IKB's view, improving cost efficiency is a key success factor, with the result that its medium-term target is to additionally reduce administrative expenses to around €105 million and thus achieve a cost/income ratio of below 40%.

In addition to cost efficiency, the return on equity (ROE) is also important for the Bank's further development. IKB expects an ROE of around 9% for the 2021 financial year. In the medium term, it is aiming for an ROE of over 10%. This goal will be mainly achieved by reducing administrative and funding costs.

In view of the positive outlook, IKB is targeting an annual distribution ratio of 60% to 80% of its consolidated net profit after taxes for the coming financial year as well as in the medium term.

Overall assessment

The Bank expects the IKB Group to generate net profit after taxes of almost €100 million (IKB AG: almost €95 million) in the 2021 financial year. If risks from currently unforeseeable negative developments, particularly in connection with the coronavirus pandemic, materialise, earnings in the coming financial year may be significantly lower than expected.

6. Disclosures in accordance with Section 312 of the German Stock Corporation Act

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

7. Declaration on Corporate Governance

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

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

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

Combined Financial Statements and Consolidated Financial Statements of IKB Deutsche Industriebank AG for the 2020 Financial Year

Consolidated balance sheet as of 31 December 2020

in € million		31 Dec. 2020	31 Mar. 2020
Assets			
Cash reserve		**2,312.7**	**344.1**
a)	Cash on hand	-	0.1
b)	Balances with central banks	2,312.7	344.0
	thereof: with Deutsche Bundesbank	2,312.7	344.0
c)	Balances in postal giro accounts	-	-
Debt instruments of public sector entities and bills of exchange eligible for refinancing at central banks		**-**	**-**
Receivables from banks		**2,044.0**	**2,198.5**
a)	Repayable on demand	1,066.7	1,260.8
b)	Other receivables	977.3	937.7
Receivables from customers		**8,773.7**	**9,529.6**
	thereof: mortgage loans	632.6	649.1
	thereof: public sector loans	775.3	291.9
	thereof: cash collateral	6.1	37.6
Bonds and other fixed-income securities		**3,202.2**	**3,830.1**
a)	Money market securities	-	-
b)	Bonds and notes	3,186.6	3,811.2
	ba) Public sector issuers	2,481.4	1,922.7
	thereof: eligible as collateral for Deutsche Bundesbank	2,481.4	1,922.7
	bb) Other issuers	705.2	1,888.4
	thereof: eligible as collateral for Deutsche Bundesbank	651.9	1,755.6
c)	Own bonds	15.6	19.0
	Nominal amount	15.4	18.4
Equities and other non-fixed-income securities		**304.0**	**304.0**
Trading assets		**-**	**-**
Equity investments		**0.3**	**0.2**
	thereof: banks	0.2	0.2
	thereof: financial services institutions	-	-
Shares in associated companies		**-**	**-**
	thereof: banks	-	-
	thereof: financial services institutions	-	-
Shares in affiliated companies		**1.0**	**7.4**
	thereof: banks	-	-
	thereof: financial services institutions	-	-
Assets held in trust		**-**	**-**
Compensation receivables from the public sector including debt securities arising from their exchange		**-**	**-**
Lease assets		**-**	**-**
Intangible assets		**0.6**	**1.5**
a)	Internally generated industrial and similar rights and assets	-	-
b)	Purchased concessions, industrial property rights and similar rights and assets and licences in such rights and assets	0.6	1.5
c)	Goodwill	-	-
d)	Advance payments made	0.1	-
Tangible assets		**3.9**	**4.4**
Called unpaid capital		**-**	**-**
Other assets		**82.1**	**149.3**
Prepaid expenses		**63.8**	**108.1**
Deferred tax assets		**136.0**	**137.2**
Excess of plan assets over post-employment benefit liability		**4.5**	**7.4**
Total assets		**16,928.8**	**16,621.9**

in € million	31 Dec. 2020	31 Mar. 2020
Equity and liabilities		
Liabilities to banks	**8,527.7**	**7,669.6**
a) Repayable on demand	16.6	47.4
b) With agreed term or notice period	8,511.2	7,622.2
Liabilities to customers	**5,757.6**	**6,140.2**
a) Savings deposits	-	-
b) Other liabilities	5,757.6	6,140.2
ba) Repayable on demand	1,145.4	1,072.7
bb) With agreed term or notice period	4,612.2	5,067.5
Securitised liabilities	**154.4**	**299.9**
a) Bonds issued	154.4	299.9
b) Other securitised liabilities	-	-
Trading liabilities	**-**	**-**
Liabilities held in trust	**-**	**-**
Other liabilities	**48.6**	**59.6**
Deferred income	**48.9**	**38.3**
Deferred tax liabilities	**-**	**-**
Provisions	**156.4**	**209.2**
a) Provisions for pensions and similar obligations	82.9	89.1
b) Tax provisions	19.9	34.5
c) Other provisions	53.7	85.6
Subordinated liabilities	**788.6**	**831.2**
thereof: due within two years	194.8	56.0
Profit participation capital	**-**	**-**
thereof: due within two years	-	-
Fund for general banking risks	**585.0**	**585.0**
thereof: trading-related special reserve according to section 340e (4) HGB	-	-
Equity	**861.5**	**788.9**
a) Called-up capital	100.0	100.0
Subscribed capital	100.0	100.0
Less uncalled unpaid contributions	-	-
Contingent capital	-	800.0
b) Capital reserves	647.9	647.9
c) Revenue reserves	2.4	2.7
ca) Legal reserve	2.4	2.4
cb) Reserve for shares in a parent or majority investor	-	-
cc) Statutory reserves	-	-
cd) Other revenue reserves	0.0	0.3
d) Difference in equity from currency translation	-	-
e) Net retained profits/net accumulated losses	115.5	40.8
f) Non-controlling interests	-4.3	-2.5
Negative goodwill from capital consolidation	**-**	**-**
Total equity and liabilities	**16,928.8**	**16,621.9**
Contingent liabilities	**1,488.2**	**1,804.1**
a) Contingent liabilities from rediscounted and settled bills of exchange	-	-
b) Liabilities from guarantees and indemnity agreements	1,488.2	1,804.1
c) Liability arising from the provision of collateral for third-party liabilities	-	-
Other obligations	**939.6**	**762.1**
a) Repurchase obligations from non-genuine repurchase agreements	-	-
b) Placement and underwriting obligations	-	-
c) Irrevocable loan commitments	939.6	762.1

Balance sheet of IKB Deutsche Industriebank AG as of 31 December 2020

in € million		31 Dec. 2020	31 Mar. 2020
Assets			
Cash reserve		**2,312.7**	**344.0**
a)	Cash on hand	-	-
b)	Balances with central banks	2,312.7	344.0
	thereof: with Deutsche Bundesbank	2,312.7	344.0
c)	Balances in postal giro accounts	-	-
Debt instruments of public sector entities and bills of exchange eligible for refinancing at central banks		**-**	**-**
Receivables from banks		**2,041.7**	**2,194.0**
a)	Repayable on demand	1,064.4	1,256.4
b)	Other receivables	977.3	937.7
Receivables from customers		**9,163.4**	**10,432.6**
	thereof: mortgage loans	636.1	652.4
	thereof: public sector loans	775.3	291.9
	thereof: cash collateral	6.1	37.6
Bonds and other fixed-income securities		**3,210.7**	**3,838.5**
a)	Money market securities	-	-
b)	Bonds and notes	3,195.1	3,819.6
	ba) Public sector issuers	2,482.0	1,923.3
	thereof: eligible as collateral for Deutsche Bundesbank	2,482.0	1,923.3
	bb) Other issuers	713.2	1,896.2
	thereof: eligible as collateral for Deutsche Bundesbank	659.8	1,763.4
c)	Own bonds	15.6	19.0
	Nominal amount	15.4	18.4
Equities and other non-fixed-income securities		**0.0**	**350.9**
Trading assets		**-**	**-**
Equity investments		**0.2**	**0.2**
	thereof: banks	0.2	0.2
	thereof: financial services institutions	-	-
Shares in affiliated companies		**127.6**	**167.9**
	thereof: banks	-	-
	thereof: financial services institutions	-	-
Assets held in trust		**-**	**-**
Compensation receivables from the public sector including debt securities arising from their exchange		**-**	**-**
Intangible assets		**0.6**	**1.5**
a)	Internally generated industrial and similar rights and assets	-	-
b)	Purchased concessions, industrial property rights and similar rights and assets and licences in such rights and assets	0.6	1.5
c)	Goodwill	-	-
d)	Advance payments made	0.1	-
Tangible assets		**3.9**	**4.4**
Called unpaid capital		**-**	**-**
Other assets		**209.9**	**135.7**
Prepaid expenses		**62.9**	**70.7**
Deferred tax assets		**137.0**	**137.0**
Excess of plan assets over post-employment benefit liability		**4.5**	**7.1**
Total assets		**17,275.2**	**17,684.5**

in € million	31 Dec. 2020	31 Mar. 2020
Equity and liabilities		
Liabilities to banks	**8,525.4**	**7,667.3**
a) Repayable on demand	16.3	47.2
b) With agreed term or notice period	8,509.0	7,620.1
Liabilities to customers	**5,979.2**	**6,482.8**
a) Savings deposits	-	-
b) Other liabilities	5,979.2	6,482.8
ba) Repayable on demand	1,223.0	1,108.1
bb) With agreed term or notice period	4,756.2	5,374.7
Securitised liabilities	**234.4**	**671.9**
a) Bonds issued	234.4	671.9
b) Other securitised liabilities	-	-
Trading liabilities	**-**	**-**
Liabilities held in trust	**-**	**-**
Other liabilities	**47.6**	**457.6**
Deferred income	**48.5**	**38.3**
Deferred tax liabilities	**-**	**-**
Provisions	**151.9**	**200.2**
a) Provisions for pensions and similar obligations	80.5	83.7
b) Tax provisions	19.7	33.0
c) Other provisions	51.7	83.5
Subordinated liabilities	**788.6**	**831.2**
thereof: due within two years	194.8	56.0
Profit participation capital	**-**	**-**
Fund for general banking risks	**585.0**	**585.0**
thereof: trading-related special reserve according to section 340e (4) HGB	-	-
Equity	**914.6**	**750.3**
a) Called-up capital	100.0	100.0
Subscribed capital	100.0	100.0
Less uncalled unpaid contributions	-	-
Contingent capital	-	800.0
b) Capital reserves	647.9	647.9
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) Reserves provided for by the articles of association	-	-
cd) Other revenue reserves	-	-
e) Net retained profits/net accumulated losses	164.3	-
Total equity and liabilities	17,275.2	17,684.5
Contingent liabilities	**1,563.3**	**1,879.2**
a) Contingent liabilities from rediscounted and settled bills of exchange	-	-
b) Liabilities from guarantees and indemnity agreements	1,563.3	1,879.2
c) Liability arising from the provision of collateral for third-party liabilities	-	-
Other obligations	**1,080.4**	**867.6**
a) Repurchase obligations from non-genuine repurchase agreements	-	-
b) Placement and underwriting obligations	-	-
c) Irrevocable loan commitments	1,080.4	867.6

Consolidated income statement for the period from 1 April 2020 to 31 December 2020

in € million	2020	2019/20
Expenses		
Interest expenses	**-88.8**	**-296.3**
thereof: positive interest	19.2	19.6
Commission expenses	**-2.4**	**-3.8**
Net trading result	**-**	**-**
General administrative expenses	**-102.3**	**-152.6**
a) Personnel expenses	-65.0	-80.9
aa) Wages and salaries	-49.1	-70.8
ab) Social security, post-employment and other employee benefit costs	-15.9	-10.1
thereof: for pensions	-9.0	-0.7
b) Other administrative expenses	-37.3	-71.7
Amortisation and write-downs of intangible fixed assets and depreciation and write-downs of tangible fixed assets	**-1.2**	**-3.2**
a) On lease assets	-	-
b) On intangible and tangible assets	-1.2	-3.2
Other operating expenses	**-300.2**	**-1,157.1**
Write-downs of receivables and certain securities and additions to loan loss provisions	**-19.7**	**-29.7**
Write-downs of equity investments, shares in affiliated companies and securities treated as fixed assets	**-3.9**	**-17.7**
Costs of loss absorption	**0.0**	**0.0**
Extraordinary expenses	**-7.0**	**-423.1**
Income taxes	**9.6**	**0.3**
Other taxes not reported under “Other operating expenses”	**0.1**	**-0.9**
Net income for the financial year	**-73.0**	**-8.3**
Total expenses	**-589.0**	**-2,092.4**

in € million	2020	2019/20
Income		
Interest income from	**205.2**	**487.3**
a) Lending and money market transactions	174.8	424.8
thereof: negative interest	-23.1	-24.3
b) Fixed-income securities and government-inscribed debts	30.3	62.5
thereof: negative interest	-	-
Current income from	**49.1**	**10.4**
a) Equities and other non-fixed-income securities	49.0	10.0
b) Equity investments	-	0.4
c) Shares in associated companies	-	-
d) Shares in affiliated companies	0.1	-
Income from profit pooling, profit-transfer and partial profit-transfer agreements	**0.0**	**-**
Commission income	**22.9**	**43.5**
Net trading result	**-**	**-**
Income from reversals of write-downs of receivables and certain securities and from the reversal of loan loss provisions	**-**	**-**
Income from reversals of write-downs of equity investments, shares in affiliated companies and securities treated as fixed assets	**218.9**	**429.7**
Other operating income	**92.9**	**769.7**
Extraordinary income	**-**	**351.8**
Income from assumption of losses	**-**	**-**
Net loss for the year	**-**	**-**
Total income	**589.0**	**2,092.4**
Net income/loss for the year[1)]	**73.0**	**8.3**
Non-controlling interests[1)]	**1.7**	**0.4**
Profit/loss carryforward from the previous year	**40.8**	**-2,592.1**
Withdrawals from revenue reserves	**-**	**-**
Income from capital reduction (due to retirement of shares)	**-**	**1,521.5**
Transfer to capital reserves in accordance with section 272 (2) no. 1 HGB under section 237 (5) AktG	**-**	**-1,521.5**
Reversal of capital reserves in accordance with section 272 (2) no. 4 HGB	**-**	**1,521.5**
Retirement of own shares provided free of charge	**-**	**-1,521.5**
Withdrawals from capital reserves in accordance with section 272 (2) no. 1 to no. 3 HGB	**-**	**2,113.1**
Withdrawals from capital reserves in accordance with section 272 (2) no. 4 HGB	**-**	**511.2**
Withdrawals from profit participation capital	**-**	**-**
Withdrawals from silent partnership contributions	**-**	**-**
Allocations to revenue reserves	**-**	**-**
Replenishment of profit participation capital	**-**	**-**
Net retained profits/net accumulated losses	**115.5**	**40.8**

1) Unlike in previous years, net income/loss for the year was reported after adjustments for non-controlling interests. Net profit/loss attributable to non-controlling interests is from now on presented with the sign reversed. This produces as a total the net income/loss for the year attributable to treasury shares.

Income statement of IKB Deutsche Industriebank AG for the period from 1 April 2020 to 31 December 2020

in € million	2020	2019/20
Expenses		
Interest expenses	**-90.3**	**-300.6**
thereof: positive interest	19.4	19.6
Commission expenses	**-2.3**	**-3.1**
Net trading result	**-**	**-**
General administrative expenses	**-101.7**	**-150.9**
a) Personnel expenses	-64.9	-80.8
aa) Wages and salaries	-49.1	-70.7
ab) Social security, post-employment and other employee benefit costs	-15.8	-10.1
thereof: for pensions	-8.9	-0.7
b) Other administrative expenses	-36.7	-70.1
Amortisation and write-downs of intangible fixed assets and depreciation and write-downs of tangible fixed assets	**-1.2**	**-2.3**
Other operating expenses	**-262.5**	**-1,149.6**
Write-downs of receivables and certain securities and additions to loan loss provisions	**-19.5**	**-29.4**
Write-downs of equity investments, shares in affiliated companies and securities treated as fixed assets	**-3.9**	**-18.6**
Costs of loss absorption	**0.0**	**-5.2**
Extraordinary expenses	**-6.7**	**-422.4**
Income taxes	**10.9**	**-0.5**
Other taxes not reported under “Other operating expenses”	**0.0**	**-0.2**
Profit transfer on the basis of profit pooling, profit-transfer and partial profit-transfer agreements	**-**	**-**
Net income for the financial year	**-164.3**	**-**
Total expenses	**-641.5**	**-2,082.6**

in € million	2020	2019/20
Income		
Interest income from	**204.7**	**483.7**
a) Lending and money market transactions	176.5	423.9
thereof: negative interest	-23.1	-24.3
b) Fixed-income securities and government-inscribed debts	28.1	59.8
thereof: negative interest	-	-
Current income from	**0.0**	**3.3**
a) Equities and other non-fixed-income securities	0.0	-
b) Equity investments	-	0.0
c) Shares in affiliated companies	-	3.3
Income from profit pooling, profit-transfer and partial profit-transfer agreements	**101.8**	**3.5**
Commission income	**23.0**	**43.9**
Net trading result	**-**	**-**
Income from reversals of write-downs of receivables and certain securities and from the reversal of loan loss provisions	**-**	**-**
Income from reversals of write-downs of equity investments, shares in affiliated companies and securities treated as fixed assets	**224.3**	**665.6**
Other operating income	**87.8**	**766.4**
Extraordinary income	**-**	**-**
Income from assumption of losses	**-**	**-**
Net loss for the year	**-**	**116.2**
Total income	**641.5**	**2,082.6**
Net income/loss for the year	**164.3**	**-116.2**
Loss carryforward from the previous year	**-**	**-2,508.1**
Withdrawals from revenue reserves	**-**	**-**
Income from capital reduction (due to retirement of shares)	**-**	**1,521.5**
Transfer to capital reserves in accordance with section 272 (2) no. 1 HGB under section 237 (5) AktG	**-**	**-1,521.5**
Reversal of capital reserves in accordance with section 272 (2) no. 4 HGB	**-**	**1,521.5**
Retirement of own shares provided free of charge	**-**	**-1,521.5**
Withdrawals from capital reserves in accordance with section 272 (2) no. 1 to no. 3 HGB	**-**	**2,113.1**
Withdrawals from capital reserves in accordance with section 272 (2) no. 4 HGB	**-**	**511.2**
Withdrawals from profit participation capital	**-**	**-**
Withdrawals from silent partnership contributions	**-**	**-**
Allocations to revenue reserves	**-**	**-**
Replenishment of profit participation capital	**-**	**-**
Net retained profits/net accumulated losses	**164.3**	**0.0**

Consolidated cash flow statement

in € million		**2020**
Net income for the period (consolidated net income/loss for the year including minority interest)		**73.0**
+/-	Amortisation/depreciation and write-downs of receivables and fixed assets and reversals thereof	25.0
+/-	Increase/decrease in provisions	-39.0
+/-	Other non-cash expenses/income	-5.2
-/+	Gain/loss on the disposal of fixed assets	-217.3
+/-	Other adjustments (net)	-4.6
+/-	Increase/decrease in receivables from banks	154.3
+/-	Increase/decrease in receivables from customers	734.7
+/-	Increase/decrease in securities (other than long-term financial assets)	3.0
+/-	Increase/decrease in other assets from operating activities	112.6
+/-	Increase/decrease in liabilities to banks	854.1
+/-	Increase/decrease in liabilities to customers	-381.1
+/-	Increase/decrease in securitised liabilities	-145.0
+/-	Increase/decrease in other liabilities from operating activities	-1.8
+/-	Interest expenses/interest income	-165.5
+/-	Expenses/income from extraordinary items	7.0
+/-	Income tax expenses/income	-9.6
+	Interest and dividends received	248.6
-	Interest paid	-79.6
+	Extraordinary receipts	-
-	Extraordinary payments	-2.3
+/-	Income tax payments	-1.1
Cash flow from operating activities		**1,160.3**
+	Receipts from the disposal of long-term financial assets	2,340.9
-	Payments for the acquisition of long-term financial assets	-1,499.1
+	Receipts from the disposal of tangible assets	-
-	Payments for the acquisition of tangible assets	-0.4
+	Receipts from the disposal of intangible assets	-
-	Payments for the acquisition of intangible assets	-0.1
+	Receipts from disposals from consolidated group	3.4
-	Payments for additions to consolidated group	-
+/-	Change in cash funds from other investing activities (net)	-
+	Receipts from extraordinary items	-
-	Payment for extraordinary items	-
Cash flow from investing activities		**844.7**
+	Receipts from equity contributions by shareholders of the parent company	-
+	Receipts from equity contributions by other shareholders	-
-	Payments for equity reductions to shareholders of the parent company	-
-	Payments for equity reductions to other shareholders	-
+	Receipt from extraordinary items	-
-	Payment for extraordinary items	-
-	Dividends paid to shareholders of the parent company	-
-	Dividends paid to other shareholders	-
+/-	Change in cash funds from other capital (net)	-36.3
Cash flow from financing activities		**-36.3**
	Net change in cash funds	1,968.6
+/-	Effect on cash funds of changes in exchange rates and remeasurement	-
+/-	Changes in cash funds due to consolidated group	-
+	Cash funds at beginning of period	344.1
Cash funds at end of period		**2,312.7**

Notes to the consolidated cash flow statement

The consolidated cash flow statement was prepared in accordance with the requirements of German accounting standard no. 21 (GAS 21) on cash flow statements promulgated by the Federal Ministry of Justice and Consumer Protection. IKB makes use of the option provided under the GAS 21.22 not to disclose prior-year figures in the cash flow statement.

The IKB Group's cash funds equate to the "Cash reserve" balance sheet item plus the "Debt instruments of public sector entities and bills of exchange eligible for refinancing of central banks" balance sheet item. In the cash flow statement, the cash funds at the start of the year are reconciled with the cash funds available at the end of the year by showing the cash flows from

- operating activities,
- investing activities and
- financing activities.

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

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

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

Statement of changes in equity

Group:

in € million	1 Apr. 2020	Purchase of treasury shares	Capital reduction due to retirement of shares	Retirement of shares	Total	Transfers to/withdrawals from reserves	Distribution	Currency translation	Other changes	Changes in the consolidated group	Consolidated net income/loss for the year	31 Dec. 2020
(Corrected) subscribed capital	**100.0**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**100.0**
Subscribed capital (ordinary shares)	**100.0**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**100.0**
Treasury shares (ordinary shares)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Uncalled unpaid contributions (ordinary shares)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Reserves	**650.6**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-0.3**	**-**	**650.3**
Capital reserves	**647.9**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**647.9**
in accordance with section 272 (2) no. 1 to 3 HGB	7.6	-	-	-	-	-	-	-	-	-	-	7.6
in accordance with section 272 (2) no. 4 HGB	640.3	-	-	-	-	-	-	-	-	-	-	640.3
Revenue reserves	**2.7**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-0.3**	**-**	**2.4**
Legal reserves	2.4	-	-	-	-	-	-	-	-	-	-	2.4
Other revenue reserves	0.3	-	-	-	-	-	-	-	-	-0.3	-	-
Difference in equity from currency translation	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Retained profits/accumulated losses brought forward	**40.8**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**74.7**	**115.5**
Equity of parent company	**791.4**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-0.3**	**74.7**	**865.8**
Non-controlling interests before currency translation and net profit/loss for the year	**-2.5**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-2.5**
Currency translation attributable to non-controlling interests	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Net profit/loss for the year attributable to non-controlling interests	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-1.7**	**-1.7**
Non-controlling interests	**-2.5**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-1.7**	**-4.3**
Consolidated equity	**788.9**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**-0.3**	**73.0**	**861.5**

Group:

in € million	1 Apr. 2019	Purchase of treasury shares	Capital reduction due to retirement of shares	Retirement of shares	Total	Transfers to/withdrawals from reserves	Distribution	Currency translation	Other changes	Changes in the consolidated group	Consolidated net income/loss for the year	31 Mar. 2020
(Corrected) subscribed capital	**1,621.5**	**-1,521.5**	**-1,521.5**	**1,521.5**	**-1,521.5**	**-**	**-**	**-**	**-**	**0.0**	**-**	**100.0**
Subscribed capital (ordinary shares)	**1,621.5**	**-**	**-1,521.5**	**-**	**-1,521.5**	**-**	**-**	**-**	**-**	**0.0**	**-**	**100.0**
Treasury shares (ordinary shares)	**-**	**-1,521.5**	**-**	**1,521.5**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Uncalled unpaid contributions (ordinary shares)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Reserves	**1,753.4**	**1,521.5**	**1,521.5**	**-1,521.5**	**1,521.5**	**-2,624.3**	**-**	**-**	**-**	**-**	**-**	**650.6**
Capital reserves	**1,750.7**	**1,521.5**	**1,521.5**	**-1,521.5**	**1,521.5**	**-2,624.3**	**-**	**-**	**-**	**-**	**-**	**647.9**
in accordance with section 272 (2) no. 1 to 3 HGB	599.2	-	1,521.5	-	1,521.5	-2,113.1	-	-	-	-	-	7.6
in accordance with section 272 (2) no. 4 HGB	1,151.5	1,521.5	-	-1,521.5	-	-511.2	-	-	-	-	-	640.3
Revenue reserves	**2.7**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**2.7**
Legal reserves	2.4	-	-	-	-	-	-	-	-	-	-	2.4
Other revenue reserves	0.3	-	-	-	-	-	-	-	-	-	-	0.3
Difference in equity from currency translation	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Retained profits/accumulated losses brought forward	**-2,592.1**	**-**	**-**	**-**	**-**	**2,624.3**	**-**	**-**	**-**	**-**	**8.7**	**40.9**
Equity of parent company	**782.8**	**-**	**-**	**-**	**-**	**0.0**	**-**	**-**	**-**	**0.0**	**8.7**	**791.5**
Non-controlling interests before currency translation and net profit/loss for the year	**47.0**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-48.7**	**-**	**-1.7**
Currency translation attributable to non-controlling interests	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Net profit/loss for the year attributable to non-controlling interests	**-**	**-**	**-**	**-**	**-**	**-**	**-0.3**	**-**	**-**	**-**	**-0.4**	**-0.7**
Non-controlling interests	**47.0**	**-**	**-**	**-**	**-**	**-**	**-0.3**	**-**	**-**	**-48.7**	**-0.4**	**-2.5**
Consolidated equity	**829.8**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**-0.3**	**0.0**	**0.0**	**-48.7**	**8.3**	**788.9**

As of the reporting date, the non-controlling interests primarily relate to minority shareholders of the special purpose vehicle HIMERA Grundstücks-Vermietungsgesellschaft mbH, Pullach i. Isartal.

IKB AG:

in € million	1 Apr. 2020	Purchase of treasury shares	Capital reduction due to retirement of shares	Retirement of shares	Total	Transfers to/withdrawals from reserves	Distribution	Other changes	Net income/loss for the year	31 Dec. 2020
(Corrected) subscribed capital	**100.0**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**100.0**
Subscribed capital (ordinary shares)	**100.0**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**100.0**
Ordinary shares	100.0	-	-	-	-	-	-	-	-	100.0
Preference shares	-	-	-	-	-	-	-	-	-	-
Treasury shares (ordinary shares)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Uncalled unpaid contributions (ordinary shares)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Reserves	**650.3**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**650.3**
Capital reserves	**647.9**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**647.9**
in accordance with section 272 (2) no. 1 to 3 HGB	7.6	-	-	-	-	-	-	-	-	7.6
in accordance with section 272 (2) no. 4 HGB	640.3	-	-	-	-	-	-	-	-	640.3
Revenue reserves	**2.4**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**2.4**
Legal reserves	2.4	-	-	-	-	-	-	-	-	2.4
Other revenue reserves	-	-	-	-	-	-	-	-	-	-
Retained profits/accumulated losses brought forward	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**164.3**	**164.3**
Equity	**750.3**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**164.3**	**914.6**

IKB AG:

in € million	1 Apr. 2019	Purchase of treasury shares	Capital reduction due to retirement of shares	Retirement of shares	Total	Transfers to/withdrawals from reserves	Distribution	Other changes	Net income/loss for the year	31 Mar. 2020
(Corrected) subscribed capital	**1,621.5**	**-1,521.5**	**-1,521.5**	**1,521.5**	**-1,521.5**	**-**	**-**	**-**	**-**	**100.0**
Subscribed capital (ordinary shares)	**1,621.5**	**-**	**-1,521.5**	**-**	**-1,521.5**	**-**	**-**	**-**	**-**	**100.0**
Treasury shares (ordinary shares)	**-**	**-1,521.5**	**-**	**1,521.5**	**-**	**-**	**-**	**-**	**-**	**-**
Uncalled unpaid contributions (ordinary shares)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Reserves	**1,753.1**	**1,521.5**	**1,521.5**	**-1,521.5**	**1,521.5**	**-2,624.3**	**-**	**-**	**-**	**650.3**
Capital reserves	**1,750.7**	**1,521.5**	**1,521.5**	**-1,521.5**	**1,521.5**	**-2,624.3**	**-**	**-**	**-**	**647.9**
in accordance with section 272 (2) no. 1 to 3 HGB	599.2	-	1,521.5	-	1,521.5	-2,113.1	-	-	-	7.6
in accordance with section 272 (2) no. 4 HGB	1,151.5	1,521.5	-	-1,521.5	-	-511.2	-	-	-	640.3
Revenue reserves	**2.4**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**2.4**
Legal reserves	2.4	-	-	-	-	-	-	-	-	**2.4**
Other revenue reserves	-	-	-	-	-	-	-	-	-	-
Retained profits/accumulated losses brought forward	**-2,508.1**	**-**	**-**	**-**	**-**	**2,624.3**	**-**	**-**	**-116.2**	**0.0**
Equity	**866.5**	**-**	**-**	**-**	**-**	**0.0**	**-**	**-**	**-116.2**	**750.3**

Notes to the financial statements and the consolidated financial statements

Applied accounting principles

(1) Preparation of the financial statements and consolidated financial statements for the 2020 short financial year

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

The General Meeting on 3 September 2020 resolved that IKB AG's financial year would in future begin on 1 January of each year and end on 31 December of the year. Consequently, a nine month period from 1 April to 31 December 2020 (a short financial year) is reported for the current financial year. Due to the 12-month prior-year period, there is only limited comparability.

The consolidated financial statements (Group) and the annual financial statements (IKB AG) of IKB Deutsche Industriebank AG for the short financial year from 1 April to 31 December 2020 are prepared in accordance with the provisions of the German Commercial Code (Handelsgesetzbuch – HGB) in conjunction with the German Regulation on the Accounting of Banks and Financial Services Institutions (Verordnung über die Rechnungslegung der Kreditinstitute und Finanzdienstleistungsinstitute – RechKredV) and relevant regulations of the German Stock Corporation Act (Aktiengesetz – AktG). The consolidated financial statements also take into account the German accounting standards (GAS) adopted by the Accounting Standards Committee of Germany (ASCG) and promulgated by the German Federal Ministry of Justice in accordance with section 342 (2) HGB.

The comparative figures for the previous year were calculated in line with the requirements of German commercial law and stated in accordance with section 298 (1) HGB in conjunction with section 265 (2) HGB; the figures were not restated to show a nine-month reporting period for the prior-year period.

The balance sheet and the income statement are structured in line with the forms for banks pursuant to section 2 RechKredV. The income statement is prepared in account form (RechKredV form 2).

Disclosures that can be provided either in the (consolidated) balance sheet/(consolidated) income statement or the notes to the (consolidated) financial statements have largely been provided in the notes to the (consolidated) financial statements in the order of the items concerned. Amounts are stated in millions of euros. Minor deviations may occur in the totals in the notes due to rounding. Amounts below €50,000 and values of zero are shown as "-" in IKB AG's consolidated financial statements and annual financial statements.

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

IKB's short financial year begins on 1 April and ends on 31 December 2020. The subsequent financial years begin on 1 January and end on 31 December.

(2) Changes in presentation and measurement

The calculation of fair value in the lending business was adjusted to improve the way in which in particular embedded floors in variable interest loans, tenor-specific forward curves and expected unscheduled repayments are taken into account. If the change had already been applied as of 31 March 2020, the fair value of the transactions concerned would have been €21.3 million lower. This change has no impact on the income statement.

In the light of the replacement of the EONIA (Euro Overnight Index Average) reference rate with the €STR (the Euro Short Term Rate), the clearing houses Eurex Clearing and LCH changed the discount rates for cash collateral for euro-denominated derivatives from EONIA to €STR on 27 July 2020. The interest rate applicable to the cash collateral is usually used as the discount rate when calculating the fair value of derivatives. The cash flows underlying the derivatives do not change as a result of the change in the discount curve. However, there is an effect on the fair values of the derivatives concerned. In order to equalise this effect between the parties, one-off compensation payments were made between the parties at the date of the change. These were recognised as prepaid expenses of €1.6 million and deferred income of €20.2 million. The prepaid expenses and the deferred income are released on a straight line basis over the residual term of the derivatives. At the time of the change, there was no effect on the income statement or unrealised gains and losses.

The method for measuring illiquid subordinated liabilities was harmonised with the measurement of liquid subordinated liabilities. The improved measurement method now uses a greater number of input parameters that can be derived from liquid market data. The method was adjusted in July 2020, as a result of which the fair values at the date of the change increased by €29.4 million. If the the new measurement method had already been used as of 31 March 2020, the fair value of the financial instruments concerned would have been €6.9 million higher. This change has no impact on the income statement because the subordinated liabilities are valued at their settlement amount.

As of 31 December 2020, the method of calculating the administrative costs for the purpose of measuring the banking book at the lower of cost and market value was changed. Previously, the calculation of the administrative costs was linked to the course of the lending business. Now, additional lump-sum amounts are recognized for the administration of the securities portfolio. The change in measurement method reduced the netting result subject to measurement at the lower of cost and market value pursuant to IDW AcP BFA 3. The application of the new measurement method did not result in any requirement to recognise provisions.

Furthermore, the calculation of the probabilities of default of securities held as fixed assets was adjusted while taking account of risk costs in the measurement at the lower of cost and market value in accordance with IDW AcP BFA 3. From now on, the probability of default will be calculated for terms up to 100 years, and the contingent one-year probability of default will only be extrapolated for terms beyond that. The change in measurement method reduced the netting result subject to measurement at the lower of cost and market value pursuant to IDW AcP BFA 3. The application of the new measurement method did not result in any requirement to recognise provisions.

The measurement method for calculating pension provisions was adjusted as of 31 December 2020. For a certain group of persons entitled to pensions, the employee's earned entitlement as of the reporting date was taken as a basis instead of a pro-rata accumulation. The new obligation figure represents the settlement amount required for the pension liability more accurately. As a result of applying the changed measurement method, the pension provisions as of 31 December 2020 increased by €2.6 million at the expense of personnel expenses. If the new measurement method had already been used as of 31 March 2020, pension provisions and personnel expenses would have been €2.4 million higher.

(3) Consolidated group

In addition to IKB AG, 16 (31 March 2020: 21) subsidiaries have been fully consolidated in the Group financial statements for the period ended 31 December 2020. 13 (31 March 2020: 26) further subsidiaries were not consolidated pursuant to section 296 (2) and section 311 (2) HGB due to being of only minor importance to the net assets, financial position and results of operations of the Group. Not consolidating these companies does not result in a significantly different view of the economic position of the Group than if they had been consolidated.

Due to their minor importance for the to the net assets, financial position and results of operations of the Groupof the Group, the companies IKB Beteiligungsgesellschaft 1 mbH, Düsseldorf, IKB Grundstücksgesellschaft Düsseldorf GmbH, Düsseldorf, and IKB Real Estate Holding GmbH, Düsseldorf, were deconsolidated in September 2020. No material effects resulted from these deconsolidations.

IKB AG concluded a sale and assignment agreement with an external third party for the sale of all its limited partner's shares in IKB Projektentwicklung GmbH & Co. KG i.L., Düsseldorf in July 2020. In December 2020, the limited partner's interests were transferred to the buyer and the company was deconsolidated. The deconsolidation effect amounts to €3.3 million.

IKB Lux Beteiligungen S.à.r.l. i.L., Munsbach, Luxembourg, was placed in liquidation with the shareholder resolution of 29 September 2020. In the course of the liquidation, IKB Lux Beteiligungen S.à.r.l. i.L., Munsbach, Luxembourg, transferred it shares in IKB International S.A. i.L., Munsbach, Luxembourg, to IKB AG by way of a distribution in kind in November 2020. The liquidation of IKB Lux Beteiligungen S.à.r.l. i.L., Munsbach, Luxembourg, completed in December 2020 with the deletion of the company from the commercial register. The deconsolidation effect amounts to €0.3 million.

For further information, please see note (51).

(4) Consolidation principles

The consolidated financial statements were prepared in accordance with the uniform accounting policies applicable to IKB AG. The annual financial statements of the subsidiaries included that are neither banks nor financial services institutions have been reconciled to the structure of the RechKredV forms. If a Group company has a reporting date other than 31 December, inclusion is carried out using the interim financial statements updated to the Group's balance sheet date.

Since the German Act to Modernise Accounting Law (Bilanzrechtsmodernisierungsgesetz – BilMoG) entered into force, capital consolidation for companies consolidated for the first time has been carried out in accordance with the revaluation method pursuant to section 301 HGB. Prior to BilMoG's entry into force, the companies consolidated for the first time were consolidated in accordance with the book value method.

Increases in the shares in subsidiaries are classified as a capital transaction within the meaning of GAS 23 – Accounting for Subsidiaries in Consolidated Financial Statements, and thus the assets and liabilities are not remeasured. Instead, the cost of the additional shares is offset against the non-controlling interests in equity attributable to these shares at the date on which these shares are acquired. Any difference remaining after this offsetting is offset directly against group equity.

Assets, liabilities, prepaid expenses, deferred income, expenses and income between the Group companies included are consolidated unless industry-specific accounting regulations prevent this. Intercompany profits or losses from internal transactions are eliminated unless immaterial.

Accounting policies

(5) Receivables

Receivables from customers and banks are recognised at nominal value less specific and general valuation allowances. Differences between the nominal value and the payment amount (premiums/discounts) are recognised in deferred income and prepaid expenses and allocated on a systematic basis, if the difference is equivalent to interest. Purchased receivables with a purchase price discount due to the credit rating are recognised at acquisition cost less specific and general valuation allowances.

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

(6) Provisions for possible loan losses

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

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

In order to estimate current latent counterparty risks, general valuation allowances and general provisions for customer receivables and contingent liabilities from guarantees are calculated in the amount of the one-year expected loss on this portfolio.

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

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

For non-recourse financing of lease assets, there is also default risk for the lessee in addition to the default risk for the leasing company. This double default risk is taken into account when recognising general valuation allowances by recognising general valuation allowances for the default risk of lessees on the basis of the estimated one-year expected loss in addition to calculating the general valuation allowance for the leasing company.

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

- above-average risk of loss in the area of acquisition financing;
- above-average risk of loss in corporate finance business in connection with the coronavirus crisis.

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

In the Bank's view, unlike at the previous year's reporting date, there is no longer any increased latent counterparty risk for the impact of the tightening of legislation on borrowers in the renewable energy segment in southern Europe.

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

Uncollectible receivables are written off directly. Recoveries on loans previously written off are recognised under "Risk provisions in the lending business" in the income statement.

(7) Securities

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

Securities classifiedas fixed assets are subsequently measured in accordance with the less strict lower-of-cost-or-market principle under section 340e (1) sentence 1 HGB in conjunction with section 253 (3) sentence 3 HGB. If impairment is expected to be permanent, assets are written down to the lower fair value as of the reporting date.

Securities held as current assets are measured at the lower of the stock-exchange or market price in line with the strict lower-of-cost-or-market principle in accordance with section 340e (1) sentence 2 HGB in conjunction with section 253 (4) HGB. If no prices are available at the reporting date, the fair value is calculated on the basis of price information from market data providers and tested for plausibility using suitable methods. If no stock-exchange prices or price information from contractual providers are available for securities, the value is calculated on the basis of the Bank's own measurement models by discounting expected cash flows. The discount rate is calculated using the risk profile of similar securities. Parameters not exclusively observable on the market are also used for this.

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

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

(8) Securities repurchase and lending transactions

In securities repurchase (repo) transactions, the Bank sell securities – as a repo seller – and at the same time agrees a contingent (non-genuine) or non-contingent (genuine) repurchase agreement for the securities with the repo buyer.

Repo transactions are recognised in line with the rules of section 340b HGB. Thus, in genuine repo transactions, IKB – as the repo seller – continues to report the assets sold on its balance sheet and at the same time recognises a corresponding liability to the repo buyer. If IKB is the repo buyer, a receivable from the repo seller is recognised.

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

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

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

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

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

Other assets are carried at cost less any write-downs.

(10) Deferred taxes

If there are differences between the book values of assets, liabilities, prepaid expenses and deferred income in the financial statements and their tax bases that will reverse in subsequent financial years (temporary differences), any net tax expense resulting from this is recognised as a deferred tax liability. Any net relief resulting from this can be recognised as a deferred tax asset. In calculating deferred tax assets, temporary differences or tax loss carry forwards that are expected to be available for offsetting in the next five years are taken into account in loss offsetting. The option to report deferred tax assets in line with section 274 (1) sentence 2 HGB is exercised. However, the option to report deferred tax assets and liabilities without netting in line with 274 (1) sentence 3 HGB (gross presentation) is not exercised.

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

Owing to tax groups for corporate income tax purposes, the deferred tax assets and liabilities resulting from temporary differences at tax group subsidiaries are taken into account in the calculation of the deferred taxes of the tax group parent. For tax group parents that are also tax group subsidiaries, temporary differences are taken into account at the level of the ultimate tax group parent.

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

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

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

Assets transferred in contractual trust arrangements (CTAs) are measured at fair value. If the fair value of the assets exceeds the amount of the liabilities, the amount is reported under “Excess of plan assets over post-employment benefit liability”.

The accounting of pension liabilities is shown in the accounting policies for provisions (note (13)).

(12) Liabilities

Liabilities are reported at their settlement amount. Any negative difference between this and the amount paid is recognised under deferred items and charged to profit or loss on a systematic basis.

(13) Provisions

Provisions for pensions and similar obligations

Pension liabilities are carried at the settlement amount required according to prudent business judgement. The 2018 G Heubeck mortality tables are used to calculate the settlement amount required. The calculation is performed using the projected unit credit method with the following measurement assumptions:

Measurement factor	31 Dec. 2020 Assumption	31 Mar. 2020 Assumption
Interest rate (7-year/10-year average)	1.60% / 2.30%	1.88% / 2.61%
Salary increases (Board of Managing Directors/non-pay-scale employees/pay-scale employees)	0.0% / 1.0% / 1.5%	0.0% / 1.0% / 1.5%
Pension trend	1.50%	1.50%
Staff turnover rate broken down by age and gender		
Age up to 35 m/f	6.0% / 6.0%	6.0% / 6.0%
Age from 36 to 45 m/f	4.0% / 4.0%	4.0% / 4.0%
Age over 45 m/f	1.5% / 1.5%	1.5% / 1.5%

In accordance with section 253 HGB, pension provisions are discounted using the average market interest rate for the past ten years for a general remaining term of 15 years (see note (34)). The average market interest rate for the past seven years is used for discounting similar obligations. The interest rate is announced by the Bundesbank in line with the German Regulation on the Discounting of Provisions (Rückstellungsabzinsungsverordnung – RückAbzinsV). For securities-linked commitments, provisions are carried in the amount of the fair value of the plan assets if a guaranteed minimum amount is exceeded.

The Bank exercises the option not to recognise indirect pension obligations (2015 pension plan) in its balance sheet.

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

Please see note (11) for information on the offsetting requirement regarding offsetting transferred assets against pension obligations and the recognition of assets.

Tax and other provisions

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

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

(14) Contingent liabilities and other obligations

Contingent liabilities and other obligations are shown below the balance sheet at nominal amounts less any provisions recognised.

(15) Extraordinary result

In accordance with section 340a (2) HGB, banks must report the expenses they incur and the income they generate outside ordinary business activities under “Extraordinary expenses” and “Extraordinary income”. This item therefore includes expenses and income in connection with extraordinary measures, such as transformation and merger processes or restructuring measures (see note (44)).

(16) Derivatives

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

For futures positions that are not subject to integration treatment, provisions for expected losses from executory contracts are recognised if the fair value is negative.

Interest derivatives are measured at the lower of cost and market value together with all other interest-bearing financial instruments in accordance with the principles of IDW AcP BFA 3. The present value of the interest-bearing transaction is compared with the corresponding book values, taking into account administrative and risk costs and anticipated refinancing costs. Future cash flows are discounted for the purposes of measurement of the banking book at the lower of cost and market value using a uniform yield curve per currency. Measurement at the lower of cost and market value in accordance with IDW AcP BFA 3 did not result in any requirement to recognise provisions.

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

Credit derivatives for which IKB is the collateral provider are treated as guarantees if the derivative only hedges default risk and the intention is to hold the derivative until maturity or the occurrence of the credit event. Provisions are recognised in the amount of the expected utilisation for credit derivatives accounted for as guarantees. If the intention to hold these to maturity is abandoned over time, the close-out effect is reported in net other operating income. All other credit derivatives for which IKB is the collateral provider are recognised as executory contracts. Provisions for expected losses are recognised in the amount of the negative fair values.

(17) Currency translation

The modified closing rate method in accordance with section 308a HGB/GAS 25 – Foreign Currency Translation in Consolidated Financial Statements is used to translate foreign-currency financial statements in the Group. The asset and liability items but not the equity on a balance sheet in a foreign currency are translated to euros at the mean spot rate on the balance sheet date. Equity is translated into euros at the historic rate. Income statement items are translated into euros at the average exchange rate. Any translation difference is reported in consolidated equity as the “Difference in equity from currency translation”. No foreign-currency financial statements were included in the Group as of 31 December 2020.

In IKB AG’s the single-entity financial statements and in the other institutions in the Group, foreign-currency assets and liabilities are translated in line with the principles of section 340h HGB in conjunction with section 256a HGB if there is special cover. Thus, foreign-currency assets and liabilities are translated at the mean spot rate as of the balance sheet date. If the requirements of special cover are not satisfied, currency translation is performed in line with the requirements that apply to all merchants (section 256a HGB). For a remaining term of one year or less, the unrealised gains on currency translation are recognised in income. If the remaining term exceeds one year, the general measurement rules apply.

This special cover within the meaning of section 340h HGB can be deemed provided in accordance with IDW AcP BFA 4 if the currency risk is managed via a currency position and the individual items are aggregated in a currency position. IKB AG allocates foreign-currency transactions to the currency position of the respective currency and manages them using approved limits.

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

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

Notes to the balance sheet

(18) Cash reserve

The cash reserve deposited with the ECB rose to €2,312.7 million (previous year: €344.1 million) for the Group and to €2,312.7 million (previous year: €344.0 million) for IKB AG, mainly due to liquidity raised under a long-term ECB refinancing programme.

(19) Maturity structure of selected balance sheet items by remaining term

	Group		IKB AG	
in € million	**31 Dec. 2020**	**31 Mar. 2020**	**31 Dec. 2020**	**31 Mar. 2020**
Receivables from banks[1)]	**977.3**	**937.7**	**977.3**	**937.7**
remaining term				
up to 3 months	678.3	2.0	678.3	2.0
more than 3 months up to 1 year	272.3	921.8	272.3	921.8
more than 1 year up to 5 years	26.8	14.0	26.7	13.9
more than 5 years	-	-	-	-
indefinite term	-	-	-	-
Receivables from customers	**8,773.7**	**9,529.6**	**9,163.4**	**10,432.6**
remaining term				
up to 3 months	463.9	747.4	465.4	757.4
more than 3 months up to 1 year	1,379.4	1,275.8	1,684.4	1,727.0
more than 1 year up to 5 years	5,652.8	5,796.9	5,656.0	5,818.7
more than 5 years	1,277.6	1,709.5	1,357.6	2,129.5
indefinite term	-	-	-	-
Liabilities to banks[1)]	**8,511.2**	**7,622.2**	**8,509.0**	**7,620.1**
remaining term				
up to 3 months	328.1	885.6	328.1	884.9
more than 3 months up to 1 year	722.7	2,496.4	720.5	2,496.2
more than 1 year up to 5 years	6,292.7	2,984.9	6,292.7	2,983.6
more than 5 years	1,167.8	1,255.3	1,167.8	1,255.3
indefinite term	-	-	-	-
Liabilities to customers[1)]	**4,612.2**	**5,067.5**	**4,756.2**	**5,374.7**
remaining term				
up to 3 months	1,112.4	740.9	1,112.4	925.1
more than 3 months up to 1 year	1,489.5	1,960.8	1,633.5	2,085.7
more than 1 year up to 5 years	1,732.7	1,951.3	1,732.7	1,949.5
more than 5 years	277.6	414.5	277.6	414.5

1) not including receivables or liabilities repayable on demand

Of the bonds and other fixed-income securities, €47.6 million (previous year: €135.5 million) have a remaining term of up to one year in the Group and €47.6 million (previous year: €136.5 million) have a remaining term of up to one year in IKB AG. Of the bonds issued that are reported as securitised liabilities, €83.0 million (previous year: €129.6 million) have a remaining term of up to one year in the Group and €83.0 million (previous year: €129.8 million) have a remaining term of up to one year in IKB AG.

(20) Foreign-currency assets

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

	Group		IKB AG	
in € million	**31 Dec. 2020**	**31 Mar. 2020**	**31 Dec. 2020**	**31 Mar. 2020**
Assets	285.1	429.3	285.1	429.3

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

(21) Repurchase agreements

The book value of the assets recognised in the balance sheet as of the reporting date and transferred in genuine repurchase agreements is €10.9 million (previous year: €1,118.6 million) in the Group and €10.9 million (previous year: €1,118.6 million) in IKB AG. The collateral value takes into account netting of €90.0 million conducted by Eurex against collateral from offsetting reverse repo transactions. The decrease compared to 31 March 2020 results from a lower amount of secured refinancing via Eurex in favour of other forms of refinancing.

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

	Group			
	31 Dec. 2020		31 Mar. 2020	
in € million	Affiliated companies	Investees and investors	Affiliated companies	Investees and investors
Receivables from customers	-	-	-	-
Other assets	-	-	0.1	-

	IKB AG			
	31 Dec. 2020		31 Mar. 2020	
in € million	Affiliated companies	Investees and investors	Affiliated companies	Investees and investors
Receivables from customers	437.7	-	980.9	-
Other assets	147.1	-	3.9	-

The decrease in receivables from customers in IKB AG is due to the further reduction of internal refinancing as part of the reduction of the investment portfolio’s complexity. The increase in other assets in IKB AG results not only from increased receivables from profit transfer but from the acquisition for consideration of an internal sub-interest in expected compensation payments of pending law suits.

(23) Fixed assets

Group:

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
Cost as of 31 Mar. 2020	**28.0**	**7.5**	**0.2**	**44.2**	**3,812.7**	**305.6**	**4,198.2**
Additions to the consolidated group	-	-	-	-	-	-	-
Additions	0.1	0.4	0.1	2.6	1,522.7	-	1,525.9
Reclassifications	-	-	-	0.6	-	-	0.6
Effects of currency translation	-	-	-	-	-0.1	-	-0.1
Disposals from the consolidated group	-	-	0.0	-0.5	-	-	-0.5
Disposals	-2.1	-0.3	0.0	-45.9	-2,147.5	-	-2,195.8
Cost as of 31 Dec. 2020	**26.0**	**7.6**	**0.3**	**1.0**	**3,187.8**	**305.6**	**3,528.3**
Cumulative depreciation/amortisation and write-downs and reversals thereof by 31 Mar. 2020	**-26.4**	**-3.1**	**-**	**-36.8**	**-1.6**	**-1.6**	**-69.5**
Reversal of write-downs	-	-	-	0.0	0.7	-	0.7
Depreciation/amortisation and write-downs	-0.6	-0.8	-	0.0	-0.3	0.0	-1.7
Reclassifications	-	-	-	0.0	-	-	0.0
Effects of currency translation	-	-	-	-	-	-	-
Disposals from the consolidated group	-	-	-	0.5	-	-	0.5
Disposals	1.7	0.3	-	36.3	-	-	38.3
Cumulative depreciation/amortisation and write-downs and reversals thereof by 31 Dec. 2020	**-25.3**	**-3.7**	**-**	**0.0**	**-1.2**	**-1.6**	**-31.8**
Residual book value as of 31 Dec. 2020	**0.6**	**3.9**	**0.3**	**1.0**	**3,186.6**	**304.0**	**3,496.4**
Residual book value as of 31 Mar. 2020	**1.5**	**4.4**	**0.2**	**7.4**	**3,811.2**	**304.0**	**4,128.7**

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

IKB AG:

in € million	Intangible assets	Tangible assets	Equity investments	Investments in affiliated companies	Bonds and other fixed-income securities	Total
Cost as of 31 Mar. 2020	**27.9**	**7.5**	**0.2**	**889.1**	**3,821.2**	**4,745.9**
Additions	0.1	0.4	-	7.3	1,522.7	1,530.5
Reclassifications	-	-	-	-	-	-
Effects of currency translation	-	-	-	-	-0.1	-0.1
Disposals	-2.1	-0.3	-	-206.1	-2,147.4	-2,355.9
Cost as of 31 Dec. 2020	**25.9**	**7.6**	**0.2**	**690.3**	**3,196.4**	**3,920.4**
Cumulative depreciation/amortisation and write-downs and reversals thereof by 31 Mar. 2020	**-26.4**	**-3.1**	**-**	**-721.2**	**-1.6**	**-752.3**
Reversal of write-downs	-	-	-	3.0	0.7	3.7
Depreciation/amortisation and write-downs	-0.6	-0.8	-	0.0	-0.3	-1.7
Reclassifications	-	-	-	-	-	-
Effects of currency translation	-	-	-	-	-	-
Disposals	1.7	0.3	-	155.5	-	157.5
Cumulative depreciation/amortisation and write-downs and reversals thereof by 31 Dec. 2020	**-25.3**	**-3.7**	**-**	**-562.7**	**-1.2**	**-592.9**
Residual book value as of 31 Dec. 2020	**0.6**	**3.9**	**0.2**	**127.6**	**3,195.2**	**3,327.5**
Residual book value as of 31 Mar. 2020	**1.5**	**4.4**	**0.2**	**167.9**	**3,819.6**	**3,993.6**

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

Tangible assets exclusively comprise operating and office equipment of €3.9 million (previous year: €4.4 million) in the Group and €3.9 million (previous year: €4.4 million) in IKB AG.

In the case of shares in affiliated companies in the Group, the derecognition of cost and of accumulated write-downs and reversals of write-downs, each amounting to €35.9 million, is attributable to the sale of shares in IKB Projektentwicklung GmbH & Co. KG i.L. and its subsidiaries. In addition, disposals from the consolidated group account for cost and accumulated write-downs and reversals of write-downs of €0.5 million each, which are attributable to this sale. At IKB AG, shares in affiliated companies are affected by the sale in that it led to reversals of write-downs of €3.0 million, the derecognition of cost of €65.8 million and the derecognition of accumulated write-downs and reversals of write-downs of €62.4 million.

The mergers of Rhodana GmbH and Ligera GmbH into IKB Invest GmbH led to disposals in shares in affiliated companies of €3.0 million in the Group. The transfer of shares in IKB Leasing SR, s.r.o. v likvidácii to IKB Invest GmbH as part of the merger led to additions to acquisition costs of €2.6 million in the Group in the case of the shares in affiliated companies. On completion of the liquidation proceedings of IKB Leasing SR, s.r.o. v likvidácii in the short financial year, the cost of shares in affiliated companies was derecognized in the Group in the same amount.

In both the Group and IKB AG, the rollup of IKB Grundbesitzgesellschaft Düsseldorf GmbH & Co. KG into IKB AG led to the derecognition of cost in an amount of €3.4 million and the merger of IKB Real Estate Holding GmbH with IKB AG led to the derecognition of cost of €0.6 million.

As a result of the liquidation of IKB Lux Beteiligungen S.à r.l. i.L., IKB AG derecognised cost of €101.9 million and accumulated write-downs and reversals of write-downs of €92.7 million on shares in affiliated companies. The distribution of the shares in IKB International S.A. i.L. held by IKB Lux Beteiligungen S.à r.l. i.L. to IKB AG during the liquidation of IKB Lux Beteiligungen S.à r.l. i.L. led to a €7.0 million increase in the cost of shares in affiliated companies at IKB AG. The cost of shares in affiliated companies in IKB AG was also reduced as a result of an advance distribution of €34.0 million by IKB International S.A. i.L to reduce its capital.

The “Bonds and other fixed income securities” item largely comprises European government bonds and bank bonds.

In the Group, the “Equities and other non-fixed income securities” item particularly includes shares in special funds allocated to fixed assets.

The Group’s unrealised losses from securities held as fixed assets total €1.4 million (previous year: €33.9 million) based on book values of €122.5 million (previous year: €668.3 million) and fair values of €121.1 million (previous year: €634.4 million). IKB AG’s unrealised losses from securities held as fixed assets total €1.4 million (previous year: €33.9 million) based on book values of €122.5 million (previous year: €668.3 million) and fair values of €121.1 million (previous year: €634.4 million). No write-downs were recognised for these impairments in the Group or in IKB AG because the differences are not expected to be permanent within the meaning of section 253 (3) HGB. All unrealised gains and losses on securities held as fixed assets are presented in note (59).

In the current financial year, write-downs of fixed assets for impairments that are expected to be permanent were recognised in the amount of €0.0 million (previous year: €13.2 million) in the Group and in the amount of €0.0 million (previous year: €14.3 million) in IKB AG.

The amounts stated do not include deferred interest.

(24) Subordinated assets

	Group		IKB AG	
in € million	**31 Dec. 2020**	**31 Mar. 2020**	**31 Dec. 2020**	**31 Mar. 2020**
Receivables from customers	37.3	64.1	37.3	64.1
Bonds and other fixed-income securities	-	17.3	-	17.3
Total	**37.3**	**81.4**	**37.3**	**81.4**

The decline in subordinated assets is attributable to scheduled and unscheduled repayments of receivables from customers and the derecognition of a bond.

(25) Negotiable securities

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

	Group			IKB AG		
31 Dec. 2020 **in € million**	**Total negotiable**	**Listed**	**Not listed**	**Total negotiable**	**Listed**	**Not listed**
Bonds and other fixed-income securities	3,202.2	3,153.2	49.0	3,210.8	3,161.8	49.0
Equities and other non-fixed-income securities	304.0	-	304.0	0.0	-	0.0
Equity investments	0.0	-	0.0	0.0	-	0.0

31 Mar. 2020 in € million	Group Total negotiable	Listed	Not listed	IKB AG Total negotiable	Listed	Not listed
Bonds and other fixed-income securities	3,830.1	3,751.4	78.7	3,838.5	3,759.8	78.7
Equities and other non-fixed-income securities	304.0	-	304.0	350.9	350.9	0.0
Equity investments	0.0	-	0.0	0.0	-	0.0

The item “Bonds and other fixed-income securities” includes negotiable securities held as fixed assets of €3,186.6 million (previous year: €3,811.2 million) in the Group and €3,195.1 million (previous year: €3,819.6 million) in IKB AG. The item “Equities and other non-fixed-income securities” includes negotiable securities held as fixed assets of €304.0 million (previous year: €304.0 million) in the Group and, as in the previous year, zero in IKB AG.

(26) Disclosures on investment funds

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

in € million	Group Book value 31 Dec. 2020	Fair value 31 Dec. 2020	Difference to book value 31 Dec. 2020	Distribu-tion 2020	IKB AG Book value 31 Dec. 2020	Fair value 31 Dec. 2020	Difference to book value 31 Dec. 2020	Distribu-tion 2020
Mixed funds	252.5	252.5	-	2.6	252.5	252.5	-	2.6
Other special funds	304.0	375.3	71.3	49.0	-	-	-	-
Total	**556.5**	**627.8**	**71.3**	**51.6**	**252.5**	**252.5**	**-**	**2.6**

in € million	Group Book value 31 Mar. 2020	Fair value 31 Mar. 2020	Difference to book value 31 Mar. 2020	Distribu-tion 2019/20	IKB AG Book value 31 Mar. 2020	Fair value 31 Mar. 2020	Difference to book value 31 Mar. 2020	Distribu-tion 2019/20
Mixed funds	254.1	254.1	-	6.8	253.4	253.4	-	6.8
Other special funds	304.0	408.2	104.2	10.0	-	-	-	-
Total	**558.1**	**662.3**	**104.2**	**16.8**	**253.4**	**253.4**	**-**	**6.8**

Other special funds in the Group include units in foreign special funds that invest in European, Chinese and North American fixed-income securities. Distributions from investment funds are recognised in the income statement in the “Equities and other non-fixed-income securities” item.

Furthermore, CTA assets were invested in a German special fund. If the offsetting of CTA assets against pension obligations (for each pension plan) results in an excess of CTA assets, this is reported under “Excess of plan assets over post-employment benefit liability”. If the offsetting results in an excess pension obligation, this is recognised as a pension provision. The fund predominantly invests in fixed-income securities.

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

(27) Other assets

The “Other assets” item includes the following:

	Group		IKB AG	
in € million	**31 Dec. 2020**	**31 Mar. 2020**	**31 Dec. 2020**	**31 Mar. 2020**
Foreign currency adjustment asset	9.6	22.4	9.6	22.4
Receivables from tax authorities	20.0	19.9	19.9	19.5
Receivables from derivatives	-	0.8	-	0.8
Deferred interest on derivatives	19.0	19.1	19.0	19.1
Assets held for sale	19.0	15.7	-	-
Trade receivables	3.0	7.1	2.8	6.8
Receivables from affiliated companies	0.0	0.0	147.1	3.9
Miscellaneous assets	11.6	64.2	11.5	63.1
Total	**82.1**	**149.3**	**209.9**	**135.7**

Translation differences on currency derivatives in the non-trading book are reported in the foreign currency adjustment asset in accordance with section 340h HGB.

Assets held for sale in the Group include a building that is used by a third party and is for sale. The increase in receivables from affiliated companies in IKB AG results not only from increased receivables from profit transfer (€101.8 million) but from the acquisition for consideration of an internal sub-interest in expected compensation payments of pending law suits (€45.0 million). The miscellaneous assets in the Group and in IKB AG primarily comprise margins for futures payment and collateral provided to national and international banking system guarantee schemes for payment obligations. The decrease as of 31 March 2020 is largely due to the change in futures positions in the Group.

(28) Prepaid expenses

Prepaid expenses primarily comprise discounts on liabilities recognised at their nominal value totalling €0.8 million (previous year: €1.4 million) in the Group and €0.8 million (previous year: €1.4 million) in IKB AG and prepaid expenses for the derivatives business and for credit default swaps accounted for as guarantees totalling €49.4 million (previous year: €65.0 million) in the Group and €49.4 million (previous year: €65.0 million) in IKB AG. In addition, prepaid expenses were recognised for invoices paid in advance in the amount of €13.5 million (previous year: €41.8 million) in the Group and €12.6 million (previous year: €4.3 million) in IKB AG.

(29) Deferred tax assets

	Group		IKB AG	
in € million	**31 Dec. 2020**	**31 Mar. 2020**	**31 Dec. 2020**	**31 Mar. 2020**
Excess deferred tax assets	136.0	137.2	137.0	137.0

Loss carryforwards:

	Group		IKB AG	
in € million	31 Dec. 2020	31 Mar. 2020	31 Dec. 2020	31 Mar. 2020
Reported corporation tax loss carryforwards	5.6	10.7	-	-
Reported trade tax loss carryforwards	5.6	8.2	-	-

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

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

31 Dec. 2020 in € million	Group	IKB AG
Offset assets		
Acquisition cost	308.8	308.8
Fair value	315.9	315.9
Offset liabilities		
Settlement amount	-391.9	-391.9
Excess of plan assets over post-employment benefit liability	**4.5**	**4.5**
Expenses and income offset in the reporting year	**2020**	**2020**
Expenses and income from pension obligations		
Expenses for pension obligations	-22.5	-22.5
Expenses and income from plan assets		
Income from plan assets	22.5	22.5
Expenses from plan assets	-1.1	-1.1
Net income/expense	**-1.1**	**-1.1**

31 Mar. 2020 in € million	Group	IKB AG
Offset assets		
Acquisition cost	314.9	314.1
Fair value	305.8	305.1
Offset liabilities		
Settlement amount	-384.8	-381.6
Excess of plan assets over post-employment benefit liability	**7.4**	**7.1**
Expenses and income offset in the reporting year	**2019/20**	**2019/20**
Expenses and income from pension obligations		
Expenses for pension obligations	-33.1	-32.7
Expenses and income from plan assets		
Income from plan assets	7.1	7.1
Expenses from plan assets	-19.0	-19.0
Net income/expense	**-45.0**	**-44.6**

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

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

	Group			
	31 Dec. 2020		31 Mar. 2020	
in € million	Affiliated companies	Investees and investors	Affiliated companies	Investees and investors
Liabilities to customers	0.7	0.0	3.8	0.2
Other liabilities	-	-	0.5	-

	IKB AG			
	31 Dec. 2020		31 Mar. 2020	
in € million	Affiliated companies	Investees and investors	Affiliated companies	Investees and investors
Liabilities to customers	229.1	0.0	352.8	0.2
Securitised liabilities	80.0	-	420.2	-
Other liabilities	0.0	-	405.2	-
Subordinated liabilities	75.1	-	75.1	-

(32) Foreign-currency liabilities

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

	Group		IKB AG	
in € million	31 Dec. 2020	31 Mar. 2020	31 Dec. 2020	31 Mar. 2020
Liabilities	283.0	340.3	283.0	340.3

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

(33) Securitised liabilities

The portfolio of securitised liabilities declined to €154.4 million (previous year: €299.9 million) in the Group and to €234.4 million (previous year: €671.9 million) in IKB AG.

The decrease in IKB AG is attributable to the redemption of bearer bonds issued. Of these redemption payments, €340.0 million relates to bearer bonds held internally within the Group. In addition to the redemption of bearer bonds by IKB AG, the decrease in the Group is due to the redemption of bonds issued by the Group companies Capital and Hybrid Raising.

(34) Other liabilities

The “Other liabilities” item breaks down as follows:

	Group		IKB AG	
in € million	**31 Dec. 2020**	**31 Mar. 2020**	**31 Dec. 2020**	**31 Mar. 2020**
Obligations from derivatives	2.0	3.0	2.0	3.0
Deferred interest on derivatives	14.7	19.2	14.7	19.2
Liabilities to tax authorities	0.4	1.2	0.4	1.2
Deferred income for subordinated liabilities	18.5	10.7	18.5	10.7
Trade payables	4.8	15.9	4.6	9.7
Miscellaneous liabilities	8.1	9.6	7.4	413.8
Total	**48.6**	**59.6**	**47.6**	**457.6**

€400 million of the miscellaneous liabilities in IKB AG as of 31 March 2020 relates to repayment obligations due to the termination of the silent partnerships with Capital Raising GmbH and Hybrid Raising GmbH. The repayment was made in July 2020. This repayment made the repayment of the bonds issued by the silent partners possible. The repayment of the bonds then led to the derecognition of the bonds with a book value of €350.9 million that were held internally within the Group by IKB AG and recognised under “Equities and other non-fixed-income securities” as per 31 March 2020.

(35) Deferred income

Deferred income primarily comprises discounts and fees from the lending business with a nature similar to interest from receivables recognised at nominal value totalling €7.7 million (previous year: €10.7 million) in the Group and €7.7 million (previous year: €10.7 million) in IKB AG and deferred income for the derivatives business and for credit default swaps accounted for as guarantees totalling €40.7 million (previous year: €27.5 million) in the Group and €40.7 million (previous year: €27.5 million) in IKB AG. The increase in the deferred income for the derivatives business results particularly from compensation payments that were made in the context of the replacement of the EONIA reference rate with the €STR (see note (2)).

(36) Pension provisions

The pension provisions recognised total €82.9 million (31 March 2020: €89.1 million) in the Group and €80.5 million (31 March 2020: €83.7 million) in IKB AG. The decrease in pension provisions is largely due to employees accepting the Bank’s offer for early payment of pension entitlements.

The difference in accordance with section 253 (6) HGB amounts to:

31 Dec. 2020 **in € million**	**Group**	**IKB AG**
Measurement of obligation using the ten-year average market interest rate	367.7	365.3
Measurement of obligation using the seven-year average market interest rate	407.4	404.7
Difference in accordance with section 253 (6) HGB	**39.7**	**39.4**

(37) Subordinated liabilities

This item comprises liabilities whose contractual conditions stipulate that, in the event of insolvency or liquidation, they will only be repaid after all non-subordinated creditors have been repaid. Early repayment obligation and participation in the losses from operating activities are not provided for.

The preferred shares (trust preferred securities), which were issued by the IKB Funding Trust I, a subsidiary in the USA founded specifically for this purpose, and are defined as hybrid capital instruments, are also reported as subordinated liabilities. In the event of insolvency, these will only be repaid once all other subordinated liabilities and any profit participation certificate issues have been serviced. Unlike German preferred shares, these preferred shares receive no share in the proceeds of liquidation of the issuing companies. In the case of preferred shares, perpetual maturity has been agreed for the investor.

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

As of the reporting date, subordinated liabilities amounted to €788.6 million (previous year: €831.2 million) in the Group and €788.6 million (previous year: €831.2 million) in IKB AG. €75.1 million (previous year: €75.1 million) of this is accounted for by the preferred shares still outstanding. The interest expenses for subordinated liabilities, including the preferred shares, in the reporting year amounted to €22.8 million (previous year: €30.7 million) in the Group and €23.1 million (previous year: €31.8 million) in IKB AG.

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

Group **Year of issue**	**Book value** **in € million**	**Currency**	**Interest rate** **in %**	**Maturity** **date**
2005/2006	102.8	JPY	2.76	21 Jul. 2035
2017/2018	160.0	EUR	4.50	23 Jul. 2022
2017/2018	300.0	EUR	4.00	31 Jan. 2028

IKB AG **Year of issue**	**Book value** **in € million**	**Currency**	**Interest rate** **in %**	**Maturity** **date**
2005/2006	102.8	JPY	2.76	21 Jul. 2035
2017/2018	160.0	EUR	4.50	23 Jul. 2022
2017/2018	300.0	EUR	4.00	31 Jan. 2028

(38) Fund for general banking risks

The fund for general banking risks in accordance with section 340g HGB, which qualifies as Common Equity Tier 1 capital under the CRR, amounted to €585.0 million (previous year: €585.0 million) for both the Group and IKB AG as of the balance sheet date. Among other things, the fund, which takes into account IKB's general banking risks, is intended to protect the Bank against the risks described in the management report.

(39) Development of capital

Treasury shares

The authorisation to acquire and use treasury shares for purposes other than securities trading, which was resolved by the Annual General Meeting on 5 September 2013, was revoked by way of resolution of the Annual General Meeting on 1 September 2016 and replaced by a new authorisation. This was because the authorisation resolved by the Annual General Meeting on 5 September 2013 was still based on the over-the-counter (OTC) share price on the Frankfurt Stock Exchange. Because IKB Deutsche Industriebank AG's shares were no longer traded OTC on the Frankfurt Stock Exchange at the time of the 2016 Annual General Meeting, the authorisation of 5 September 2013 was void. In light of this, the Company was authorised by way of resolution of the Annual General Meeting held on 1 September 2016 to acquire treasury shares amounting to up to 10% of the share capital for purposes other than securities trading until the end of 31 August 2021. The shares must be repurchased in line with the principle of equal treatment pursuant to section 53a AktG. If the number of shares offered exceeds the maximum number of shares specified by the Company for the buyback, offers will be accepted proportionally. Preferential acceptance of smaller numbers of shares up to 100 shares tendered per shareholder may be provided for. The purchase price per share (not including incidental costs of acquisition) must be at least €0.05 and no more than €2.00. Together with the treasury shares acquired for other reasons that are held by the company or attributable to it in accordance with section 71a ff. AktG, the treasury shares acquired on the basis of this authorisation must not exceed 10% of the share capital of the Company at any time. The acquired shares can be sold by way of an offer to all shareholders or – if stock-market trading resumes – on the stock exchange or can be retired in full or in part. The authorisation was not used in the 2020 short financial year.

In the 2020 short financial year, there were no holdings of treasury shares – neither additions nor disposals.

Equity

The authorisation of the Board of Managing Directors resolved by the Annual General Meeting on 1 September 2016 with the approval of the Supervisory Board to issue dated or undated bearer option and/or convertible bonds or combinations of these instruments (hereinafter collectively referred to as "bonds") with a total nominal value of up to €1,600,000,000 on one or more occasions, including simultaneously in various tranches, until 31 August 2021, and to grant and the holders of the bonds option or conversion rights for a total of up to 312,500,000 new no-par-value bearer shares with a proportionate interest in the share capital of up to €800,000,000 in accordance with the terms of issue of the respective bonds was revoked by way of resolution of the Annual General Meeting on 3 September 2020. This authorisation was not used.

The share capital consists of 100,000,000 no-par value shares with a notional value of €1 per share as of the end of the reporting period. The share capital amounts to €100,000,000.

Silent partnership contributions

Cancellation and termination of silent partnerships

With effect as of 31 March 2020, IKB AG cancelled the silent partnerships established with Capital Raising GmbH and Hybrid Raising GmbH (collectively the "silent partners") on the basis of the respective agreements on the establishment of a silent partnership signed on 9/10 December 2002 and on 30 January/2 February 2004 (collectively the "investment agreements") in accordance with section 6 (3) sentence 3 of the investment agreements.

As a result of these cancellations, in accordance with the contractual provisions, IKB AG paid a redemption amount equal to the nominal amount of €200.0 million in each case, i.e. €400.0 million in total, to the paying agent of the bonds issued by the silent partners in July 2020 for the account of the silent partners. In accordance with the terms and conditions of the bonds, the silent partners must use the redemption amount to repay the bonds on 15 July 2020. €351.8 million of the redemption amount relates to the bonds held by IKB AG under "Equities and other non-fixed-income securities". As of the reporting date, no silent partnerships exist any more accordingly.

Proposed appropriation of profits

A proposal will be made to the Annual General Meeting that an amount of €12.0 million (€0.12 per share) from net retained profits be distributed and the remaining balance of €152.3 million (rounded) be carried forward.

The amounts barred from distribution break down as follows:

Group:

31 Dec. 2020 in € million	Gross income	Amount barred from distribution
Unrealised gains on plan assets	7.1	4.9
Recognition of deferred taxes	-	138.2
Difference from the change in the market interest rate for the measurement of pension obligations	39.7	39.7
Total	**46.8**	**182.8**

IKB AG:

31 Dec. 2020 in € million	Gross income	Amount barred from distribution
Unrealised gains on plan assets	7.1	4.9
Recognition of deferred taxes	-	139.2
Difference from the change in the market interest rate for the measurement of pension obligations	39.4	39.4
Total	**46.5**	**183.5**

(40) Contingent liabilities and other obligations

As of the balance sheet date, the guarantees and warranties reported under “Contingent liabilities” primarily comprised credit default swaps (Bank as collateral provider) in the amount of €1,423.6 million (previous year: €1,710.5 million) both in the Group and in IKB AG. Here, IKB has assumed the default risk for a predefined credit event for specific credit portfolios.

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

in addition, in connection with the sale of its limited partner interests in IKB Projektentwicklung GmbH & Co. KG i.L., IKB AG assumed indemnification obligations for certain taxes payable for periods until the completion of the sale.

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

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

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

(41) Other financial obligations

As of the reporting date, “Other financial obligations” totalled €79.3 million (previous year: €95.1 million) in the Group and €79.3 million (previous year: €95.1 million) in IKB AG.

There are payment obligations for the rental period under long-term rental agreements of €20.7 million (previous year: €28.2 million) in the Group and €20.7 million (previous year: €28.2 million) in IKB AG. Leases for the Bank’s branches for properties used for banking purposes continue to exist. Provisions for expected losses from executory contracts are recognised in case the expenses exceed the benefit of the lease. The risk or opportunity is that after expiry of a temporary lease, an extension of the lease or a follow-up lease may be concluded on less or more advantageous conditions.

Both the Group and IKB AG have payment obligations to national and international banking system guarantee schemes of €7.4 million (previous year: €5.6 million) as of the reporting date. Corresponding collateral has been provided for the payment obligations.

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

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

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

As in the previous year, none of IKB AG’s total financial obligations relate to affiliated companies.

Differing opinion of the tax authorities

Aleanta GmbH (a wholly owned subsidiary of IKB AG with which no profit and loss transfer agreement has been concluded) had, in the context of the tax audit of a company of which it is the universal successor (Olessa GmbH), received initial written notification that the tax authorities are intending to treat the retroactive merger of Olessa GmbH into Aleanta GmbH in the 2010/11 financial year as a case covered by section 42 of the German Tax Code (*Abgabenordnung* – AO). Aleanta GmbH had issued a statement on the matter and on the tax audit assessment at that time. This point still requires final clarification. The maximum risk amounts to taxes of around €26.7 million plus interest (calculated as approximately €13.7 million up to and including 31 December 2020) and Chamber of Commerce and Industry contributions of €0.2 million. An appeal will be lodged if necessary. A comparable case was recently decided positively for the taxpayer by the Federal Fiscal Court. The decision has not yet been published.

(42) Off-balance sheet transactions

According to section 285 no. 3 HGB and section 314 (1) no. 2 HGB, the nature and purpose of risks and benefits of transactions not included in the balance sheet must be disclosed in the notes if this is necessary for assessing the financial situation. In particular, disclosures on transactions that are expected to result in significant improvements or worsening of the financial situation or that can be considered unusual in terms of their timing or the business partner may be necessary for assessing the financial situation.

Forward transactions

As of the balance sheet date, there were obligations from contingent and non-contingent forwards. These essentially serve to hedge interests and currency risks and lead to future inflows or outflows of cash. Please also refer to the information on forwards (see note (57)).

Notes to the income statement

(43) Income by geographical market

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

	Group		IKB AG	
in € million	**2020**	**2019/20**	**2020**	**2019/20**
Germany	369.6	1,298.9	315.4	1,297.3
Rest of Europe	0.4	12.0	-	-
Total	**370.0**	**1,310.9**	**315.4**	**1,297.3**

Income is allocated to geographical markets on the basis of the respective registered office of the company in the Group and the respective places of business in IKB AG.

(44) Extraordinary income and expenses

The net extraordinary expense was €7.0 million (previous year: net expense of €71.4 million) in the Group and €6.7 million (previous year: net expense of €422.4 million) in IKB AG. It solely concerned extraordinary expenses and was largely accounted for by business restructuring measures both in the Group and in IKB AG.

(45) Other operating expenses

The “Other operating expenses” item largely includes:

	Group		IKB AG	
in € million	**2020**	**2019/20**	**2020**	**2019/20**
Expenses from derivatives in the non-trading book	-247.0	-1,093.0	-247.0	-1,093.0
Expenses from additions to provisions	-1.5	-3.3	-1.5	-3.3
Pension scheme expense (CTA-funded)	-1.1	-45.0	-1.1	-44.6
Other expenses	-50.6	-15.8	-12.9	-8.7

Expenses from derivatives in the non-trading book relate in particular to close-outs of derivative transactions in the banking book. These expenses are offset by income in the "Other operating income" item. Other expenses include €38.8 million (previous year: €3.9 million) in the Group and €2.4 million (previous year: €0.0 million) in IKB AG for hedging business risks.

(46) Costs of loss absorption

In IKB AG, only minor expenses from loss absorption of €12 thousand were incurred in the short financial year. The prior year expenses in IKB AG of €5.2 million largely concerned loss absorption obligations from the profit and loss transfer agreement with the subsidiary IKB Beteiligungen GmbH.

(47) Income taxes

The "Income taxes" item includes current taxes of €10.8 million (previous year: €-0.3 million) in the Group and €10.9 million (previous year: €-0.5 million) in IKB AG.

This item also reports the change in the recognition of deferred tax assets of €-1.3 million (previous year: €0.6 million) in the Group and €0.0 million (previous year: €0.0 million) in IKB AG.

(48) Income from profit and loss transfer agreements

The income from profit and loss transfer agreements in IKB AG of €101.8 (previous year: €3.5 million) in the reporting period is accounted for by the profit transfers by the subsidiaries IKB Beteiligungsgesellschaft 2 mbH and IKB Beteiligungsgesellschaft 5 mbH. The increase is mainly attributable to income from fund units (from the redemption of fund units and distributions).

(49) Administrative and brokerage services for third parties

IKB primarily performs administrative and brokerage services in the lending business. The income from these activities is included in net commission income.

(50) Other operating income

The "Other operating income" item breaks down as follows:

	Group		IKB AG	
in € million	**2020**	**2019/20**	**2020**	**2019/20**
Income from derivatives in the non-trading book	74.4	746.4	74.4	746.4
Income from currency translation	0.1	0.2	0.1	0.2
Income from the release of provisions	10.1	4.4	9.9	4.2
Income from compensation payments	0.2	0.7	0.1	0.6

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

Other disclosures

(51) Consolidated group as of 31 December 2020

			Equity interest in %
A.	**Consolidated subsidiaries**		
1.	**Domestic companies**		
	Aleanta GmbH, Düsseldorf		100
	IKB Beteiligungen GmbH, Düsseldorf		100
	IKB Beteiligungsgesellschaft 2 mbH, Düsseldorf		100
	IKB Beteiligungsgesellschaft 3 mbH, Düsseldorf		100
	IKB Beteiligungsgesellschaft 5 mbH, Düsseldorf		100
	IKB Invest 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
2.	**Foreign companies**		
	IKB Finance B.V., Amsterdam, Netherlands		100
	IKB Funding LLC I, Wilmington, United States of America		100
	IKB International S.A. i.L., Munsbach, Luxembourg	2)	100
3.	**Special-purpose vehicles in accordance with section 290 (2) no. 4 HGB**		
	Capital Raising GmbH, Norderfriedrichskoog		
	HIMERA Grundstücks-Vermietungsgesellschaft mbH, Pullach i. Isartal		
	Hybrid Raising GmbH, Norderfriedrichskoog		

1) indirect investment 2) in liquidation

(52) List of shareholdings as of 31 December 2020

31 Dec. 2020		**Financial year**	**Equity interest in %**
1. Domestic companies (fully consolidated)			
Aleanta GmbH, Düsseldorf	5)	1 Jan. - 31 Dec.	100.00
IKB Beteiligungen GmbH, Düsseldorf	2)	1 Apr. - 31 Mar.	100.00
IKB Beteiligungsgesellschaft 2 mbH, Düsseldorf	2)	1 Jan. - 31 Dec.	100.00
IKB Beteiligungsgesellschaft 3 mbH, Düsseldorf	2)	1 Jan. - 31 Dec.	100.00
IKB Beteiligungsgesellschaft 5 mbH, Düsseldorf	2)5)	1 Jan. - 31 Dec.	100.00
IKB Invest GmbH, Düsseldorf	2)5)	1 Jan. - 31 Dec.	100.00
Istop 1 GmbH, Düsseldorf	2)	1 Jan. - 31 Dec.	100.00
Istop 2 GmbH, Düsseldorf	2)	1 Jan. - 31 Dec.	100.00
Istop 4 GmbH, Düsseldorf	2)	1 Jan. - 31 Dec.	100.00
Istop 6 GmbH, Düsseldorf	2)	1 Jan. - 31 Dec.	100.00
2. Foreign subsidiaries (fully consolidated)			
IKB Finance B.V., Amsterdam, Netherlands	5)	1 Jan. - 31 Dec.	100.00
IKB Funding LLC I, Wilmington, United States of America	5)	1 Jan. - 31 Dec.	100.00
IKB International S.A. i.L., Munsbach, Luxembourg	3)5)	1 Jan. - 31 Dec.	100.00
3. Special-purpose vehicles (special-purpose vehicles included in the consolidated financial statements in line with section 290 (2) no. 4 HGB)			
Capital Raising GmbH, Norderfriedrichskoog			
HIMERA Grundstücks-Vermietungsgesellschaft mbH, Pullach i. Isartal			
Hybrid Raising GmbH, Norderfriedrichskoog			

31 Dec. 2020		Financial year	Equity interest in %
4. German subsidiaries (not included in consolidation on the basis of section 296 (2) HGB[4])	1)		
FRANA Grundstücks-Vermietungsgesellschaft mbH, Düsseldorf		1 Jan. - 31 Dec.	100.00
IKB Beteiligungsgesellschaft 1 mbH, Düsseldorf	2)	1 Jan. - 31 Dec.	100.00
IKB NewCo 3 GmbH, Düsseldorf		1 Jan. - 31 Dec.	100.00
IKB NewCo 5 GmbH, Düsseldorf		1 Apr. - 31 Mar.	100.00
IKB Projektentwicklungsverwaltungsgesellschaft mbH i.L., Düsseldorf	3)	1 Jan. - 31 Dec.	100.00
IKB Real Estate GmbH, Düsseldorf	2)	1 Jan. - 31 Dec.	100.00
IKB Struktur GmbH, Düsseldorf	2)5)	1 Jan. - 31 Dec.	100.00
ISTOS Beteiligungsverwaltungs- und Grundstücks- Vermietungsgesellschaft mbH i.L., Düsseldorf	3)	1 Jan. - 31 Dec.	100.00
Restruktur 2 GmbH i.L., Düsseldorf	3)	1 Apr. - 31 Mar.	100.00
Restruktur 3 GmbH, Düsseldorf		1 Apr. - 31 Mar.	100.00
5. Foreign subsidiaries (not included in consolidation on the basis of section 296 (2) HGB[4])	1)		
IKB Funding Trust I, Wilmington, United States of America	5)	1 Jan. - 31 Dec.	100.00
6. Special-purpose vehicles (not included in consolidation on the basis of section 296 (2) HGB[4])	1)		
Rosaria Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Heimstetten KG, Grünwald			
7. German associates/joint ventures (not accounted for using the equity method on the basis of section 311 (2) HGB[4])	1)		
equiNotes Management GmbH i.L., Düsseldorf	3)	1 Jan. - 31 Dec.	50.00

1) The information in accordance with section 285 no. 11 HGB on equity and results is not shown for companies not included in the consolidated financial statements in accordance with section 286 (3) sentence 1 no. 1 HGB.
2) Profit and loss transfer agreement
3) in liquidation
4) The Bank exercises the option of not including companies in consolidation where they are of only minor importance to the net assets, financial position and results of operations of the Group.
5) In 2020 short financial year from 1 April to 31 December

(53) Significant shares of voting rights

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

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

(54) Disclosure of auditor's fees

	Group		IKB AG	
in € million	2020	2019/20	2020	2019/20
Audit of financial statements	-1.4	-1.6	-1.4	-1.5
Other assurance or valuation services	-0.3	-0.2	-0.3	-0.2
Total	**-1.7**	**-1.8**	**-1.7**	**-1.7**

Auditor's fees include expenses for previous financial years of €17.9 thousand (previous year: none).

The fees for the statutory audit comprise expenses for the statutory audits of the annual and consolidated financial statements. In addition to expenses for the review of the interim financial statements of €0.2 million (previous year: €0.2 million), the other assurance or valuation services in particular include expenses for the audit in accordance with the German Securities Trading Act (Wertpapierhandelsgesetz – WpHG) in the amount of €0.1 million (previous year: €0.1 million).

(55) Related-party transactions

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

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

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

31 Dec. 2020 in € million	Group	IKB AG
Liabilities to banks	9,477.0	9,485.3
Contingent liabilities	34.1	146.0
Total	**9,511.1**	**9,631.3**

The assets serving as collateral are primarily receivables and securities transferred to third-party banks or clearing houses in open-market and securities-repurchase transactions as part of business with public programme loans.

(57) Forward transactions

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

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

Please see note (58) for the fair values of interest-related derivatives in the Group and in IKB AG.

(58) Derivative financial instruments not recognised at fair value

Group:

31 Dec. 2020 in € million	Nominal	Fair value Positive	Fair value Negative	Book value Assets	Book value Equity and liabilities
Interest-related derivatives	11,919.4	379.1	1,248.1	42.1	46.6
Credit-related derivatives	-	-	-	-	-
Currency-related derivatives	274.4	3.0	3.9	0.9	1.9
Derivatives assigned to several categories	500.6	28.1	4.0	15.3	3.5
Total	**12,694.4**	**410.2**	**1,256.0**	**58.3**	**52.0**

	Book value				
31 Dec. 2020 in € million	Other assets	Prepaid expenses	Provisions	Other liabilities	Deferred income
Interest-related derivatives	16.1	26.0	-	16.1	30.5
Credit-related derivatives	-	-	-	-	-
Currency-related derivatives	0.9	-	0.0	1.9	-
Derivatives assigned to several categories	11.1	4.2	-	-	3.5
Total	**28.1**	**30.2**	**0.0**	**18.0**	**34.0**

IKB AG

31 Dec. 2020 in € million	Nominal	Fair value Positive	Fair value Negative	Book value Assets	Book value Equity and liabilities
Interest-related derivatives	11,919.4	379.1	1,248.1	42.1	46.6
Credit-related derivatives	-	-	-	-	-
Currency-related derivatives	274.4	3.0	3.9	0.9	1.9
Derivatives assigned to several categories	500.6	28.1	4.0	15.3	3.5
Total	**12,694.4**	**410.2**	**1,256.0**	**58.3**	**52.0**

	Book value				
31 Dec. 2020 in € million	Other assets	Prepaid expenses	Provisions	Other liabilities	Deferred income
Interest-related derivatives	16.1	26.0	-	16.1	30.5
Credit-related derivatives	-	-	-	-	-
Currency-related derivatives	0.9	-	0.0	1.9	-
Derivatives assigned to several categories	11.1	4.2	-	-	3.5
Total	**28.1**	**30.2**	**0.0**	**18.0**	**34.0**

(59) Unrealised gains and losses

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

Group	31 Dec. 2020			31 Mar. 2020		
in € million	**Book value**	**Fair value**	**Difference**	**Book value**	**Fair value**	**Difference**
Receivables from banks	2,044.0	2,041.5	-2.5	2,198.5	2,193.5	-5.0
Receivables from customers	8,773.7	9,211.2	437.5	9,529.6	9,852.0	322.4
Bonds and other fixed-income securities	3,202.2	3,602.6	400.4	3,830.1	4,110.1	280.0
Equities and other non-fixed-income securities	304.0	375.6	71.6	304.0	408.4	104.4
Derivative financial instruments not recognised at fair value	58.2	410.3	352.1	79.0	445.2	366.2
Credit default swaps recognised as loan collateral	19.8	35.1	15.3	28.4	14.1	-14.3
Subtotal	**14,401.9**	**15,676.3**	**1,274.4**	**15,969.6**	**17,023.3**	**1,053.7**
Liabilities to banks	8,527.7	8,640.5	-112.8	7,669.6	7,744.4	-74.8
Liabilities to customers	5,757.6	5,803.6	-46.0	6,140.2	6,187.9	-47.7
Securitised liabilities	154.4	154.8	-0.4	299.9	303.1	-3.2
Subordinated liabilities	788.6	757.6	31.0	831.2	682.3	148.9
Derivative financial instruments not recognised at fair value	52.1	1,255.9	-1,203.8	53.7	1,277.8	-1,224.1
Credit default swaps recognised as loan collateral	6.8	1.4	5.4	10.3	38.9	-28.6
Subtotal	**15,287.2**	**16,613.8**	**-1,326.6**	**15,004.9**	**16,234.4**	**-1,229.5**
Total			**-52.2**			**-175.8**

The unrealised gain 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 specific valuation allowances recognised are also taken into account in the calculation of fair value. The book value is treated as being equal to fair value for receivables and liabilities repayable on demand and prepaid expenses/deferred income.

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

Receivables from development loans, which are matched by individual refinancing loans on the liability side of the balance sheet, are measured without taking funding costs into account. The present value of individual refinancing loans on the liability side of the balance sheet is calculated by discounting the interest and principal repayment cash flows using matched-term, risk-free swap rates.

In the case of receivables purchased and sold to a forfaiter by IKB as part of the sale of the leasing group and the non-recourse financing of the former IKB Leasing Group, the book values of the receivables are recognised as the fair value.

Securities (including securitised subordinated liabilities) are measured at the stock-exchange or market price on the reporting date if a liquid price is available. A stock-exchange 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 no prices are available at the reporting date, the fair value is calculated on the basis of price information from market data providers and tested for plausibility using suitable methods. If no stock-exchange prices or price information from contractual providers are available for securities, the value is calculated on the basis of the Bank's own measurement models by discounting expected cash flows. The discount rate is calculated using the risk profile of similar securities. Parameters not observed on the market are also used for this. The fair values for the fund units recognised in the IKB Group correspond to the net asset value attributable to the fund units held.

The fair value of derivatives in the non-trading book is calculated in accordance 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 and exchange rates). Future cash flows are derived using currency-specific and tenor-specific swap curves. The amount, timing and certainty of cash flows depend on, among other things, the development of interest rates and exchange rates, contractual regulations on payment dates for the derivative and the credit quality of the 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 the funding costs specific to IKB. The funding costs are derived from the costs of comparable issues.

(60) Remuneration of the Board of Managing Directors

Total remuneration for members of the Board of Managing Directors amounted to €3.7 million (previous year: €5.2 million) in the 2020 financial year. This includes fixed basic salaries, variable performance-based remuneration, severance payments, compensatory pension benefits to compensate for a pension not agreed and non-cash remuneration. The Supervisory Board regularly reviews the appropriateness of the respective total remuneration.

Former and retired members of the Board of Managing Directors

The total remuneration for former members of the Board of Managing Directors and their surviving dependants amounted to €2.4 million (previous year: €3.5 million). In the 2020 financial year, pension obligations to former members of the Board of Managing Directors and their surviving dependants amounted to €45.4 million based on a 10-year average interest rate (previous year: €45.8 million).

(61) Remuneration of the Supervisory Board

For the 2020 short financial year, the total remuneration for members of the Supervisory Board amounted to €446 thousand (previous year: €620 thousand). This contains reimbursed expenses of €71 thousand including the VAT incurred on remuneration (previous year: €120 thousand).

(62) Remuneration of the Advisory Board

The members of the Advisory Board were paid €172 thousand (previous year: €239 thousand), including VAT.

(63) Loans extended to members of the governing bodies and the Advisory Board

No loans have been granted to members of the Board of Managing Directors. There are loans to members of the Supervisory Board totalling €5.9 thousand (previous year: €7.9 thousand).

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

	Group		IKB AG	
	31 Dec. 2020	31 Mar. 2020	31 Dec. 2020	31 Mar. 2020
Men	385	423	385	422
Women	201	210	201	210
Total	**586**	**633**	**586**	**632**

The reduction in the average number of employees is primarily due to cost-cutting and optimisation measures at IKB AG.

(65) Significant events after 31 December 2020

The following events of material importance that affect the true and fair view of the operations, the results of operations, the situation and the expected development of the company occurred after 31 December 2020:

IKB expands Board of Managing Directors

IKB's Supervisory Board appointed Dr Patrick Trutwein and Dr Ralph Müller members of the Board of Managing Directors on 27 January 2021 with effect as of 1 February 2021. This expands the IKB Board of Managing Directors from two members to four. Dr Trutwein takes on responsibility for risk management and internal audit as chief risk officer (CRO). Dr Müller takes on responsibility for strategy, digitalisation and operations as chief digital officer (CDO)/chief operating officer (COO).

Investment-grade rating from Moody's and Fitch

IKB received an investment-grade rating from rating agencies Moody's (15 January 2021) and Fitch (14 January 2021). Moody's assigned IKB a deposit and issuer rating of Baa1 with a stable outlook. Fitch assigned IKB a long-term issuer default rating of BBB with a negative outlook. These ratings fulfil the requirements of many business partners and investors.

Cooperation between IKB AG and Hypoport on fundingport corporate finance platform

IKB AG and the Hypoport Group intend to cooperate in certain segments of corporate financing by establishing a digital B2B tender platform for finance, which will be operated by fundingport GmbH. The agreement specifies, among other things, that the IKB Group will initially hold an interest of 30 percent in fundingport GmbH. The regulatory authorities notified their approval of the merger at the beginning of March 2021.

Agreement on carrying profits forward

In accordance with a contractual agreement entered into in March 2021, IKB and LSF6 Europe Financial Holdings, L.P. ("LSF6") declared their intention to hold another (extraordinary) shareholder meeting in the course of the 2021 financial year or in 2022 up to the adoption of the annual financial statements for the 2021 financial year in order to resolve on further profit distributions. In this context, LSF6 made a commitment to IKB to adopt another distribution resolution only if this is not in conflict with current and, if applicable, new recommendations issued by the ECB on dividend distributions during the COVID-19 pandemic (ECB/2020/62) and applied by BaFin to less significant institutions as well as IKB.

(66) Exekutive bodies

Board of Managing Directors

Dr Michael H. Wiedmann (Chairman)

Claus Momburg

Dr Ralph Müller

Dr Patrick Trutwein

Supervisory Board

Dr Karl-Gerhard Eick (Chairman), management consultant

Dr Claus Nolting (Deputy Chairman), lawyer

Sven Boysen[1)], employee representative

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

Benjamin Dickgießer, Managing Director of Hudson Advisors Portugal, LDA

Dr Lutz-Christian Funke, Director of KfW

Arndt G. Kirchhoff, Chairman of the Advisory Board of KIRCHHOFF Automotive Holding Verwaltungs GmbH

Nicole Riggers[1)], employee representative

Jörn Walde[1)], employee representative

1) Elected by the employees

Offices held by employees

As of 31 December 2020, the following employees were represented in the statutory supervisory boards of large corporations:

Dr Reiner Dietrich

Tricor Packaging & Logistics AG

Düsseldorf, 12 March 2021

IKB Deutsche Industriebank AG

The Board of Managing Directors

Dr Michael H. Wiedmann

Claus Momburg

Dr Ralph Müller

Dr Patrick Trutwein

Notes on segment reporting

Segment reporting is based on the internal income statement, which forms part of IKB's management information system. It is presented in accordance with internal management reporting, which is used by the Board of Managing Directors to assess the performance of the segments and to allocate resources. Segment reporting is prepared in accordance with the guidance contained in DRS 28

and is based on the Bank's product units. Each segment is treated as an independent entity responsible for its own profit and loss and the requisitecapitalisation.

Segmentation

Reporting is based on a product approach with the following business segments:

- Public Programme Loans
- Corporate Bank
- Corporate Centre

The Public Programme Loans segment includes income and expenses from development loans granted to mid-cap customers as well as consulting services for obtaining and applying for development loans.

The Corporate Bank segment is composed of the services provided in connection with internally financed corporate banking business. In addition to financing and advisory services in traditional lending business, this also includes supporting customers in capital market activities.

The income and expense items from Funding & Asset Liability Management and the investment portfolio are reported in the Corporate Centre. Non-attributable costs of other central functions are also allocated to this segment.

Segment results and key figures

The segments are treated as independent entities with their own capital. Capital is allocated on the basis of the risk-weighted assets with a target CET 1 ratio of 12% derived from the minimum requirements for regulatory own funds plus a capital buffer. Income and expenses are allocated to the segments in accordance with their responsibility for profit and loss. In line with standard industry practice, interest income and expense are reported on a net basis, as net interest income is a key performance indicator for assessing the segment's profitability. In the Public Programme Loans segment, interest income on loans is compared with the funding expenses of the development banks. Actual funding costs arising from private and corporate client deposits are netted between the Corporate Center segment and the Corporate Bank segment. The return on allocated own funds is also transferred from the Corporate Center and distributed across the Public Programmes Loans segment and the Corporate Bank segment. The interest margin is the ratio of net interest income and risk costs in the Public Programme Loans and Corporate Bank segments to the corresponding volumes of the loan book. Risk costs equal the quotient of net risk provisioning and the applicable average value of the loan book. The figures for the shortened financial year were extrapolated to twelve months to determine the key figures.

The personnel and administrative expenses of the central units are allocated to the segments in accordance with their origin and by means of transfer pricing. Project costs are allocated to the segments if the projects are directly related to these segments. Administrative expenses for projects and corporate functions with a corporate or regulatory background are reported in the Corporate Centre.

The risk provisions reported in the segments equal the net additions to and reversals of allowances for losses on loans and advances and recoveries on loans and advances previously written off.

The tax result is calculated in the Corporate Bank and Public Programme Loans segments on the basis of a notional tax rate of 12.5% specific to IKB. This figure is reconciled with the Group tax result in the Corporate Centre.

The performance of a segment is measured on the basis of net profit after tax, the cost/income ratio and the return on equity. The cost/income ratio is calculated as the quotient of administrative expenses and gross income (net interest income and net fee and commission income). The return on equity (extrapolated to twelve months) is calculated as the ratio of net profit after tax to the average allocated equity derived from a 12-percent imputed capital charge for risk-weighted assets in accordance with the CRR. The calculation of the average risk-weighted assets also retrospectively takes account of the effects of the IRBA model change for the previous quarters.

Segment report

Table: Segment reporting – Group

in € million	Public Programme Loans 1 Apr. - 31 Dec. 2020	Corporate Bank 1 Apr. - 31 Dec. 2020	Corporate Centre 1 Apr. - 31 Dec. 2020	IKB 1 Apr. - 31 Dec. 2020
Net interest income	64	78	23	165
Net fee and commission income	3	13	4	20
Gross income	**67**	**92**	**27**	**186**
Administrative expenses	-32	-31	-40	-104
Operating profit before risk provisions	**35**	**60**	**-13**	**82**
Provisions for possible loan losses	-2	-17	0	-20
Operating profit	**33**	**43**	**-13**	**63**
Net other income	-	-3	3	1
Earnings before tax	**33**	**40**	**-10**	**63**
Tax expense/income	-4	-5	19	10
Net profit after tax	**29**	**35**	**9**	**73**
New business	1,091	379	-	1,470
Loans outstanding as of the reporting date	5,404	4,013	9,302	18,719
Risk-weighted assets	3,322	3,774	1,820	8,916
Average CET 1 capital at 12%	398	507	263	1,167
Interest margin (%)	1.61	2.31		1.93
Cost/income ratio (%)	47.8	34.2		55.7
Risk costs (%)	0.05	0.52		0.27
Return on equity (%)	9.6	9.3		8.3

Any differences in totals are due to rounding effects.

Performance of the segments

The Public Programme Loans segment, which includes income and expenses from our activities in connection with the grant of public programme loans to mid-cap customers and the provision of advice on obtaining and applying for such loans, generated net profit after tax of €29 million in the nine months of the shortened financial year. New business in the Public Programme Loans segment stands at €1,091 million due to the disbursement of special pandemic-related public programme loans. Public programme loans account for 74% of total new business. The segment's return on equity is 9.6%; the cost/income ratio is 47.8%.

The Corporate Bank segment, which combines our financing and advisory services in traditional lending business with support for our customers in capital market activities, generated net profit after tax of €35 million. The risk-related reduction of parts of our corporate investment portfolio resulted in negative net other income of €3 million. New business was valued at €379 million due to the effects of the coronavirus pandemic. The segment’s return on equity is 9.3%; the cost/income ratio is 34.2%.

The Corporate Center, which includes profit and loss from our funding operations and asset/liability management and the investment portfolio as well as company-related costs (e.g. for the EU bank levy and the external audit of the annual financial statements) and the unallocated costs of central functions, reported a net loss before tax of €10 million (net profit after tax of €9 million).

Report of the independent auditor

To IKB Deutsche Industriebank Aktiengesellschaft, Düsseldorf

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

Opinions

We have audited the annual financial statements of IKB Deutsche Industriebank AG, Düsseldorf, which comprise the balance sheet as at 31 December 2020, and the income statement for the abbreviated financial year from 1 April 2020 to 31 December 2020, and notes to the financial statements, including the recognition and measurement policies presented therein. In addition, we have audited the management report of IKB Deutsche Industriebank AG for the abbreviated financial year from 1 April 2020 to 31 December 2020. In accordance with the German legal requirements, we have not audited the content of the corporate governance declaration pursuant to Sec. 289f HGB ["Handelsgesetzbuch": German Commercial Code] contained in section 7 of the management report.

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

- **the accompanying annual financial statements comply, in all material respects, with the requirements of German commercial law applicable to institutions and give a true and fair view of the assets, liabilities and financial position of the Institution as at 31 December 2020 and of its financial performance for the abbreviated financial year from 1 April 2020 to 31 December 2020 in compliance with German legally required accounting principles, and**

- **the accompanying management report as a whole provides an appropriate view of the Institution's position. In all material respects, this management report is consistent with the annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our opinion on the management report does not cover the content of the corporate governance declaration referred to above.**

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

Basis for the opinions

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

Key audit matters in the audit of the annual financial statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the annual financial statements for the abbreviated financial year from 1 April 2020 to 31 December 2020. These matters were addressed in the context of our audit of the annual financial statements as a whole, and in forming our opinion thereon; we do not provide a separate opinion on these matters.

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

1. Recoverability of deferred tax assets

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

If there are differences between the carrying amounts of assets, liabilities, prepaid expenses and deferred income in the statutory accounts and their tax carrying amounts which are expected to reverse in subsequent financial years, the resulting tax relief may be recognized in the balance sheet as a (net) deferred tax asset, measured at the entity's individual tax rate at the time the differences are due to reverse. The Management Board exercised the option to recognize deferred tax assets as of 31 December 2020. The recognized items must be reversed as soon as the tax relief arises or ceases to be expected.

As of 31 December 2020, IKB AG's deferred tax assets from temporary differences mainly relate to financial assets and provisions. The temporary differences in financial assets primarily relate to subsidiaries' investments in investment fund shares.

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

IKB AG estimates whether differences are likely to reverse in future financial years on the basis of a forecast of the taxable results for the next five financial years based on internal planning as of 31 December 2020 and which is highly dependent on estimates and assumptions made by the Management Board.

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

Auditor's response and any key observations

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

We obtained an understanding of how the underlying transactions and effects of reversals are identified. We reconciled the Bank's tax forecasts for subsequent years with internal planning documents in accordance with

German commercial law and assessed both the amount and the cause of differences in the tax accounts. We assessed the budgets and forecasts prepared in accordance with German commercial law in terms of the underlying planning inputs, in particular by reference to the quality of past budgets and forecasts, and tested their plausibility in light of our knowledge of the Bank's business activities, the forecast development of the industry and additional potential repercussions of the coronavirus pandemic. For this purpose, we consulted our own tax, business valuation and mathematical finance specialists.

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

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

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

Reference to related disclosures

The Bank provides information on deferred taxes in the notes to the combined annual financial statements of the Group and IKB AG as of 31 December 2020 in Notes "(10) Deferred taxes" and "(29) Deferred tax assets."

2. Valuation of receivables from customers in the retail, automotive supplier, tourism, shipbuilding and event management sectors

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

The valuation of receivables from customers in the retail, automotive supplier, tourism, shipbuilding and event management sectors is a key area in which the Management Board uses judgment. The identification of impaired loans and determination of required specific risk provisions entail uncertainties and involve various assumptions and influencing factors, in particular the financial situation of the borrower, and expectations regarding future cash flows and the realization of collateral. Due to the effects of the global coronavirus pandemic, which cannot be conclusively assessed as yet, these uncertainties are significantly heightened. Even minor changes in the assumptions and estimation inputs can lead to significantly different valuations. For this reason, we determined this to be a key audit matter.

Auditor's response

When coronavirus started to spread in Europe, the Management Board identified certain sectors as being particularly affected by the pandemic and monitored them on an ongoing basis. Based on risk reporting and evaluations of the portfolio structure, we obtained an understanding of the sectors (retail, automotive supplier, tourism, shipbuilding and event management) considered to be particularly affected by the coronavirus pandemic.

During our audit we analyzed the accounting-related processes for identifying objective evidence of impairment or potential losses and for calculating specific risk provisions and evaluated their reliability. In doing so, we considered the additional measures that were taken to address the deteriorating economic situation in the various sectors caused by the coronavirus pandemic above and beyond the existing processes in order to identify risks at an early stage. We tested the effectiveness of the process controls implemented to identify impaired loans and to calculate the specific risk provisions.

In addition, we assessed the processes aimed at monitoring the default risk and the impairment calculation and tested the controls implemented in the processes. Our audit procedures focused on the processes for evaluating the borrowers' financial situation, for applying internal risk classification procedures, for monitoring early warning indicators and for valuing collateral.

We also performed substantive procedures on a sample basis, assessing the need for recognizing a specific risk provision and the calculation of the amount of such provisions for loans. The sample was selected with a view to risk, based in particular on criteria such as the status of non-performing loan processing, the rating class, the industry, the outstanding payments, the amount of net exposure or the specific risk provisions already recognized.

For our risk-based sample we evaluated whether the significant assumptions and estimation inputs for expected future cash flows from customers, particularly in the retail, automotive supplier, tourism, shipbuilding and event management sectors, including the realization of collateral held and the estimation of the recoverability of payments in the event of default, are in line with the financial situation of the borrower and market expectations for the aforementioned sectors. We also assessed the arithmetical accuracy of the specific risk provisions calculated.

Our audit procedures did not lead to any reservations relating to the valuation of receivables from customers in the retail, automotive supplier, tourism, shipbuilding and event management sectors.

Reference to related disclosures

The Bank's disclosures on the valuation of receivables from customers, which also include the retail, automotive supplier, tourism, ship building and event management sectors, are contained in the "Accounting policies" section, Note "(6) Provisions for possible loan losses" in the notes to the combined annual financial statements as of 31 December 2020 as well as in section "3. Risk report," subsection "Counterparty default risk," in the combined management report of IKB AG and the IKB Group.

3. Recognition and measurement of the other asset from the sub-participation in litigation claims for damages from pending proceedings in the US in connection with structured credit products

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

In return for payment of an amount in the mid-double-digit million range, IKB AG acquired a sub-participation in potential litigation claims for damages of the subsidiary IKB Invest GmbH from proceedings pending in the US. The relevant lawsuits are being brought against arrangers and trustees of structured credit products such as residential mortgage-backed securities (RMBS). From these structured credit products, the IKB Group generated high losses in the past, which are the subject of the lawsuits.

The pricing of the sub-participation was to a large extent influenced by the assumptions and estimates regarding the amount of the damages asserted, the likelihood of a successful outcome in the various stages of the proceedings and the timing of the various court rulings. The actual proceeds achieved and the assumptions and estimates used may deviate significantly as a result of future events. For this reason, we determined this to be a key audit matter.

Auditor’s response

In connection with our audit of the recognition and measurement of other assets, we examined the valuation process underlying the pricing to determine the value of the litigation claims to potential damages. In this connection, we obtained an understanding of the assumptions and estimates which were made by international lawyers, law firms and international experts and used by IKB AG in its measurement process, and obtained an understanding of the scenarios prepared by the lawyers and experts and the Bank’s evaluation thereof. We consulted lawyers engaged by us for the legal assessment.

We determined that the work of the lawyers and law firms engaged by IKB and that of the external experts is suitable for use in our audit.

Our audit procedures included obtaining written representations and confirmations by the lawyers and law firms and consulted experts on the assumptions and estimates made by the Management Board.

We analyzed the estimates and assumptions by the Management Board with regard to whether they are consistent with the knowledge obtained from the use of the documentation from the lawyers and experts engaged by the Bank.

We also examined a ruling issued after the reporting date with a view to its consistency with the assumptions and estimates made.

In addition, we checked the arithmetical accuracy of the price calculated by the Institution.

Our audit procedures did not lead to any reservations relating to the recognition and measurement of the other asset from the sub-participation in litigation claims for damages from pending proceedings in the US in connection with structured credit products.

Reference to related disclosures

The Bank’s disclosures on the valuation of other assets are contained in the “Accounting policies” section, Note “(27) Other assets,” in the notes to the combined annual financial statements as of 31 December 2020 as well as in section “2. Economic report,” subsection “Significant events in the period under review,” of the combined management report of IKB AG and the IKB Group.

Other information

The Supervisory Board is responsible for the "Report of the Supervisory Board." In all other respects, the executive directors are responsible for the other information.

The other information comprises the corporate governance declaration referred to above. In addition, the other information comprises the non-financial report, which we expect to be provided with after we have issued our auditor's report. Furthermore, the other information comprises additional parts of the annual report of which we received a version before issuing this auditor's report, in particular the key figures of the IKB Group, the letter from the Chairman of the Board of Managing Directors and the Report of the Supervisory Board, but not the annual financial statements, not the management report disclosures whose content is audited and not our auditor's report thereon.

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

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

- **is materially inconsistent with the annual financial statements, with the management report or our knowledge obtained in the audit, or**

- **otherwise appears to be materially misstated.**

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

Responsibilities of the executive directors and the Supervisory Board for the annual financial statements and the management report

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

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

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

The Supervisory Board is responsible for overseeing the Institution's financial reporting process for the preparation of the annual financial statements and of the management report.

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

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

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

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

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

- Obtain an understanding of internal control relevant to the audit of the annual financial statements and of arrangements and measures (systems) relevant to the audit of the management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems of the Institution.

- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.

- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Institution's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the annual financial statements and in the management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Institution to cease to be able to continue as a going concern.

- Evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements present the underlying transactions and events in a manner that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Institution in compliance with German legally required accounting principles.

- Evaluate the consistency of the management report with the annual financial statements, its conformity with [German] law, and the view of the Institution's position it provides.

- Perform audit procedures on the prospective information presented by the executive directors in the management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

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

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

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

Other legal and regulatory requirements

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

We were elected as auditor by the Annual General Meeting on 3 September 2020. We were engaged by the Chairman of the Risk and Audit Committee on 22 September 2020. We have been the auditor of IKB Deutsche Industriebank AG without interruption since financial year 2017/2018.

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

German Public Auditor responsible for the engagement

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

Düsseldorf, 17 March 2021

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Werthmann	Gundelach
Wirtschaftsprüfer	Wirtschaftsprüferin

To IKB Deutsche Industriebank Aktiengesellschaft, Düsseldorf

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

Opinions

We have audited the consolidated financial statements of IKB Deutsche Industriebank AG, Düsseldorf, and its subsidiaries (the Group), which comprise the consolidated balance sheet as at 31 December 2020, and the consolidated income statement for the abbreviated financial year from 1 April 2020 to 31 December 2020, consolidated statement of changes in equity, consolidated cash flow statement and group segment reporting for the abbreviated financial year from 1 April 2020 to 31 December 2020, and notes to the consolidated financial statements, including the recognition and measurement policies presented therein. In addition, we have audited the group management report of IKB Deutsche Industriebank AG for the abbreviated financial year from 1 April 2020 to 31 December 2020. In accordance with the German legal requirements, we have not audited the content of the corporate governance declaration pursuant to Sec. 289f HGB ["Handelsgesetzbuch": German Commercial Code] contained in section 7 of the management report.

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

- **the accompanying consolidated financial statements comply, in all material respects, with the requirements of German commercial law applicable to business corporations and give a true and fair view of the assets, liabilities and financial position of the Group as at 31 December 2020 and of its financial performance for the abbreviated financial year from 1 April 2020 to 31 December 2020 in compliance with German legally required accounting principles, and**

- **the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our opinion on the group management report does not cover the content of the corporate governance declaration referred to above.**

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

Basis for the opinions

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

Key audit matters in the audit of the annual financial statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the annual financial statements for the abbreviated financial year from 1 April 2020 to 31 December 2020. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon; we do not provide a separate opinion on these matters.

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

2. Recoverability of deferred tax assets

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

If there are differences between the carrying amounts of assets, liabilities, prepaid expenses and deferred income in the statutory accounts and their tax carrying amounts which are expected to reverse in subsequent financial years, the resulting tax relief may be recognized in the balance sheet as a (net) deferred tax asset, measured at the entity's individual tax rate at the time the differences are due to reverse. The Management Board exercised the option to recognize deferred tax assets as of 31 December 2020. The recognized items must be reversed as soon as the tax relief arises or ceases to be expected.

As of 31 December 2020, the IKB Group's deferred tax assets from temporary differences mainly relate to financial assets and provisions. The temporary differences in financial assets primarily relate to subsidiaries' investments in investment fund shares.

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

The IKB Group estimates whether differences are likely to reverse in future financial years on the basis of a forecast of the taxable results for the next five financial years based on internal planning as of 31 December 2020 and which is highly dependent on estimates and assumptions made by the Management Board.

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

Auditor’s response and any key observations

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

We obtained an understanding of how the underlying transactions and effects of reversals are identified. We reconciled the Group’s tax forecasts for subsequent years with internal planning documents in accordance with German commercial law and obtained an understanding of both the amount and the cause of differences in the tax accounts. We assessed the budgets and forecasts prepared in accordance with German commercial law in terms of the underlying planning inputs, in particular by reference to the quality of past budgets and forecasts, and tested their plausibility in light of our knowledge of the Group’s business activities, the forecast development of the industry and additional potential repercussions of the coronavirus pandemic. For this purpose, we consulted our own tax, business valuation and mathematical finance specialists.

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

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

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

Reference to related disclosures

The Group provides information on deferred tax assets in the notes to the combined annual financial statements of the Group and IKB AG as of 31 December 2020 in Notes “(10) Deferred taxes” and “(29) Deferred tax assets.”

2. Valuation of receivables from customers in the retail, automotive supplier, tourism, shipbuilding and event management sectors

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

The valuation of receivables from customers in the retail, automotive supplier, tourism, shipbuilding and event management sectors is a key area in which the Management Board uses judgment. The identification of impaired loans and determination of required specific risk provisions entail uncertainties and involve various assumptions and influencing factors, in particular the financial situation of the borrower, and expectations regarding future cash flows and the realization of collateral. Due to the effects of the global coronavirus pandemic, which cannot be conclusively assessed as yet, these uncertainties are significantly heightened. Even minor changes in the assumptions and estimation inputs can lead to significantly different valuations. For this reason, we determined this to be a key audit matter.

Auditor's response

When coronavirus started to spread in Europe, the Management Board identified certain sectors as being particularly affected by the pandemic and monitored them on an ongoing basis. Based on risk reporting and evaluations of the portfolio structure, we obtained an understanding of the sectors (retail, automotive supplier, tourism, shipbuilding and event management) considered to be particularly affected by the coronavirus pandemic.

During our audit we analyzed the accounting-related processes for identifying objective evidence of impairment or potential losses and for calculating specific risk provisions and evaluated their reliability. In doing so, we considered the additional measures that were taken to address the deteriorating economic situation in the various sectors caused by the coronavirus pandemic above and beyond the existing processes in order to identify risks at an early stage. We tested the effectiveness of the process controls implemented to identify impaired loans and to calculate the specific risk provisions.

In addition, we assessed the processes aimed at monitoring the default risk and the impairment calculation and tested the controls implemented in the processes. Our audit procedures focused on the processes for evaluating the borrowers' financial situation, for applying internal risk classification procedures, for monitoring early warning indicators and for valuing collateral.

We also performed substantive procedures on a sample basis, assessing the need for recognizing a specific risk provision and the calculation of the amount of such provisions for loans. The sample was selected with a view to risk, based in particular on criteria such as the status of non-performing loan processing, the rating class, the industry, the outstanding payments, the amount of net exposure or the specific risk provisions already recognized.

For our risk-based sample we evaluated whether the significant assumptions and estimation inputs for expected future cash flows from customers, particularly in the retail, automotive supplier, tourism, shipbuilding and event management sectors, including the realization of collateral held and the estimation of the recoverability of payments in the event of default, are in line with the financial situation of the borrower and market expectations for the aforementioned sectors. We also assessed the arithmetical accuracy of the specific risk provisions calculated.

Our audit procedures did not lead to any reservations relating to the valuation of receivables from customers in the retail, automotive supplier, tourism, shipbuilding and event management sectors.

Reference to related disclosures

The Group's disclosures on the valuation of receivables from customers, which also include the retail, automotive supplier, tourism, shipbuilding and event management sectors, are contained in the "Accounting policies" section, Note "(6) Provisions for possible loan losses" in the notes to the combined annual financial statements as of 31 December 2020 as well as in section "3. Risk report," subsection "Counterparty default risk," in the combined management report of IKB AG and the IKB Group.

Other information

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

The other information comprises the corporate governance declaration referred to above. In addition, the other information comprises the non-financial report, which we expect to be provided with after we have issued our auditor’s report. Furthermore, the other information comprises additional parts of the annual report of which we received a version before issuing this auditor’s report, in particular the key figures of the IKB Group, the letter from the Chairman of the Board of Managing Directors and the Report of the Supervisory Board, but not the consolidated financial statements, not the group management report disclosures whose content is audited and not our auditor’s report thereon.

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

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

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

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

Responsibilities of the executive directors and the Supervisory Board for the consolidated financial statements and the group management report

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

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

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

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

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

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

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

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

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

- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems of the Institution.

- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.

- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Institution's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Institution to cease to be able to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with German legally required accounting principles.

- Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with [German] law, and the view of the Group's position it provides.

- Perform audit procedures on the prospective information presented by the executive directors in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

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

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

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

Other legal and regulatory requirements

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

We were elected as auditor by the Annual General Meeting on 3 September 2020. We were engaged by the Chairman of the Risk and Audit Committee on 22 September 2020. We have been the auditor of IKB Deutsche Industriebank AG without interruption since financial year 2017/2018.

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

German Public Auditor responsible for the engagement

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

Düsseldorf, 17 March 2021

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Werthmann	Gundelach
Wirtschaftsprüfer	Wirtschaftsprüferin

Note on forward-looking statements

This report contains forward-looking statements. Forward-looking statements are statements that do not describe past events; they also include statements on IKB's assumptions and expectations. These statements are based on the planning, estimates and forecasts currently available to the management of IKB. Forward-looking statements therefore apply only on the day on which they are made. IKB does not assume any obligation to update such statements in light of new information or future events.

By their nature, forward-looking statements contain risks and uncertainty factors. A large number of important factors could cause actual results to differ significantly from forward-looking statements. Such factors include economic developments, the condition and development of the financial markets in Germany, Europe, the US and other places where IKB generates income from securities trading, the possible default of borrowers or counterparties in trades, the implementation of our management agenda, the reliability of risk management policies, procedures and methods, and the liquidity situation.

IKB Deutsche Industriebank AG
Investor Relations
Wilhelm-Bötzkes-Straße 1
40474 Düsseldorf
Telephone +49 211 8221-4511
E-Mail: investor.relations@ikb.de

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