6-Month Report 2013/2014
(1 April – 30 September 2013)

IKB Deutsche Industriebank

Contents

Letter from the Chairman of the Board of Managing Directors

Dear shareholders,

Dear business partners of IKB,

In the first half of the current financial year, IKB generated a slightly positive consolidated net income of € 8 million and strengthened the fund for general banking risks (common equity tier I capital) by € 128 million from its current earnings. This represents encouraging progress compared with the net loss of € 51 million recorded in the first half of the previous year.

Current developments show that IKB's restructuring is largely complete. The difficulties and restrictions resulting from the crisis that cost us a great deal of time and money in the past have now been overcome. Now that IKB has fulfilled the conditions, it is no longer being monitored under EU state aid controlling. The last SoFFin guarantees were returned almost a year ago and large legal risks resulting from the crisis have been settled.

We are further strengthening our focus on the needs of our SME customers. Rather than deviating from our standards, we are countering the intense competitive situation, where pricing by lenders is not always risk-adequate, by creating value added through expertise and solutions that are tailored to our customers. We are building on our long-standing customer relationships and experience. We provide our customers with support as a creditor, an advisor, a risk manager and a link to the capital markets. Strong demand on the capital markets means that IKB is also making good progress in reducing non-strategic assets.

One piece of bad news was the notification by the ECB that IKB is one of the 124 banks being included in the comprehensive assessment under the single supervisory mechanism, despite the fact that our total assets are already below the lower threshold of € 27 billion. We had previously announced that we would continue to reduce IKB's total assets and risk-weighted assets as part of our focus on our core business. With total assets of € 25.8 billion at present, we are the smallest participating German bank. The costs resulting from the comprehensive assessment will hit us hard and make it more difficult for us to achieve a further reduction in administrative costs.

In addition, the minimum common equity tier I capital ratio of 8% (plus a premium of one percentage point for system relevance) that was originally required to be met by 2019 under the existing Basel III regulations is now required to be met by the end of 2013. In a notification dated 23 October 2013, the timeframe for fulfilling this important control parameter was reduced surprisingly harshly and with little scope for banks to react. Despite this, we are confident that we will be able to comply with this benchmark as at 31 December 2013. At 11.2%, we meet the current statutory minimum tier I capital ratio of 4% by some distance.

We consider IKB's liquidity to be secured thanks to our business involving deposits and promissory note loans with corporate, retail and institutional clients as well as secured financing. IKB succeeded in attracting deposits from around 50,000 private customers via its online offer. The range of time deposit products has been expanded to include accounts for children and young adults, payout plans, bearer bonds and securities account management.

IKB has had its roots in the SME sector for almost 90 years and is focusing its activities on these companies. IKB has a share of the market for long-term corporate loans to the German manufacturing industry of around 7%. The specific market share for public subsidy loans is much higher. We intend to achieve sustained operating profitability for IKB and to balance the losses recorded in the past through a policy of discipline in our new business and the systematic adjustment of our portfolio.

Düsseldorf, December 2013

Hans Jörg Schüttler

Interim Group Management Report

1. Business and general conditions

The global economy has picked up over the course of 2013, and growing confidence among companies in most countries suggests that this process of recovery will continue. The euro zone economy is also showing signs of stabilisation, but the fragmentation of the money and capital markets between crisis and non-crisis countries is still in place and the situation in the banking sector of some euro zone countries remains uncertain. Among other things, these divergences are reflected in differences in the financing conditions for companies and private households, with interest rates and lending standards still significantly worse in the crisis-hit countries than in the rest of the euro zone.

Monetary policy in the major industrialised nations was consistently expansionary. However, the announcement by the US Federal Reserve that it may reduce the scope of its buyback programme led to considerable uncertainty on the markets accompanied by some substantial interest rate and exchange rate movements.

General conditions for core business

The economy has continued to improve over the course of the year, particularly in the industrialised nations.

The euro zone emerged from recession in the second quarter of 2013 following six successive quarters of negative GDP development. Sentiment indicators and production figures suggest that this stabilisation will continue. France also came out of recession in the second quarter. While Spain and Italy saw a further reduction in GDP, but there was a slowdown in the negative trend.

The economic situation in Germany is more favourable. The economy picked up significant pace in the second quarter of 2013, due among other things to catch-up effects following adverse weather. Growth is likely to have temporarily slowed in the third quarter but is expected to pick up again. Investment demand for technical equipment is also seeing moderate signs of recovery for the first time.

The United Kingdom emerged from stagnation, enjoying a substantial economic upturn on the back of the Bank of England’s highly expansionary monetary policy.

The US economy absorbed the public budget cuts well and is seeing extremely stable development, although this is still too moderate for the US labour market. Although the preliminary agreement that was reached in the budget debate just in time to avert financial default has damaged the USA’s image somewhat, the impact on the US economy is likely to be manageable. The transitional solution is likely to pave the way for a more durable solution early next year.

Monetary policy in the major industrialised nations remained expansive. The Fed stuck to its zero-interest rate policy; in May, however, it contemplated reducing the scope of its buyback programmes. This put pressure on investments and currencies in the emerging economies in particular. Uncertainty concerning the nature of the turnaround in monetary policy in the USA may lead to significant interest rate and exchange rate corrections. The last months in particular have shown just how sensitive the reactions of the markets can be.

Despite the trend towards stabilisation, reduced lending continues to pose a substantial risk to economic growth in the euro zone, which remains characterised by fragmentation. With its monetary policy, the European Central Bank (ECB) has responded to the modest development of the money supply and lending as well as the risk of potential deflation by successively reducing the interest rate for the main refinancing operations of the euro system to 0.25%. However, the limits of expansionary monetary policy in the euro zone are starting to become visible. Low interest rates are unlikely to have a considerable stabilising influence in the crisis-hit countries, as the sustained weak economic development is continuing to restrict demand for credit. In addition, there are supply-side obstacles in the form of credit restrictions and poorer conditions, although the ECB's bank lending survey in October of this year suggests a slight relaxation of this situation. The substantial volume of non-performing loans on balance sheets is a burden on banks' equity. However, an ECB survey conducted in spring 2013 showed that the proportion of SMEs complaining about a deterioration in the availability of bank loans had declined significantly. In Germany in particular, there are no signs of restrictive lending on the part of banks. Quite the opposite, in fact: access to bank loans has improved substantially in recent times. As in the previous year, however, new borrowing by businesses remained relatively weak. This is because companies, in addition to showing restraint in capital expenditure, are increasingly taking the option of internal or capital market financing. Nevertheless, the uncertain macroeconomic situation is even leaving its mark on capital market financing and M&A transactions, which again saw modest development in a broadly pessimistic transaction environment.

The European interbank market is still split between crisis and non-crisis countries. Banks in the crisis-hit countries in particular are experiencing greater difficulties in accessing interbank loans and are reliant on the refinancing operations of the euro system, whereas banks in non-crisis countries have been able to reduce their excess liquidity.

The German banking industry continued to be faced with the challenge of reconciling profitability targets with the more stringent regulations for securing the capital base, credit quality and liquidity. While the general economic situation in Germany is still having a stabilising effect, the sovereign debt crisis had a clear impact in terms of risk provisioning. The larger German banks are also subject to uncertainties and pressures in connection with the establishment of the banking union. In addition, the persistently low money market and capital market interest rates and the flat yield curve are negatively affecting net interest income, while competition in traditional lending business, which banks are increasingly focusing on, remains intense. The same applies to deposit business, where competition for affordable or stable sources of refinancing is intensifying greatly.

IKB's strategic positioning

Comprehensive information on IKB's strategic positioning and business model can be found on pages 19 and 20 of IKB's 2012/13 annual report. There have been no significant changes to this information since its publication.

2. Significant events in the reporting period

Implementation of EU conditions

With its ruling on state aid proceedings on 21 October 2008, the European Commission imposed extensive conditions on IKB. A comprehensive report on the successful implementation of the EU conditions by IKB can be found on page 21 of IKB's 2012/13 annual report. The European Commission informed the German Federal Government of the suspension of its remaining ongoing monitoring of the fulfilment of the conditions on 12 July 2013. Irrespective of this, IKB will continue and complete the winding-up of IKB International S.A. and the former 50% equity interest in Movesta Lease and Finance GmbH, which are still in progress due to legal reasons.

Changes in the Group

The fund "European Liquid Bonds S.A., SICAV-FIS" was founded in May 2013. The fund is used by IKB as an investment company for surplus liquidity.

The liquidation proceedings for MD Capital Objekt Nordhausen GmbH i.L. were concluded in August 2013 with the final deletion of the company from the commercial register.

Legally relevant events

Collateralised debt obligations (CDOs) arranged by Lehman Brothers

With regard to the transactions (see page 57 of IKB's 2012/13 annual report), the Bank was in advanced discussions with Lehman Brothers as of 30 September 2013; these discussions have since led to a settlement (for details of the further development of these discussions, see section 5. "Supplementary report").

Portfolio investments (ABS)

The Bank is still striving to enforce claims for damages, in court and out of court, for former portfolio investments.

For further information please see subsection "Legal risks" in section 4. "Risk report" on pages 55 to 58 of the IKB Group's 2012/13 annual report.

Results of the special audit

The results of the special audit ordered by the Düsseldorf Regional Court at the request of shareholders are discussed on page 23 of IKB's 2012/13 annual report. There have been no changes to this information since its publication.

Debt issuance programme

The debt issuance programme was updated as at 4 September 2013. This programme has since been used for various new issues.

Personnel changes

Dr Lutz-Christian Funke and Dr Andreas Tuczka, whose terms in office ended after the Annual General Meeting on 5 September 2013, were re-elected to the Supervisory Board by way of resolution of the Annual General Meeting on 5 September 2013. In place of Mr Ulrich Grillo, whose term in office also ended after the Annual General Meeting on 5 September 2013, Dr Karl-Gerhard Eick was newly elected to the Supervisory Board by way of resolution of the Annual General Meeting on 5 September 2013.

As scheduled, Dr Carola Steingräber stepped down from the Supervisory Board at the end of the Annual General Meeting on 5 September 2013. Mr Rainer Lenz was elected to the Supervisory Board as a new employee representative.

On 27 June 2013, Mr Hans Jörg Schüttler and Dr Dieter Glüder were reappointed as members of the Board of Managing Directors of the company until 31 October 2016 and 15 October 2016 respectively. Mr Schüttler continues to exercise the office of Chief Executive Officer.

Reconciliation of interests and redundancy scheme

The Bank is currently implementing the reconciliation of interests and redundancy scheme concluded on 7 May 2012 in order to reduce the workforce by a total of 173 full-time equivalents (FTEs) within two years. 111 jobs were downsized by 30 September 2013.

Annual General Meeting on 5 September 2013

The Annual General Meeting of IKB for the 2012/13 financial year was held in Düsseldorf on 5 September 2013. The Annual General Meeting adopted all the resolutions proposed by the Bank's management by a large majority. The results of the individual votes can be found on the Bank's website at www.ikb.de. A shareholder initiated compulsory information proceedings in accordance with section 132 of the German Stock Corporation Act (AktG) following the Annual General Meeting. The Bank believes this claim to be unfounded. No legal proceedings were initiated against resolutions of the Annual General Meeting.

Valin Funds

In April 2013, IKB Deutsche Industriebank AG and Seer Capital Management LP launched their first joint fund, Valin Funds Mittelstand Mezzanine 1. The fund has a target volume of € 300 million. It was initially closed with first-time capital commitments of € 105 million. Further investors are being sought with a view to reaching the target volume. The fund will primarily invest in mezzanine loans to German SME companies with annual sales above € 50 million.

Purchase programme for IKB Funding Trust I hybrid securities

On 18 September 2013, Matrona GmbH (a company of the IKB Group) invited the holders of the trust preferred securities issued (ISIN DE0008592759) by IKB Funding Trust I to submit offers to sell these securities. The acceptance of the sale offer is subject to various conditions, including the approval of proposed contractual amendments to the conditions of the trust preferred securities by at least 66 2/3% of investors. The end of the acceptance period under the purchase programme was intended for 28 October 2013 (see also section 5. “Supplementary report”).

3. Net assets, financial position and results of operations

The figures for the previous year (results of operations: comparative period from 1 April to 30 September 2012; net assets: comparative date of 31 March 2013) were calculated in accordance with the provisions of German commercial law for the first time. The consolidated financial statements are structured in accordance with section 298 (1) in conjunction with section 265 (2) of the Handelsgesetzbuch (HGB – German Commercial Code).

Business development

The Group's new business volume was down on the prior-year level at € 1.3 billion in the reporting period. In particular, this decline is due to restrained credit demand on the market and selective lending by IKB. The share of public programme loans in new business was 40% (previous year: 36%).

Results of operations

In the first half of the 2013/14 financial year, a positive result from ordinary business activities of € 25 million (consisting of the result from normal business activities and the extraordinary result) was generated prior to the addition to the fund for general banking risks (section 340g HGB reserves) (previous year: result from ordinary business activities of € -48 million). The positive result benefited from advantageous developments on the capital market.

Consolidated net income amounted to € 8 million (previous year: consolidated net loss of € 51 million). A key factor influencing consolidated net income was tax income of € 110 million. Furthermore, an addition of € 128 million was made to the fund for general banking risks, which is also common equity tier I capital under Basel III. This addition is recognised as an expense.

Net interest and lease income

The Group's net interest and lease income rose by € 49 million in the reporting period to € 140 million (previous year: € 91 million).

Net interest income includes current income from financial instruments, equity investments, investments in affiliated companies and income from profit transfer agreements with companies not included in consolidation. Net lease income consists of lease income, expenses and write-downs.

€ 9 million was recognised from the reversal of provisions for interest on tax obligations.

The current income from financial instruments, equity investments, investments in affiliated companies and income from profit transfer agreements with companies not included in consolidation contained in net interest income decreased by € 10 million in the reporting period to € 2 million due to extraordinary effects in the previous year.

Net fee and commission income

Net fee and commission income amounted to € +14 million (previous year: €-11 million). The main reason for this increase was the absence of SoFFin commission expenses in connection with the final repayment of the SoFFin guarantees in the 2012/13 financial year (previous year: expenses of € 29 million).

Administrative expenses

Administrative expenses (personnel expenses, other administrative expenses and depreciation, amortisation and impairment losses) declined by € 6 million to € 139 million.

Personnel expenses climbed by € 2 million to € 79 million. In particular, this increase is due to recruitment in front office. The headcount increase is intended to boost sales activities at IKB.

Other administrative expenses and depreciation, amortisation and impairment losses declined by € 7 million to € 61 million. The drop is essentially due to the significant reduction of legal and advisory costs.

Net other income

Net other income comprises other operating and extraordinary income and expenses and write-downs and reversals thereof on equity investments, investments in affiliated companies and long-term investments. Furthermore, net other income includes the addition to the fund for general banking risks (section 340g HGB reserve), which qualifies as common equity tier I capital under Basel III.

Key factors influencing net other income, which amounted to € -63 million and was therefore down € 86 million on the previous year's figure (€ +23 million), are:

The addition to the fund for general banking risks in the amount of € 128 million is included in net other income as an expense. The common equity tier I capital of IKB was increased by a corresponding amount.

The remeasurement and disposal of long-term investments resulted in net income of € 61 million (previous year: net expenses of € 17 million), and close-out payments for the early dissolution of derivative transactions resulted in net income of € 22 million (previous year: € 0 million). Accordingly, some of the increases in value seen in financial instruments on the capital markets in the reporting period were implemented in a total amount of € 83 million.

Net risk provisioning

(Note: Additional information on risk provisioning can be found in section 4. "Risk report", table: Risk provisioning.)

Net risk provisioning included in amortisation/depreciation and write-downs of receivables, specific securities and additions to loan loss provisions rose to € -59 million (previous year: € -6 million).

The net addition to the Group's provisions for possible loan losses contained in this figure rose by € 43 million to € 58 million.

The main reason for the higher net addition was the € 32 million year-on-year increase in net additions to individual impairment losses to € 58 million. The net addition to the global valuation allowance rose by € 3 million to € 5 million. The gross addition to the global valuation allowance increased by € 13 million to € 17 million, while the gross reversal of global valuation allowances rose by € 10 million to € 12 million.

In particular, the higher additions reflect the risks that still exist in connection with the European debt crisis.

Net income from securities and derivatives in the liquidity reserve amounted to € -1 million (previous year: € +9 million).

Taxes

Tax income amounted to € 110 million in the reporting period after a tax expense of € 4 million in the same period of the previous year. The recognition of deferred taxes in profit or loss resulted in income of € 83 million. The reversal of tax provisions no longer required led to income of € 31 million. Expenses for current and other taxes amounted to € 4 million.

Result

Consolidated net income for the first half of the 2013/14 financial year amounted to € 8 million, representing an improvement of € 59 million (previous year: consolidated net loss of € 51 million).

Net assets

The Group's total assets declined by € 1.9 billion as against 31 March 2013 and amounted to € 25.8 billion at the end of the reporting period.

Assets

Receivables from banks declined by € 0.2 billion to € 2.0 billion.

Receivables from customers decreased by € 1.3 billion to € 13.4 billion. The drop is essentially due to restrained credit demand on the market and selective lending by IKB.

Bonds and other fixed-income securities declined by € 0.2 billion to € 7.6 billion.

The recognition in profit or loss of deferred taxes on temporary differences led to an increase in deferred tax assets of € 83 million to € 231 million.

Equity and liabilities

Liabilities to banks fell by € 0.4 billion to € 11.4 billion.

Liabilities to customers declined by € 1.0 billion to € 9.9 billion, largely as a result of the reduction in deposits.

Securitised liabilities fell by € 0.2 billion to € 0.8 billion. Subordinated liabilities were down € 0.4 billion at € 1.0 billion. The reduction in both items is due to liabilities maturing in the reporting period.

The fund for general banking risks (section 340g HGB reserves), which qualifies as common equity tier I capital under Basel III, rose to € 299 million as a result of an additional allocation of € 128 million (31 March 2013: € 171 million).

Equity

Equity increased by € 6 million, from € 952 million to € 958 million, largely as a result of the consolidated net income.

When calculating regulatory own funds, the fund for general banking risks in the amount of € 299 million is taken into account as common equity tier I capital. The calculation of regulatory own funds in accordance with Basel II using the final carrying amounts produced a figure for the IKB Group of € 2.1 billion (IKB AG: € 2.0 billion). Derived from this, the tier I capital ratio for the IKB Group was 11.2% (IKB AG: 11.9%) with an overall capital ratio of 14.8% (IKB AG: 16.3%).

Financial position

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

Overall assessment

The net assets, financial position and results of operations presented in this management report are consistent with the half-yearly financial statements.

The results of operations are characterised by a significant improvement in earnings compared with the same period of the previous year. Net assets and the financial position are in order.

4. Risk report

Where methods and processes have not changed since the start of the financial year, no detailed presentation is provided in the following section and readers should refer to IKB's 2012/13 Group management report (see pages 31 to 64).

Regulatory capital resources and risk-bearing capacity

Regulatory capital resources

The Bank calculates regulatory capital resources for credit risk according to the standardised approach for credit risk, for operational risk according to the base indicator approach and for market price risk according to standard methods (interest risks: duration method; option risks: delta-plus method or scenario matrix method). The Bank continues to use the regulatory netting approach to determine the net basis of measurement for derivatives, taking existing netting agreements into account. The following tables provide an overview of the regulatory risk items, equity base and ratios as applicable when the half-yearly financial statements were prepared and the intragroup profits were acknowledged by the German Federal Financial Supervisory Authority (BaFin):

Table: Regulatory capital situation at Bank Group level (section 10a of the German Banking Act – KWG)

in € million	**30 Sep. 2013**	**31 Mar. 2013**
Risk-weighted assets	13,870	15,016
Market risk equivalent	425	460
Operational risk	289	287
Risk position	**14,584**	**15,763**
Tier I capital	1,642	1,542
Tier II capital	533	672
Tier III capital	-	-
Deductions[1)]	-13	-44
Own funds	**2,161**	**2,170**
Tier I ratio in %	11.2	9.6
Overall capital ratio in %	14.8	13.8

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

1) Deductions predominantly consist of securitisation positions and equity investments in accordance with section 10 (6) sentence 1 no. 1 KWG.

Table: Regulatory capital situation at individual Bank level (section 10 KWG)

in € million	30 Sep. 2013	31 Mar. 2013
Risk-weighted assets	11,759	12,624
Market risk equivalent	287	292
Operational risk	194	263
Risk position	**12,240**	**13,179**
Tier I capital	1,458	1,330
Tier II capital	533	693
Tier III capital	-	-
Deductions[1)]	-	-
Own funds	**1,991**	**2,022**
Tier I ratio in %	11.9	10.1
Overall capital ratio in %	16.3	15.3

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

1) Deductions relate solely to securitisation positions.

The consolidated financial statements method was applied in calculating own funds and risk positions for the first time as at 30 September 2013. The aggregation method was used previously. There is no material difference between the results determined using each method.

The decrease in risk-weighted assets as at 30 September 2013 is primarily attributable to scheduled repayments, unscheduled repayments and sales of non-strategic assets accompanied by limited new business.

At 11.9% at individual Bank level and 11.2% at Group level, the tier I capital ratios have increased as against the start of the financial year and remain considerably higher than the statutory minimum of 4.0%. At 16.3% at individual Bank level and 14.8% at Group level, the overall capital ratio is also significantly higher than the statutory minimum requirement of 8.0%.

The Board of Managing Directors expects it to be possible to meet the statutory minimum requirements in the future (see also section 6. “Outlook”). The entry into force of the CRD IV banking reform package (Capital Requirements Directive) will lead to significant additional equity requirements in the form of minimum requirements that will increase every year until 2018 and additional buffers that will also need to be established over time. For this reason, the Bank will actively control its risk-weighted assets through the sale or synthetic hedging of balance sheet assets and the use of a central counterparty for standardised derivatives trading. There is still uncertainty due to the European project for uniform bank supervision and the fact that the results of the international banking regulation process remain unforeseeable. These processes are not yet complete, although CRD IV has been passed by the European Parliament and the new regulations are scheduled to come into effect on 1 January 2014. A large number of regulatory standards to be announced by the European Banking Authority (EBA) are not currently available.

Risk-bearing capacity

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

The following table compares the economic capital requirements in the going concern perspective that could arise mathematically in a year to cover unexpected losses at a confidence level of 95% (value at risk) with the risk coverage potential that will be available in the next twelve months (the confidence level for the going concern perspective has been increased in the current financial year; all figures for the start of the year have been restated accordingly).

Table: Economic capital requirements – going concern perspective

	30 Sep. 2013 in € million	30 Sep. 2013 in %	31 Mar. 2013 in € million	31 Mar. 2013 in %
Counterparty default risk	226	55%	229	55%
Market price risk	33	8%	32	8%
Operational risk	42	10%	42	10%
Business risk	97	24%	97	23%
Liquidity risk	16	4%	15	4%
Total	**414**	**100%**	**415**	**100%**
less diversification effects	-80		-76	
Overall risk position	**333**		**338**	
Risk coverage potential	**647**		**505**	

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

The risk coverage potential of € 647 million at the reporting date is € 142 million higher than at the start of the year (31 March 2013), as the expected profits in the reporting period (risk period of the next twelve months) will strengthen the risk coverage potential.

The overall risk position declined slightly by € 5 million as against the start of the financial year to € 333 million. This was primarily due to the lower level of counterparty default risk, while the other risks remained essentially unchanged.

As at 30 September 2013, the overall risk position amounted to 52% of the risk coverage potential (31 March 2013: 67%). This means that, as previously, the risk coverage potential is comfortably sufficient to cover the economic capital requirements arising from the occurrence of unexpected risks across the risk horizon. All regulatory minimum capital requirements under Basel III will continue to be met should these unexpected risks occur.

In addition to the above going concern perspective, the Bank also observes and analyses the overall risk position and risk coverage potential from a liquidation perspective, even if this is not directly relevant for risk management as described above. Unlike the going concern perspective, risk coverage potential from the liquidation perspective is calculated as the sum of all the equity components available to the Bank, including profit participation capital and subordinated capital. At the same time, all hidden liabilities/reserves from loans, securities and derivatives are included in full. The methodology of the liquidation perspective has been adjusted in the current financial year. Hidden liabilities and reserves from loans and the associated risks are now also taken into account when calculating the risk coverage potential and quantifying risk. The comparative figures have been restated to reflect this adjustment.

After application of the new methodology, risk coverage potential in the liquidation perspective increased by € 73 million compared with the start of the financial year. Overall, risk coverage potential in the liquidation perspective amounts to € 1,259 million, thereby covering the overall risk position at a confidence level of 99.72% (31 March 2013: 99.51% – adjusted) and falling just below the target level of 99.76% (derived from a BBB rating). The liquidation perspective is significantly affected by the long-term Italian government bonds held by the Bank as liquidity investments in terms of both risks and risk coverage potential. IKB does not expect this Italy risk to result in losses across the risk horizon.

Forecast calculations and stress tests

In light of the continued uncertainty with regard to macroeconomic development, the Bank prepares different forecast calculations for the next two financial years. These forecast calculations are based on the Bank's business plan and various stress scenarios. The outcome is that, assuming the business plan occurs in reality, the risk cover will exceed the economic capital requirements for unexpected risks in the going concern perspective in the next two financial years, even after the introduction of Basel III and the resulting further increase in regulatory minimum capital requirements.

However, the analysis of macroeconomic stress scenarios shows that an extreme scenario, such as the collapse of the euro zone with wider economic consequences for the entire European Economic Area, would mean that risk cover would no longer be sufficient to fully cover the overall risk position even in the going concern perspective.

Counterparty default risk

Structure of counterparty default risk

The Group's credit volume as at 30 September 2013 was composed as follows:

Table: Credit volume

	Group		
in € million	**30 Sep. 2013**	**31 Mar. 2013**	**Change**
Receivables from banks	2,031	2,219	-188
Receivables from customers	13,367	14,707	-1,340
Bonds and other fixed-income securities not including own bonds	7,124	7,161	-37
Equities and other non-fixed-income securities	495	497	-2
Liabilities held for trading	254	266	-12
Equity investments[1)]	25	27	-2
Leasing assets	1,281	1,365	-84
Other assets: Assets held for sale	91	91	-
Subtotal: Balance sheet assets	**24,668**	**26,333**	**-1,665**
Contingent liabilities[2)]	1,129	941	188
Asset derivatives in the non-trading book	1,434	2,148	-714
Write-downs[3)]	523	531	-8
Leasing: Deferred income and down-payments for intangible assets	-85	-138	53
Provisions for expected losses for derivatives embedded in structured products	-91	-120	29
less portions of bonds and receivables from banks attributable to third parties	-15	-13	-2
Gross credit volume	**27,563**	**29,682**	**-2,119**
For information purposes: other significant counterparty default risks outside the gross credit volume			
Irrevocable loan commitments	994	1,211	-217
Investments[1)] and shares in associated and affiliated companies	49	44	5

1) in the Group, investments after consolidation form part of the gross credit volume
2) not including derivative components of non-separated structured products (CDS), which are reported under "Bonds and other fixed-income securities"
3) not including provisions for expected losses for embedded derivatives in structured products; credit volume after deduction of valuation allowances on bonds and other fixed-income securities

The gross credit volume has declined by € 2.1 billion to € 27.6 billion since the start of the financial year. This is primarily due to the reduction in receivables from customers of € 1.3 billion to € 13.4 billion as a result of loan repayments and the decrease in asset derivatives in the non-trading book of € 0.7 billion to € 1.4 billion as a result of the reduction in the derivative volume. The increase in contingent liabilities of € 0.2 billion to € 1.1 billion is attributable to new protection seller credit default swaps.

Table: Credit volume by size – Group

	30 Sep. 2013 in € million	30 Sep. 2013 in %	30 Sep. 2013 Number[1]	31 Mar. 2013 in € million	31 Mar. 2013 in %
Under € 5 million	3,509	13%	21,522	3,726	13%
Between € 5 million and € 10 million	1,931	7%	274	2,105	7%
Between € 10 million and € 20 million	2,940	11%	214	3,050	10%
Between € 20 million and € 50 million	3,148	11%	101	2,994	10%
Over € 50 million	13,239	48%	82	14,350	48%
Subtotal	**24,767**	**90%**	**22,193**	**26,225**	**88%**
Risk transferred to third parties[2]	2,796	10%	-	3,457	12%
Total	**27,563**	**100%**	**22,193**	**29,682**	**100%**

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

The reduced volumes in the size classes up to € 50 million are primarily due to the repayment of loans.

While the credit volume attributable to the public sector in the “over € 50 million” category increased from € 3.2 billion to € 3.7 billion as a result of bond purchases, the volume attributable to banks and the financial sector declined from € 9.3 billion to € 8.0 million due to the sale of bonds and the decrease in asset derivatives, while the volume attributable to corporate financing fell from € 1.9 billion to € 1.6 billion as a result of repayments.

The majority of the volume and the number in the “under € 5 million” size class relates to lease finance.

The volume of risks transferred to third parties declined by € 0.7 billion to € 2.8 billion, largely as a result of repayments of loans transferred or secured by way of securitisation transactions. This figure is composed of indemnifications by banks (primarily KfW Bankengruppe – KfW) of € 1.5 billion, public guarantees including Hermes cover of € 0.2 billion and synthetic securitisations of € 1.1 billion in which KfW hedges the credit risk. The Bank is secured against counterparty default risks by means of synthetic securitisations, although the loans are still reported in the balance sheet and continue to be managed by IKB.

The synthetic securitisations of € 1.1 billion (31 March 2013: € 1.6 billion) are comprised as follows:

- Loans with a volume of € 0.26 billion relate to risk transfers for which only the expected loss and parts of the unexpected loss in the amount of € 32.3 million (originally € 39.2 million) have been transferred. This subordination is still considered sufficient.
- Hedging in the amount of € 218.6 million remains for loans of € 0.56 billion; this is considered sufficient subordination.
- The credit risk for loans with a volume of € 0.28 billion has been transferred in full.

Collateral, risk transfer and securitisation

Table: Credit volume by type of collateral – Group

	30 Sep. 2013 in € million	30 Sep. 2013 in %	31 Mar. 2013 in € million	31 Mar. 2013 in %
Property liens and charges	4,055	15%	4,202	14%
Transfers of ownership and leased assets	2,710	10%	2,799	9%
Other collateral[1)]	2,490	9%	2,546	9%
Collateralised[2)]	1,334	5%	2,418	8%
Secured credit volume[3)]	**10,589**	**38%**	**11,965**	**40%**
Without collateral	14,178	51%	14,260	48%
Subtotal	**24,767**	**90%**	**26,225**	**88%**
Risk transferred to third parties[4)]	2,796	10%	3,457	12%
Total	**27,563**	**100%**	**29,682**	**100%**

1) e.g. assignment of receivables, participation rights, assignment of shares, ownership rights, subordinations, positive/negative pledges
2) Derivatives with positive fair values that relate to collateral agreements, i.e. with corresponding liability positions
3) including credit portions beyond collateral value
4) Hermes guarantees, indemnifications, risks transferred

Exposures secured by means of mortgage loans, transfers of ownership and other collateral have declined by a total of € 0.3 billion since the start of the financial year due to repayments.

The majority of unsecured loans relate to banks and the financial sector (€ 7.4 billion; 31 March 2013: € 7.7 billion), the public sector (€ 3.7 billion; 31 March 2013: € 3.3 billion) and corporate financing (€ 3.1 billion; 31 March 2013: € 3.3 billion).

Unsecured loans relating to banks and the public sector primarily consist of securities that are assigned to the cash portfolio and are eligible at the ECB; this includes mortgage bonds and covered bonds.

The “Collateralised” item is used to report derivatives with positive fair values that relate to collateral agreements, i.e. with corresponding liability positions. The volume of this item has decreased by € 1.1 billion to € 1.3 billion since the start of the financial year due to the streamlining of the portfolio.

Term money and call money provided by IKB as collateral in connection with derivatives trading is assigned to the “Without collateral” item.

Geographical structure

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

Table: Credit volume by region – Group

	30 Sep. 2013 in € million	30 Sep. 2013 in %	31 Mar. 2013 in € million	31 Mar. 2013 in %
Germany	12,069	44%	13,062	44%
Outside Germany	12,698	46%	13,163	44%
Western Europe	9,803	36%	9,880	33%
Eastern Europe	1,157	4%	1,039	4%
North America	1,679	6%	2,156	7%
Other	59	0%	88	0%
Subtotal	**24,767**	**90%**	**26,225**	**88%**
Risk transferred to third parties[1)]	2,796	10%	3,457	12%
Total	**27,563**	**100%**	**29,682**	**100%**

1) Hermes guarantees, indemnifications, risks transferred

With the overall credit volume decreasing, the share attributable to borrowers outside Germany increased to 46%. This is due to the largely unchanged volume in Western Europe and the € 0.1 billion increase in the volume in Eastern Europe, which is attributable to public-sector investments (Poland and Slovakia). The lower volume in North America is due to the decline in the volume of derivatives.

The credit volume in Germany declined by € 1 billion as a result of repayments. This primarily related to corporate financing, which accounted for a total of € 9.0 billion of domestic financing (31 March 2013: € 9.4 billion).

Within Western Europe, risks relate to the following states:

Table: Credit volume in Western Europe by risk – Group

30 Sep. 2013 in € million	Credit volume after risk mitigation	thereof public sector	thereof banks and financial sector[1]	thereof other counter-party default risks
UK	1,962	-	1,232	730
Italy	1,712	1,123	198	391
France	1,636	148	926	562
EU[2]	1,309	707	602	-
Spain	1,276	140	638	498
Netherlands	406	105	192	109
Ireland	393	124	183[3]	86
Austria	315	174	95	46
Switzerland	171	-	83	88
Finland	169	99	14	56
Sweden	145	-	100	45
Denmark	99	92	7	-
Belgium	93	-	72	21
Portugal	65	-	25	40
Other	52	-	1	51
Total	**9,803**	**2,712**	**4,368**	**2,723**

1) Bank exposures in Spain and Italy primarily contain mortgage covered bonds.
2) European Commission, European Financial Stability Facility (EFSF) and European Investment Bank
3) The figure for Ireland contains portfolio investments of € 175 million held via special purpose entities in Ireland

Sector structure

Table: Credit volume by sector – Group

	30 Sep. 2013 in € million	30 Sep. 2013 in %	31 Mar. 2013 in € million	31 Mar. 2013 in %
Industrial sectors	11,653	42%	12,220	41%
Mechanical engineering	1,254	5%	1,139	4%
Retail	947	3%	850	3%
Services	840	3%	905	3%
Energy supply	713	3%	777	3%
Metal products	712	3%	830	3%
Other industrial sectors	7,187	26%	7,719	26%
Real estate	851	3%	1,001	3%
Financial sector	1,905	7%	2,188	7%
Banks	6,585	24%	7,466	25%
Public sector	3,773	14%	3,350	11%
Subtotal	**24,767**	**90%**	**26,225**	**88%**
Risk transferred to third parties[1]	2,796	10%	3,457	12%
Total	**27,563**	**100%**	**29,682**	**100%**

1) Hermes guarantees, indemnifications, risks transferred

The credit volume decreased by € 0.5 billion in the industrial sectors and by € 0.15 billion in the real estate industry compared with 31 March 2013. In contrast to the overall trend, the volume in each of the two largest industrial sectors, mechanical engineering and retail, increased by € 0.1 billion.

While the credit volume in the public sector increased by € 0.4 billion compared with 31 March 2013, the volume attributable to banks and the financial sector declined by a total of € 1.1 billion. As well as further repayments, the decrease of € 0.9 billion in the banking sector is primarily attributable to the reduction in the derivative volume.

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

Credit rating structure

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

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

	30 Sep. 2013 in € million	30 Sep. 2013 in %	31 Mar. 2013 in € million	31 Mar. 2013 in %
1-4	7,340	27%	7,606	26%
5-7	8,001	29%	8,689	29%
8-10	5,099	18%	5,669	19%
11-13	2,313	8%	2,159	7%
14-15	492	2%	482	2%
Lehman assets[2)]	338	1%	344	1%
Problem exposures[3)]	1,184	4%	1,276	4%
Subtotal	**24,767**	**90%**	**26,225**	**88%**
Risk transferred to third parties[4)]	2,796	10%	3,457	12%
Total	**27,563**	**100%**	**29,682**	**100%**

1) higher rating classes reflect lower creditworthiness
2) see the “CDOs arranged by Lehman Brothers” subsection of section 2. “Significant events in the reporting period”
3) Carrying amounts, i.e. after deducting losses from impaired securities
4) Hermes guarantees, indemnifications, risks transferred

The overall decrease of € 1.0 billion in credit rating levels 1-7 is primarily due to the lower volume in the banking sector.

The increase in credit rating levels 11-13 is largely attributable to deteriorations in the creditworthiness of counterparties in credit rating levels 8-10.

The vast majority of credit rating levels 14-15 is attributable to lease exposures for which the leased assets serve as collateral.

Problem exposures

The following table provides an overview of the development of problem exposures.

Table: Problem exposures[1] – Group

	30 Sep. 2013 in € million	31 Mar. 2013 in € million	Change in € million	Change in %
Impaired (non-performing assets)	953	1,064	-111	-10%
Non-impaired	284	265	19	7%
Total	**1,237**	**1,329**	**-92**	**-7%**
as % of credit volume	4.5%	4.5%		

1) Credit volume including losses from impaired securities (30 September 2013: € 53 million; 31 March 2013: € 54 million)

Problem exposures decreased further due to the reduction in non-performing assets. Non-impaired problem exposures increased slightly as a result of new restructuring cases for which no impairment losses were required to be recognised.

The figures comprise the credit volume plus losses on impaired securities.

Provisions for possible loan losses

Table: Provisions for possible loan losses – Group

	30 Sep. 2013 in € million	31 Mar. 2013 in € million	Change in %
Additions to specific impairment losses/provisions	101.5	171.7	-41%
Direct write-downs	0.6	9.5	-94%
Recoveries on loans previously written off	-5.5	-10.5	-48%
Reversal and unwinding of specific impairment losses/provisions	-42.6	-101.9	-58%
Additions to/reversals of global valuation allowances	4.7	31.6	-85%
Provisions for possible loan losses	**58.7**	**100.4**	**-42%**
Embedded derivatives/Recoveries on receivables from portfolio investments previously written off	-1.1	-20.9	-95%
Net addition to risk provisioning	**57.6**	**79.5**	**-28%**
Net income from securities and derivatives in the liquidity reserve	**1.4**	**-8.9**	
Net risk provisioning	**59.0**	**70.6**	**-16%**
Development of specific impairment losses/provisions[1]			
Opening balance	414.6	525.8	-21%
Utilisation	-66.9	-182.5	-63%
Reversal	-36.6	-83.5	-56%
Reclassification and net interest expense and discounting	0.9	0.2	>100%
Unwinding	-6.0	-18.4	-67%
Additions to specific impairment losses/provisions	101.5	171.7	-41%
Effect of changes in exchange rates	-0.8	1.3	
Total specific impairment losses/provisions	**406.7**	**414.6**	**-2%**
Global valuation allowances			
Opening balance	135.2	103.6	31%
Addition/reversal	4.7	31.6	-85%
Total global valuation allowances	**139.9**	**135.2**	**3%**
Total provisions for possible loan losses (including provisions)	**546.6**	**549.8**	**-1%**

1) not including provisions for embedded derivatives

Provisions for possible loan losses totalled € 59 million in the first half of the current financial year. While additions to specific impairment losses amounted to more than 50% of the entire prior-year figure, reversals of specific impairment losses were significantly lower than in the first half of the previous year.

Additions to global valuation allowances in the amount of € 4.7 million include a € 15 million increase in the global valuation allowances recognised for event risks in connection with the continued European sovereign debt crisis, while the global valuation allowance resulting from historical loss rates declined by € 10 million due to the lower credit volume and the reduction in average utilisations of specific valuation allowances.

Structured credit products

There have been no significant changes since the start of the financial year with the exception of the CDOs arranged by Lehman Brothers. Accordingly, readers should refer to IKB's 2012/13 Group management report (see pages 50 and 51). The development of the CDOs arranged by Lehman Brothers is discussed in the "Legal risks" subsection of section 4. "Risk report" and in section 5. "Supplementary report".

Liquidity and market price risk

Liquidity risk

Depending on the development of its new business, the Bank expects its liquidity requirements to amount to between € 7 billion and € 8 billion over the next twelve months. As previously, the main options currently available for refinancing these requirements are accepting customer deposits and promissory note loans, secured borrowing on the interbank market (cash and term deposits), participating in ECB tenders, bearer bonds and selling balance sheet assets. A further option for the Bank lies in collateralised refinancing structures.

In line with current planning, liquidity is ensured with a sufficient buffer. This also applies to the stress scenarios that are defined and considered on a regular basis.

Liquidity planning is based on a range of assumptions as to the aforementioned and other factors which can determine liquidity, both on the assets side and the liabilities side. In the event that a number of these assumptions do not come to fruition (stress scenarios), this may result in liquidity bottlenecks. For example, this may include market developments that prevent the Bank from extending liabilities guaranteed by the Deposit Protection Fund or selling balance sheet assets to a sufficient extent or at all.

Market price risk

The following table shows the development of the market price risk profile of the Group on the basis of the value-at-risk at a 99% confidence level assuming a holding period of one day.

Table: Market price risk profile

in € million	30 Sep. 2013	31 Mar. 2013
Basis point value[1)]	**-0.5**	**-0.4**
Vega[2)]	**-1.0**	**0.5**
VaR – foreign currency	-1.0	-1.0
VaR – interest rate and volatility	-23.0	-10.0
VaR – spread	-34.0	-48.0
Correlation effect	6.0	13.0
VaR[3)] (total)	**-52.0**	**-46.0**

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

1) Basis point value (BPV) indicates the change in the present value of the portfolio assuming a parallel shift of +0.01 percentage points (1 basis point) across all yield curves.
2) Vega indicates the change in the present value of the portfolio assuming an increase in interest rate volatility of 1 percentage point.
3) Value at risk at a 99% confidence level assuming a holding period of one day.

The main driver of market risk remains credit spread risk from state financing due to the spread volatility that is being observed as a result of the sustained European debt crisis.

Operational risk

The total loss volume of € 0.46 million identified in the first half of the financial year (excluding operational risks that are also credit risks) is largely unchanged as against the same period of the previous year (€ 0.5 million). The loss volume may increase during the course of the year due to some outstanding current cases (e.g. risks from previous development projects or from concrete court proceedings relating to individual exposures).

Legal risk

The changes since the report on 31 March 2013 relating to

- the implementation of the EU conditions,
- collateralised debt obligations (CDOs) arranged by Lehman Brothers,
- the results of the special audit
- the Annual General Meeting on 5 September 2013

are presented in section 2. “Significant events in the reporting period”.

Other risks

Information on IT, compliance, personnel, business, strategic, reputational and participation risks can be found in IKB’s Group management report for the year ended 31 March 2013. There have been no significant changes since this date.

Overall assessment of the risk situation

IKB has generated consolidated net income and improved its capital ratios during the course of the year by adding to the fund for general banking risks. It will comfortably meet the minimum requirements for the various capital ratios postulated by Basel III (CRR – Capital Requirement Regulation – and CRD IV) that will come into force on 1 January 2014. The Bank intends to exceed the requirements of Basel III and, in particular, to achieve a tier I capital ratio (CET I – Common Equity Tier I) of 8% at this date. It is not currently possible to fully estimate the future requirements in terms of capitalisation. In conjunction with the large number of new and, in some cases, contradictory regulatory requirements, the existing uncertainties will affect the Bank's business model and the management of total assets, regulatory equity capital, risk-weighted assets and therefore also the Bank's risk-bearing capacity.

Taking the Bank's forecasts into account, risk-bearing capacity (from a going concern perspective) remains secure for the next twelve months and a further two years after that. The forecasts also reflect the fact that the Basel III requirements for the level of equity, and thus for risk-bearing capacity, will successively increase on an annual basis.

Looking at risk-bearing capacity from a liquidation perspective shows that it is still strongly determined by market price risks resulting from temporary disruptions on the capital markets, which reflect the sustained global financial crisis and fears over the future of the euro. In IKB's view, however, there is no threat that the risks affecting Italy or other major euro zone member states will take hold in the near future and thus endanger the Bank.

IKB's securities portfolio continued to increase in value in the first half of the 2013/14 financial year due to the easing of the tension on the capital markets. Interest receivables from the securities portfolio helped to stabilise net interest income in an extremely low-interest environment. In view of the process of banking union, the imminent adoption of the resolution regime for banks in the EU and the opaque situation of banks in the various euro zone countries, it remains advisable for IKB to continue to spread the euro securities it requires (ECB, LCR – Liquidity Coverage Ratio) among the counterparty states as well as focusing almost exclusively on good-quality covered debt securities (mortgage bonds, covered bonds, etc.). The sustained low level of interest rates is impeding the generation of adequate interest income.

In lending business with customers, there remains a stable situation with regard to German companies. Despite the recession in many European countries, German companies are enjoying good to very good sentiment. This is reflected in a low level of risk provisioning. Where the competitive situation leads to inadequate margins and lax risk standards, as has been observed in some cases, IKB will not become involved.

The situation for corporate financing in Italy, Spain and France is considerably more difficult than in Germany; however, these countries now account for only a small proportion of the overall corporate loan portfolio. The risk provisions recognised in the first half of the year are largely attributable to the economic situation in these countries.

In line with planning, liquidity is ensured with a sufficient buffer.

The Bank considers the legal risks to be manageable as described.

IKB will continue to be accompanied by uncertainty on the markets, increased volatility and a growing variety of new regulations for some time to come. Against this backdrop, the possibility of further new crises with unexpected default, market price and liquidity risks for the banking system – and therefore also for IKB – cannot be ruled out, even for the near future. This could restrict the business opportunities available to the Bank and have a corresponding impact on the fulfilment of regulatory requirements, risk-bearing capacity and the development of risk provisioning.

The Board of Managing Directors expects the economic upturn in Europe and the USA to continue, with Germany in particular seeing an improvement in investment activity and further growth in operating business. Uncertainty will result in particular from the length and speed of this process, as this will also determine the duration of the period of low interest rates and the successful renunciation of a highly expansionary monetary policy. In the euro zone, the continued development of the economy, the banking sector and individual banks will also depend to a large extent on the effects of a number of regulation and taxation projects whose impact is difficult to assess, including the ambitious banking union project.

5. Events after 30 September 2013 (supplementary report)

The following major developments have arisen since 30 September 2013:

Participation of the Bank in the comprehensive assessment by the European Central Bank

On 23 October 2013, the ECB published details of its planned comprehensive assessment and announced that IKB would be one of the participating banks. The assessment will incorporate a supervisory risk assessment, an asset quality review and a stress test, and is scheduled for completion by October 2014. Numerous details of the test have yet to be specified. For more information, see section 6. “Outlook”.

Purchase programme for IKB Funding Trust I hybrid securities

On 28 October 2013, Matrona GmbH (a company of the IKB Group) extended the offering period for the purchase programme referred to in section 2. until 22 November 2013. The required approval rate among investors had not been reached by the end of the extended offering period. Accordingly, Matrona GmbH will not acquire any IKB Funding Trust I securities under the terms of the purchase programme.

Changes in the Group

Istop 6 GmbH was formed with effect from 30 October 2013 for the purpose of liquidity management at special funds. The shares in Istop 6 GmbH are wholly owned by IKB Struktur GmbH. On 6 November 2013, Istop 6 GmbH invested € 85 million in the Partner Fonds Government & Covered Select sub-fund I.

Legally relevant events

CDOs arranged by Lehman Brothers

With regard to the transactions involving investments by IKB in structured credit products, the Bank reached a settlement with Lehman Brothers in early November, meaning that there are no further legal risks arising from these transactions (see page 57 of IKB’s 2012/13 annual report).

Derivatives trading

Of the six cases in which legal proceedings were initiated (see page 58 of IKB’s 2012/13 annual report), proceedings have since been concluded out of court in one case.

Neither of the cases concluded had a significant influence on the interim financial statements for the period ended 30 September 2013.

6. Outlook

Expectations concerning future development until the end of the 2014/15 financial year are discussed in detail in the “Outlook” section on pages 66 to 71 of the IKB Group’s 2012/13 annual report. Changes related in particular to the slight improvement in the economic situation in the euro zone and the increased regulatory requirements resulting from IKB’s participation in the European Central Bank’s comprehensive assessment.

The slight improvement in the economic situation did not lead to any material changes concerning the forecast results of operations at the end of the 2013/14 financial year. A conclusive evaluation of the impact of the comprehensive assessment on forecasts is not possible as key data is not yet known. The key potential effects are presented below where known.

Future general economic conditions

The sentiment indicators are pointing to a gradual economic recovery in the euro area. A key reason for the improvement in sentiment is that doubts concerning the solidarity of the monetary union have receded. Given the waning uncertainty, consumer and investment propensity should continue to build. Furthermore, financial policy is not muting developments as much as it did in 2012. Finally, the negative effects of structural adjustments are also diminishing in some euro countries, such as the downsizing in the Spanish construction sector. Nonetheless, the structural adjustment processes are by no means over; they will continue to slow economic development. Thus, there are no prospects for a strong upswing in the euro zone, and temporary setbacks cannot be ruled out. The most crucial factor for growth in the euro zone seems to be that the credit crunch widely observed in the crisis nations is easing, thereby reducing the risk of a deflationary development. Hence, the ECB recently lowered its key lending rate once again.

In their autumn report, owing to the drops in GDP in recent quarters, economic research institutes predict a GDP contraction of -1.8% in Italy and -1.3% in Spain for 2013 as a whole. By contrast, France should generate slight growth of 0.2% following its good second quarter. For 2014 institutes are forecasting a further recovery in the economy in all three countries (GDP growth in Italy (0.1%); Spain (0.4%) and France (0.9%). The economy is also brightening visibly in the UK. Here, an increase in GDP of 1.4% is predicted for 2013, accelerating to 2% in 2014.

In the autumn of 2013, the German economy is at the beginning of a recovery. The global economy expanded a little more strongly again and the uncertainty in connection with the euro crisis has diminished considerably. In this environment, the effect of the favourable general conditions for the domestic economy is being felt more keenly once more. The good labour market situation in particular and the still extremely good financing conditions are spurring on the economy. The construction industry is also benefitting from the positive investment environment and low interest rates especially.

German exports are being stimulated by the further invigoration of the global economy and the rising stabilisation in the euro zone. Investment activity will slowly gather pace throughout the rest of 2013 and 2014. While the uncertainty over a renewed escalation of the crisis in the euro area and the diminished sales prospects on global markets caused considerable declines in corporate investments in the past year, these are expected to pick up again as developments unfold. However, momentum will initially remain somewhat restrained owing to the ongoing underutilisation of capacity. As sales prospects brighten in Germany and abroad and uncertainty continues to recede, investments will then grow more rapidly again in the forecast period. All in all, according to research institutes, GDP is expected to rise by 0.4% in 2013 and then more significantly by 1.8% in 2014.

The only slowly improving economic profile in the euro zone and the persistently low interest margins are continuing to limit earnings opportunities for German and European banks. In addition, earnings performance could come under pressure as a result of structural developments, and the competitive pressure on individual markets could increase.

The creation of the banking union entails a flood of regulations that have to be implemented by banks. It now appears that hardly anyone has a clear overview of the overall impact of these – frequently intersecting – rules. The regulation is increasingly determining the details of how banking services are rendered (process and structural organisation) and therefore the costs of every bank transaction. Key banking markets will be reorganised by the regulation, whether for long-term lending, providing and using derivatives or transferring risk. A large number of measures (interconnectedness, leverage ratio, separate banks, LCR) aim to reduce liquidity on the financial markets. A series of balance sheet structure standards that cannot always be managed without contradiction are being imposed on banks. This wave of regulation is having a considerable influence on the implementation of IKB's business model, and can delay or even endanger it in some areas.

In the medium term, the planned European banking union can make an important contribution to stabilising the European banking system and thus to resolving the euro crisis. A possible reorganisation of deposit protection entails substantial risks. It would also be significant for German SMEs if the protection level on corporate deposits were lowered so that their payment deposits were no longer protected. There are also details being controversially discussed still to be clarified for the specific configuration of a shared restructuring and bank resolution mechanism.

On the road to the banking union, banks and capital markets will be confronted with uncertainty that could fuel the already high volatility on the markets. As long as economic development remains muted on account of these reasons, banks and financial market players will continue to face a lasting phase of low interest. It is still uncertain how abruptly interest rates could rise if monetary policy and the markets begin turning renewed comprehensive confidence into sustainable stability and growth.

The environment in the euro zone has improved since spring 2013. Nevertheless, the situation for the euro zone remains susceptible to setbacks. Factors contributing to this are the risks to banks and governments resulting from economic and growth weakness and political resistance to reform. There are also still economic risks in the US as, despite the preliminary agreement in the budget dispute, there are still imponderables in the confrontation between the two political camps that could trigger fresh unease. There is uncertainty over the form of the monetary policy turnaround in the US as well. In light of the developments surrounding the end of the Fed's purchase programme, the International Monetary Fund has expressed concern over a hasty reorientation in the monetary policy of the industrialised nations and the US in particular, possibly leading to negative consequences for global financial stability.

Opportunities of future development

The opportunities of future development are reported on in detail on pages 68 and 69 of the IKB Group's 2012/13 annual report. It is still important for IKB's success that the expansion of business with capital market products, advisory services and derivatives continues. This income supplements the interest income from traditional lending business with higher margins overall in new business.

Net assets

At 14.8% (IKB AG: 16.3%) and 11.2% (IKB AG: 11.9%) respectively, the overall capital ratio (solvency ratio) and tier I capital ratio of the IKB Group are higher than in the previous year and significantly above the applicable minimum statutory requirements according to the German Banking Act (Basel II).

With the implementation of Basel III (CRR and CRD IV bank reform package) higher and "harder" minimum capital requirements will come into effect from 1 January 2014 (see 6. "Outlook", "CRR and CRD IV bank reform package" subsection). These are already effective as expected values in the calculation of risk-bearing capacity prescribed by the regulations, which standardises an additional common equity tier I capital buffer or risk cover beyond the minimum requirements of Basel III. Risk covering potential is therefore becoming one of the limiting control parameters in terms of these more stringent minimum capital requirements under CRR/CRD IV regulations.

The ECB set a benchmark for common equity tier I capital (CET I), which considerably exceeds minimum statutory requirements, with the publication of details of the comprehensive assessment of 23 October 2013 (see 6. "Outlook", subsection "Participation by the Bank in the comprehensive assessment of the European Central Bank").

In order to comply with rising equity requirements, IKB will recognise unrealised gains on its financial instruments and further reduce net risk weighted assets among other things. For the same reasons, IKB will use funds that third parties can also invest in for lending to its customers. Against this background, the Valin Funds Mittelstand Mezzanine 1 was launched with an initial capitalisation of € 105 million. In addition, further funds for other types of loans to companies are set to be issued.

The Bank is assuming that it will satisfy the statutory capital requirements. IKB intends to meet the benchmark of 8% CET I – significantly higher than the statutory minimum required – as at 31 December 2013 even though there is no legally binding basis to do so. IKB is assuming that the CET I ratio will improve further by the end of the 2013/14 financial year.

The Bank's business plan and all of the associated measures depend on the market environment. Significant unexpected losses and market disruptions with the characteristics of a stress scenario could impact IKB's situation and make it difficult to keep covering potential below the new minimum requirements of CRD IV for the tier I capital ratio and the common equity tier I capital ratio in particular, and to comply with the comprehensive assessment benchmark, without additional measures being taken, or prevent this entirely.

For the remainder of the 2013/14 financial year and the 2014/15 financial year, the Bank still expects to see a further reduction in receivables from customers as new lending business will continue to be more than offset by repayments in lending business and reductions of assets. If the economic situation improves, this could lead to a catch-up effect in credit demand and in lending by IKB. The equity and liabilities side of the balance sheet will be characterised by more diverse funding in the forecast period, in which deposit-taking business will be an important component.

CRR and CRD IV bank reform package (Basel III)

The EU Parliament adopted the final texts of CRD IV and CRR on 16 April 2013. Following the publication of the CRR (Regulation (EU) no. 575/2013) and CRD IV (Directive 2013/36/EU) in the Official Journal of the European Union on 27 June 2013, the new regulations entered into effect as at 28 June 2013 and 17 July 2013. The rules of the resolution are to be applied from 1 January 2014. By 31 December 2013, the Member States must endorse the Directive in national law and administrative provisions to be applied from 1 January 2014.

A key element of the reform package is that the minimum requirement for common equity tier I capital will be raised from 2% to 4.5% and the minimum requirement for total tier I capital will be increased from 4% to 6%. These requirements will have to be met in two stages by 1 January 2015.

In addition, banks will be required to maintain a capital conservation buffer of 2.5%, which must be covered by common equity tier I capital and gradually built up in the period from 1 January 2016 to 1 January 2019.

The Bank is assuming that it will satisfy the capital requirements of the CRR and CRD IV.

The CRD IV reform package entails high costs and poses complex control questions. It is to be seen primarily in combination with a large number of other regulation projects that are being implemented or planned in parallel. IKB is currently working on several projects to implement the new regulations. Despite the early start and the high costs for these projects, there are still significant uncertainties as a number of statutory regulations have not yet been finalised or have yet to be specified or announced by the EBA, the ECB or the national banking authorities. The existing uncertainties will affect the Bank's business model and the management of its balance sheet, regulatory equity capital, risk-weighted assets and therefore the Bank's risk covering potential as well.

Participation of the Bank in the comprehensive assessment by the European Central Bank

On 15 October 2013, the Council of the European Union adopted the Council Regulation to give specific tasks related to financial stability and banking supervision to the European Central Bank (Single Supervisory Mechanism Regulation). The Regulation entered into effect at the start of November 2013.

The ECB published details of the comprehensive assessment on 23 October 2013. This is a comprehensive review of the 124 banking groups in total (128 banks, 24 of which German) in the euro zone that are considered significant. The ECB stipulated that IKB will also be included in this comprehensive assessment. If the ECB stands by this decision, IKB will fully participate in the comprehensive assessment. The comprehensive assessment is intended as a preliminary measure by the ECB for its adoption of single supervision of the banks in the EU that are considered significant. One of its core components is the risk assessment that, in the opinion of Deutsche Bundesbank and the German Financial Supervisory Authority (BaFin), should be similar to the bank supervisory review process in Germany and covers all banking risks. According to the information provided by the authorities to date, the second step, the asset quality review (also known as the balance sheet assessment), is expected to focus first and foremost on the quality of the main assets and their valuation. The risk assessment and the asset quality review relate to several reference dates, ending with 31 December 2013. The risk assessment and the asset quality review began in the form of comprehensive data inquiries in October and November 2013 and, according to ECB planning, will be completed in May 2014. The third element from July 2014 will be a forward-looking stress test, which will examine banks' resilience under adverse economic conditions. The overall result of all comprehensive assessment elements is scheduled for publication in October 2014. Based on the overall result, on a bank by bank basis the ECB is planning to implement a series of follow-up measures, which has not yet been conclusively decided, at each bank (e.g. premiums on or increases in risk-weighted assets, additional regulatory capital requirements, etc.).

The ECB has set a benchmark of 8% by 31 December 2013 for CET I for the asset quality review. The transitional regulations of the Capital Requirement Regulation (CRR) that will apply as at 1 January 2014 will be taken into account. Without taking into account any other transitional regulations, this benchmark already assumes the capital requirements of Basel III that would apply as at 1 January 2018 (4.5% CET I plus 2.5% capital conservation buffer). In addition, the benchmark includes a buffer of one percentage point for all banks participating in the comprehensive assessment, regardless of their size, which would only apply to banks of global system relevance under the law that will take effect from 1 January 2014. The regulatory authorities have not yet classified IKB as a global system-relevant bank. IKB intends to meet the benchmark of 8% CET I – significantly higher than the statutory minimum required – as at 31 December 2013 even though there is no legally binding basis to do so.

There is also a benchmark of 8% CET I for the forthcoming stress test, albeit with a differing capital definition. Both the capital definition and the capital requirement that would result taking into account the pro rata phase-in regulations of the CRR for the respective analysis horizon are to be applied in the stress test. The analysis horizon has not yet been bindingly published by the ECB. IKB estimates that the analysis horizon could end between 31 December 2015 and 31 December 2018. The ECB has not yet made any binding statement on the details of the stress test.

The unspoken requirement of having to comply with the higher (compared to CRR regulations) CET I ratio of 8% early for the asset quality review, interferes massively with the management of the Bank, and this, in addition to the considerable new operating requirements, is causing additional costs that will hamper a further, long-term improvement in capital in line with the Bank's original planning.

The ECB has reported that the final group of banks to be supervised by it directly will not be decided until the third quarter of 2014. It therefore cannot be ruled out that IKB (or other banks as well) will take part in the ECB's comprehensive assessment, but will ultimately – particularly with regard to its size – remain under the direct supervision of the national authorities, i.e. BaFin and Deutsche Bundesbank.

Liquidity situation

With regard to the liquidity situation, there are no fundamental changes compared with the presentation on page 73 of the Group's 2012/13 annual report. In line with planning, liquidity continues to be ensured with a sufficient buffer.

Results of operations

With regard to future results of operations, changes compared with the presentation on page 74 of the Group's 2012/13 annual report relate to the aforementioned increased requirements resulting from the ECB's comprehensive assessment.

New lending business in the period under review was down slightly on the previous year as credit demand in Germany was low and competitive intensity was high. IKB also maintained high standards in its lending activity. Increasing commission income is proving to be difficult in the current environment. The development in commission income from customer business with capital market products was satisfactory overall despite the weak third calendar quarter on the capital markets as a whole. Meanwhile, income from M&A business was down.

In particular, achieving the goal of further reducing the Group's administrative costs will be made more difficult by the expenses for the ECB's comprehensive assessment, which are disproportionately high precisely for a relatively small bank (among the largest banks in the euro zone). The Bank will take greater efforts to compensate for these additional administrative costs.

If the positive trends on the capital markets continue, the Board of Managing Directors assumes that, as in the first half of the financial year, positive operating results can still be generated from earnings in operating business and realisation gains on financial instruments, which can be used to strengthen common equity tier I capital by recognising section 340g HGB reserves. Servicing the compensation agreements of a total amount of € 1,151.5 million and the value recovery rights of the hybrid investors mean that IKB AG will probably not report any, or only minimal, profit for a long time to come, even if operating activities are profitable.

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

Consolidated balance sheet of IKB Deutsche Industriebank AG as at 30 September 2013

in € million	30 Sep. 2013	31 Mar. 2013
Assets		
Cash reserve	**23.6**	**86.9**
a) Cash on hand	-	-
b) Balances with central banks	23.6	86.9
thereof: with Deutsche Bundesbank	23.6	86.9
c) Balances in postal giro accounts	-	-
Debt instruments of public sector entities and bills of exchange eligible for refinancing of central banks	**-**	**-**
Receivables from banks	**2,031.3**	**2,219.2**
a) Repayable on demand	1,930.2	2,099.2
b) Other receivables	101.1	120.0
Receivables from customers	**13,366.5**	**14,707.1**
thereof: mortgage loans	1,752.8	1,805.8
thereof: public sector loans	1,257.7	1,381.0
Bonds and other fixed-income securities	**7,623.5**	**7,855.1**
a) Money market securities	-	-
b) Bonds and notes	7,124.4	7,161.0
ba) Public sector issuers	3,159.4	2,150.3
thereof: eligible as collateral for Deutsche Bundesbank	3,159.4	2,150.3
bb) Other issuers	3,965.0	5,010.7
thereof: eligible as collateral for Deutsche Bundesbank	3,152.7	4,444.9
c) Own bonds	499.1	694.1
Nominal amount	506.4	697.2
Equities and other non-fixed-income securities	**494.8**	**496.7**
Assets held for trading	**254.1**	**265.9**
Equity investments	**24.8**	**26.8**
thereof: banks	0.2	0.2
Investments in associates	**11.3**	**15.0**
thereof: financial services institutions	11.3	11.1
Investments in affiliated companies	**12.6**	**2.1**
Assets held in trust	**-**	**0.3**
thereof: trustee loans	-	0.3
Equalisation claims on the public sector including debt securities arising from their exchange	**-**	**-**
Leasing assets	**1,280.6**	**1,365.3**
Intangible assets	**16.3**	**19.0**
a) Internally generated industrial and similar rights and assets	-	-
b) Purchased concessions, industrial and similar rights and assets, and licenses in such rights and assets	16.1	18.7
c) Goodwill	-	-
d) Advance payments made	0.2	0.3
Tangible assets	**11.1**	**12.8**
Called unpaid capital	**-**	**-**
Other assets	**234.9**	**285.2**
Prepaid expenses	**105.9**	**71.9**
Deferred tax assets	**230.8**	**148.2**
Excess of plan assets over post-employment benefit liability	**32.9**	**39.9**
Total assets	**25,755.0**	**27,617.4**

in € million	30 Sep. 2013	31 Mar. 2013
Equity and liabilities		
Liabilities to banks	**11,427.7**	**11,863.1**
a) Repayable on demand	828.8	804.8
b) With agreed lifetime or notice period	10,598.9	11,058.3
Liabilities to customers	**9,893.2**	**10,881.5**
a) Savings deposits	-	-
b) Other liabilities	9,893.2	10,881.5
ba) Repayable on demand	769.4	588.4
bb) With agreed lifetime or notice period	9,123.8	10,293.1
Securitised liabilities	**800.7**	**987.1**
a) Bonds issued	800.7	987.1
b) Other securitised liabilities	-	-
Liabilities held for trading	**269.9**	**242.1**
Liabilities held in trust	**-**	**0.3**
thereof: trustee loans	-	0.3
Other liabilities	**545.8**	**511.3**
Deferred income	**177.0**	**145.8**
Deferred tax liabilities	**-**	**-**
Provisions	**372.8**	**457.5**
a) Provisions for pensions and similar obligations	3.3	6.1
b) Tax provisions	76.2	105.8
c) Other provisions	293.3	345.6
Subordinated liabilities	**978.7**	**1,373.6**
Profit participation capital	**32.2**	**32.2**
Fund for general banking risks	**298.6**	**170.8**
thereof: trading-related special reserve according to section 340e (4) HGB	0.2	0.2
Equity	**958.4**	**952.1**
a) Called-up capital	1,621.5	1,621.5
Subscribed capital	1,621.5	1,621.5
Less uncalled unpaid contributions	-	-
Contingent capital	191.7	191.7
b) Capital reserves	1,750.7	1,750.7
c) Revenue reserves	5.0	5.0
ca) Legal reserve	2.4	2.4
cb) Reserve for shares in a parent or majority investor	-	-
cc) Statutory reserves	-	-
cd) Other revenue reserves	2.6	2.6
d) Difference in equity from currency translation	-17.9	-16.7
e) Net accumulated losses	-2,400.9	-2,408.4
Total equity and liabilities	**25,755.0**	**27,617.4**
Contingent liabilities	**1,740.8**	**1,486.1**
a) Contingent liabilities from rediscounted and settled bills of exchange	-	-
b) Liabilities from guarantees and indemnity agreements	1,740.8	1,486.1
c) Liability arising from the provision of collateral for third-party liabilities	-	-
Other obligations	**993.7**	**1,211.0**
a) Repurchase obligations from non-genuine repurchase agreements	-	-
b) Placement and underwriting obligations	-	-
c) Irrevocable loan commitments	993.7	1,211.0

Balance sheet of IKB Deutsche Industriebank AG as at 30 September 2013

in € million	30 Sep. 2013	31 Mar. 2013
Assets		
Cash reserve	**23.6**	**86.9**
a) Cash on hand	-	-
b) Balances with central banks	23.6	86.9
thereof: with Deutsche Bundesbank	23.6	86.9
c) Balances in postal giro accounts	-	-
Debt instruments of public sector entities and bills of exchange eligible for refinancing of central banks	**-**	**-**
Receivables from banks	**1,904.8**	**2,091.0**
a) Repayable on demand	1,808.8	1,981.7
b) Other receivables	96.0	109.3
Receivables from customers	**15,234.5**	**16,752.3**
thereof: mortgage loans	1,752.8	1,805.8
thereof: public sector loans	1,257.8	1,381.0
Bonds and other fixed-income securities	**6,909.9**	**6,991.9**
a) Money market securities	-	-
b) Bonds and notes	6,906.7	6,990.7
ba) Public sector issuers	3,159.5	2,150.4
thereof: eligible as collateral for Deutsche Bundesbank	3,159.5	2,150.4
bb) Other issuers	3,747.2	4,840.3
thereof: eligible as collateral for Deutsche Bundesbank	2,668.2	3,935.8
c) Own bonds	3.2	1.2
Nominal amount	3.7	1.8
Equities and other non-fixed-income securities	**28.2**	**28.3**
Assets held for trading	**254.1**	**265.9**
Equity investments	**11.0**	**11.1**
thereof: banks	0.2	0.2
Investments in affiliated companies	**125.0**	**124.7**
thereof: banks	22.7	22.7
Assets held in trust	**-**	**0.3**
thereof: trustee loans	-	0.3
Equalisation claims on the public sector including debt securities arising from their exchange	**-**	**-**
Intangible assets	**43.8**	**48.2**
a) Internally generated industrial and similar rights and assets	-	-
b) Purchased concessions, industrial and similar rights and assets, and licenses in such rights and assets	14.6	16.9
c) Goodwill	29.2	31.3
d) Advance payments made	-	-
Tangible assets	**5.2**	**5.5**
Called unpaid capital	**-**	**-**
Other assets	**73.6**	**153.9**
Prepaid expenses	**207.6**	**198.6**
Deferred tax assets	**233.4**	**150.7**
Excess of plan assets over post-employment benefit liability	**31.5**	**38.0**
Total assets	**25,086.2**	**26,947.3**

in € million	30 Sep. 2013	31 Mar. 2013
Equity and liabilities		
Liabilities to banks	**11,448.5**	**11,888.4**
a) Repayable on demand	829.8	821.5
b) With agreed lifetime or notice period	10,618.7	11,066.9
Liabilities to customers	**9,932.6**	**10,895.1**
a) Savings deposits	-	-
b) Other liabilities	9,932.6	10,895.1
ba) Repayable on demand	792.5	584.0
bb) With agreed lifetime or notice period	9,140.1	10,311.1
Securitised liabilities	**314.0**	**415.1**
a) Bonds issued	314.0	415.1
b) Other securitised liabilities	-	-
Liabilities held for trading	**269.9**	**242.1**
Liabilities held in trust	**-**	**0.3**
thereof: trustee loans	-	0.3
Other liabilities	**505.2**	**556.8**
Deferred income	**239.4**	**228.0**
Deferred tax liabilities	**-**	**-**
Provisions	**334.9**	**412.6**
a) Provisions for pensions and similar obligations	0.4	3.2
b) Tax provisions	73.6	102.3
c) Other provisions	260.9	307.1
Subordinated liabilities	**503.6**	**898.6**
Profit participation capital	**32.2**	**32.2**
Fund for general banking risks	**298.6**	**170.8**
thereof: trading-related special reserve according to section 340e (4) HGB	0.2	0.2
Equity	**1,207.3**	**1,207.3**
a) Called-up capital	1,621.5	1,621.5
Subscribed capital	1,621.5	1,621.5
Less uncalled unpaid contributions	-	-
Contingent capital	191.7	191.7
b) Capital reserves	1,750.7	1,750.7
c) Revenue reserves	2.4	2.4
ca) Legal reserve	2.4	2.4
cb) Reserve for shares in a parent or majority investor	-	-
cc) Statutory reserves	-	-
cd) Other revenue reserves	-	-
e) Net accumulated losses	-2,167.3	-2,167.3
Total equity and liabilities	**25,086.2**	**26,947.3**
Contingent liabilities	**2,667.6**	**2,437.2**
a) Contingent liabilities from rediscounted and settled bills of exchange	-	-
b) Liabilities from guarantees and indemnity agreements	2,667.6	2,437.2
c) Liability arising from the provision of collateral for third-party liabilities	-	-
Other obligations	**902.4**	**1,066.3**
a) Repurchase obligations from non-genuine repurchase agreements	-	-
b) Placement and underwriting obligations	-	-
c) Irrevocable loan commitments	902.4	1,066.3

Consolidated income statement of IKB Deutsche Industriebank AG for the period from 1 April 2013 to 30 September 2013

in € million	2013/14	2012/13
Expenses		
Lease expenses	**-94.0**	**-85.9**
Interest expenses	**-555.5**	**-938.9**
Commission expenses	**-6.6**	**-34.6**
Net trading results	**-**	**-0.1**
General administrative expenses	**-134.1**	**-140.2**
a) Personnel expenses	-78.8	-77.4
aa) Wages and salaries	-67.0	-66.6
ab) Social security, post-employment and other employee benefit costs	-11.8	-10.8
thereof: for pensions	-3.1	-2.0
b) Other administrative expenses	-55.3	-62.8
Depreciation and write-downs of intangible and tangible assets	**-205.6**	**-211.6**
a) On leasing assets	-200.2	-206.5
b) On intangible and tangible assets	-5.4	-5.1
Other operating expenses	**-262.3**	**-45.6**
Expenses for the addition to the fund for general banking risks	**-127.8**	**-**
Depreciation and write-downs of receivables, specific securities and additions to loan loss provisions	**-59.0**	**-5.5**
Depreciation and write-downs of equity investments, investments in affiliated companies and long-term investments	**-7.8**	**-26.3**
Expenses from assumption of losses	**-**	**-**
Extraordinary expenses	**-2.3**	**-2.3**
Income taxes	**111.2**	**-2.8**
Other taxes not reported under other operating expenses	**-0.9**	**-1.0**
Profit transfer on the basis of profit-pooling, profit transfer and partial profit transfer agreements	**-**	**-**
Net income for the year	**-7.5**	**-**
Total expenses	**-1,352.2**	**-1,494.8**

in € million	2013/14	2012/13
Income		
Lease income	**336.9**	**341.4**
Interest income from	**650.3**	**968.0**
a) Lending and money market transactions	564.1	854.2
b) Fixed-income securities and government-inscribed debts	86.2	113.8
Current income from	**2.2**	**12.6**
a) Equities and other non-fixed-income securities	0.7	0.7
b) Equity investments	0.7	11.3
c) Associates	0.8	0.6
d) Investments in affiliated companies	-	-
Income from profit-pooling, profit transfer and partial profit transfer agreements	**-**	**-**
Commission income	**21.0**	**23.8**
Net trading results	**4.8**	**-**
Income from reversals of write-downs on receivables and certain securities and from the reversal of loan loss provisions	**-**	**-**
Income from reversals of write-downs of equity investments, investments in affiliated companies and long-term investment securities	**69.1**	**43.4**
Other operating income	**267.9**	**50.9**
Income from the reversal of the fund for general banking risks	**-**	**-**
Extraordinary income	**-**	**3.3**
Income from assumption of losses	**-**	**-**
Net loss for the year	**-**	**51.4**
Total income	**1,352.2**	**1,494.8**
Net income/loss for the year	**7.5**	**-51.4**
Loss carry-forward from the previous year	**-2,408.4**	**-2,290.8**
Withdrawals from capital reserves	**-**	**-**
Withdrawals from revenue reserves	**-**	**-**
a) from legal reserve	-	-
b) from reserve for shares in a parent or a majority investor	-	-
c) from statutory reserves	-	-
d) from other revenue reserves	-	-
Withdrawals from profit participation capital	**-**	**-**
Withdrawals from silent partnership contributions	**-**	**-**
Allocations to revenue reserves	**-**	**-**
Replenishment of profit participation capital	**-**	**-**
Net accumulated losses	**-2,400.9**	**-2,342.3**

Income statement of IKB Deutsche Industriebank AG for the period from 1 April 2013 to 30 September 2013

in € million	2013/14	2012/13
Expenses		
Interest expenses	**-570.8**	**-956.5**
Commission expenses	**-2.9**	**-31.7**
Net trading results	**-**	**-0.1**
General administrative expenses	**-112.9**	**-119.8**
a) Personnel expenses	-62.3	-60.9
aa) Wages and salaries	-53.1	-52.7
ab) Social security, post-employment and other employee benefit costs	-9.2	-8.2
thereof: for pensions	-2.9	-2.0
b) Other administrative expenses	-50.6	-58.9
Depreciation and write-downs of intangible and tangible assets	**-4.9**	**-4.6**
Other operating expenses	**-231.4**	**-13.7**
Expenses for the addition to the fund for general banking risks	**-127.8**	**-**
Depreciation and write-downs of receivables, specific securities and additions to loan loss provisions	**-54.7**	**-8.2**
Depreciation and write-downs of equity investments, investments in affiliated companies and long-term investments	**-10.0**	**-15.5**
Expenses from assumption of losses	**-**	**-**
Extraordinary expenses	**-2.0**	**-2.0**
Income taxes	**111.5**	**-1.2**
Other taxes not reported under other operating expenses	**-0.2**	**-0.2**
Profit transfer on the basis of profit-pooling, profit transfer and partial profit transfer agreements	**-**	**-**
Total expenses	**-1,006.1**	**-1,153.5**

in € million	2013/14	2012/13
Income		
Interest income from	**672.2**	**987.1**
a) Lending and money market transactions	598.4	886.8
b) Fixed-income securities and government-inscribed debts	73.8	100.3
Current income from	**-**	**10.4**
a) Equities and other non-fixed-income securities	-	-
b) Equity investments	-	10.4
c) Investments in affiliated companies	-	-
Income from profit-pooling, profit transfer and partial profit transfer agreements	**-**	**-**
Commission income	**19.7**	**23.8**
Net trading results	**4.8**	**-**
Income from reversals of write-downs on receivables and certain securities and from the reversal of loan loss provisions	**-**	**-**
Income from reversals of write-downs of equity investments, investments in affiliated companies and long-term investment securities	**68.5**	**31.6**
Other operating income	**240.9**	**7.4**
Income from the reversal of the fund for general banking risks	**-**	**-**
Extraordinary income	**-**	**4.4**
Income from assumption of losses	**-**	**-**
Net loss for the year	**-**	**88.8**
Total income	**1,006.1**	**1,153.5**
Net loss for the year	**-**	**-88.8**
Loss carry-forward from the previous year	**-2,167.3**	**-2,030.5**
Withdrawals from capital reserves	**-**	**-**
Withdrawals from revenue reserves	**-**	**-**
Withdrawals from profit participation capital	**-**	**-**
Withdrawals from silent partnership contributions	**-**	**-**
Allocations to revenue reserves	**-**	**-**
Replenishment of profit participation capital	**-**	**-**
Net accumulated losses	**-2,167.3**	**-2,119.3**

Notes to the single-entity and consolidated financial statements (condensed)

Applied accounting principles

The interim financial report of IKB AG and the IKB Group ("Group") for the period ended 30 September 2013 is prepared in accordance with the provisions of the *Handelsgesetzbuch* (HGB – German Commercial Code) in conjunction with the *Verordnung über die Rechnungslegung der Kreditinstitute und Finanzdienstleistungsinstitute* (RechKredV – German Bank Accounting Directive) and taking into account the relevant provisions of the *Aktiengesetz* (AktG – German Stock Corporation Act) and the standards promulgated by the German Standardisation Council (DSR) and endorsed by the German Federal Ministry of Justice in accordance with section 342 (2) HGB. The present financial statements should be read together with the audited single-entity and consolidated financial statements of IKB AG for the year ended 31 March 2013.

The interim financial report for the period ended 30 September 2013 comprises the balance sheet, the income statement and selected explanatory disclosures in the condensed notes to the financial statements, as well as a condensed Group management report. IKB has opted against the voluntary preparation of a (condensed) statement of changes in equity and a (condensed) cash flow statement. With respect to the events and items arising in the current interim reporting period that are relevant for an understanding of the material changes in items of the balance sheet and the income statement in comparison to the comparative figures shown, reference is made to the information on the assets, financials and income in the interim management report of the Group in addition to the disclosures in the condensed notes to the interim financial statements.

The comparative figures for the previous year were calculated in line with German commercial law and disclosed in accordance with section 298 (1) in conjunction with section 265 (2) HGB. The effects of the change in Group accounting from IFRS to HGB are shown separately in a statement of reconciliation for equity as at 1 April 2011 (date of the opening HGB balance sheet) in the consolidated financial statements for the year ended 31 March 2013.

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

Amounts are disclosed in millions of euro. Minor deviations can occur in the figures in the notes due to the rounding of totals. Amounts under € 50 thousand and zero amounts are shown in the single-entity and consolidated financial statements as "-".

IKB's financial year begins on 1 April and ends on 31 March.

As a matter of principle, the same accounting policies were applied in preparing the interim financial statements as for the single-entity and consolidated financial statements for the year ended 31 March 2013. The following additional disclosures are also required:

Changes in measurement

The method for calculating the fundamental value of the Bacchus 2008-1 and Bacchus 2008-2 securities was adjusted as at 30 September 2013. This resulted in a € 5.9 million reduction in the carrying amount of the Bacchus 2008-1 security, of which € 1.8 million is attributable to the current year. A corresponding write-down was recognised by IKB AG as at 30 September 2013. There is no effect on the consolidated income statement of the IKB Group.

As part of the harmonisation of the measurement of its own investments, IKB changed the methodology for calculating the fair value of the Bacchus 2008-1 and 2008-2 securities held as long-term investments to a cash flow-based approach at the end of July 2013. This change in measurement increased the fair value of Bacchus 2008-1 by € 35.7 million and Bacchus 2008-2 by € 30.9 million as at 30 September 2013. The effect would have led to a reduction in the hidden liabilities from long-term investments disclosed in the notes to the financial statements of € 76.2 million as at 31 March 2013.

Reclassifications

Payments in connection with the liquidation of cross-currency swaps are reported in net other operating income. As at 30 September 2012, payments in connection with liquidation were reported in net gains and losses on risk provisioning. As at 30 September 2013, this reclassification led to a reduction in net gains and losses on risk provisioning and an increase in other operating expenses of € 0.6 million (previous year: € 2.5 million) and other operating income of € 2.7 million (previous year: € 3.1 million).

In accordance with IDW RS BFA 6, the earnings effects from the expiration, exercise or close-out of FX options and other FX forwards are now reported in other operating income or other operating expense rather than in net interest income as previously. As at 30 September 2013, this led to an increase in other operating expenses of € 6.1 million (previous year: € 2.0 million) and other operating income of € 3.9 million (previous year: € 2.0 million).

(1) Consolidated group

In addition to IKB AG, 38 (31 March 2013: 38) subsidiaries and four (31 March 2013: four) special-purpose entities have been fully consolidated included in the consolidated financial statements for the period ended 30 September 2013. One associated company is included in the consolidated financial statements using the equity method (31 March 2013: two).

The associated company Argantis Private Equity GmbH & Co. KG was removed from the consolidated group as at 30 September 2013 following the transfer of the limited partner interests to third parties. The sale did not result in any material effects.

(2) Consolidation methods

The consolidated financial statements were prepared in accordance with the uniform accounting policies of IKB AG. The single-entity financial statements of the subsidiaries included that are neither credit nor financial services institutions have been reconciled to the structure of the RechKredV formats. If a Group company has a reporting date other than 30 September, the material transactions occurring by 30 September are taken into account.

The interim financial statements are based on the same consolidation principles as the consolidated financial statements for the year ended 31 March 2013:

Capital consolidation for companies included in consolidation for the first time is performed using the revaluation method in accordance with section 301 HGB. Before the *Bilanzrechtsmodernisierungsgesetz* (BilMoG – German Act to Modernise Accounting Law) came into effect, the book value method was used for companies included in consolidation for the first time.

Assets, liabilities and deferred income as well as revenue and expenses between the Group companies included are consolidated. Intercompany profits or losses from internal transactions are eliminated unless immaterial.

Investments in associated companies are measured using the equity method in accordance with section 312 HGB (book value method). Uniform accounting policies within the Group are disregarded when using the equity method.

Notes on the balance sheet

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

	Group		IKB AG	
in € million	**30 Sep. 2013**	**31 Mar. 2013**	**30 Sep. 2013**	**31 Mar. 2013**
Receivables from banks*	**101.1**	**120.0**	**96.0**	**109.3**
with a remaining term of				
up to 3 months	62.7	75.0	57.6	64.2
between 3 months and 1 year	13.8	12.4	13.8	12.4
between 1 and 5 years	18.1	26.0	18.1	26.1
more than 5 years	6.5	6.6	6.5	6.6
Receivables from customers	**13,366.5**	**14,707.1**	**15,234.5**	**16,752.3**
with a remaining term of				
up to 3 months	1,852.4	1,582.5	2,155.9	1,606.8
between 3 months and 1 year	1,883.4	2,419.7	2,247.3	2,735.5
between 1 and 5 years	7,075.2	8,197.0	8,223.1	9,111.8
more than 5 years	2,555.5	2,507.9	2,608.2	3,298.2
Liabilities to banks*	**10,598.9**	**11,058.3**	**10,618.7**	**11,066.9**
with a remaining term of				
up to 3 months	2,189.8	1,086.3	2,189.2	1,099.7
between 3 months and 1 year	2,001.9	3,369.6	2,026.1	3,368.1
between 1 and 5 years	5,017.8	5,100.7	5,014.0	5,097.4
more than 5 years	1,389.4	1,501.7	1,389.4	1,501.7
Liabilities to customers*	**9,123.8**	**10,293.1**	**9,140.0**	**10,311.2**
with a remaining term of				
up to 3 months	1,026.1	1,568.4	1,040.6	1,579.5
between 3 months and 1 year	2,363.1	3,184.5	2,364.8	3,188.5
between 1 and 5 years	4,352.2	4,072.7	4,352.2	4,075.8
more than 5 years	1,382.4	1,467.5	1,382.4	1,467.4

* not including receivables or liabilities repayable on demand

Of bonds and other fixed-income securities, € 591.2 million (31 March 2013: € 678.1 million) are payable in the following year in the Group and € 428.8 million (31 March 2013: € 510.2 million) are payable in the following year at IKB AG. Of the bonds issued and reported under securitised liabilities, € 7.2 million (31 March 2013: € 117.4 million) are payable in the following year in the Group and € 7.2 million (31 March 2013: € 117.4 million) are payable in the following year at IKB AG.

(4) Trading financial instruments

Assets held for trading break down as follows:

	Group		IKB AG	
in € million	**30 Sep. 2013**	**31 Mar. 2013**	**30 Sep. 2013**	**31 Mar. 2013**
Derivative financial instruments	244.8	253.1	244.8	253.1
Receivables	4.0	9.4	4.0	9.4
Bonds and other fixed-income securities	5.7	4.0	5.7	4.0
Risk deduction	-0.4	-0.6	-0.4	-0.6
Total	**254.1**	**265.9**	**254.1**	**265.9**

The trading book derivatives are interest swaps, spot transactions, caps/floors/collars, FX swaps, FX options, FX forwards and swaptions.

Liabilities held for trading primarily consist of derivative financial instruments in the amount of € 253.8 million (31 March 2013: € 242.1 million).

After taking into account a risk deduction, trading activities generated net income of € 4.8 million as at 30 September 2013 (previous year: net loss of € 0.1 million).

(5) Fixed assets

Group:

in € million	Intangible assets	Tangible assets	Leasing assets	Equity investments	Investments in associates	Investments in affiliated companies	Bonds and other fixed-income securities	Equities and other non-fixed-income securities	Total
Acquisition costs as at 31 March 2013	**67.4**	**60.8**	**2,529.0**	**57.0**	**21.4**	**13.4**	**8,131.2**	**469.6**	**11,349.8**
Additions	0.7	0.6	195.3	-	0.2	10.5	824.0	-	1,031.3
Reclassifications/effects of currency translation	-0.3	-0.1	-45.2	-1.6	-	-	-38.5	-	-85.7
Disposals	-6.4	-2.5	-235.6	-0.6	-10.5	-	-934.1	-1.7	-1,191.4
Acquisition costs as at 30 September 2013	**61.4**	**58.8**	**2,443.5**	**54.8**	**11.1**	**23.9**	**7,982.6**	**467.9**	**11,104.0**
Cumulative depreciation/ amortisation, write-downs and reversals thereof as at 31 March 2013	**-48.4**	**-48.0**	**-1,163.7**	**-30.2**	**-6.4**	**-11.3**	**-496.6**	**-1.1**	**-1,805.7**
Reversals of write-downs	-	-	1.2	-	0.8	-	17.6	-	19.6
Depreciation/amortisation and write-downs	-3.2	-2.2	-200.8	-1.4	-0.8	-	-13.9	-0.2	-222.5
Reclassifications/effects of currency translation	-	0.1	0.2	1.6	-	-	23.7	-	25.6
Disposals	6.5	2.4	200.2	-	6.6	-	5.3	-	221.0
Cumulative depreciation/ amortisation, write-downs and reversals thereof as at 30 September 2013	**-45.1**	**-47.7**	**-1,162.9**	**-30.0**	**0.2**	**-11.3**	**-463.9**	**-1.3**	**-1,762.0**
Residual book value as at 30 September 2013	**16.3**	**11.1**	**1,280.6**	**24.8**	**11.3**	**12.6**	**7,518.7**	**466.6**	**9,342.0**
Residual book value as at 31 March 2013	**19.0**	**12.8**	**1,365.3**	**26.8**	**15.0**	**2.1**	**7,634.6**	**468.5**	**9,544.1**

The opening balances for investments in affiliated companies have been adjusted by € 5.9 million for acquisition costs as at 31 March 2013 and cumulative depreciation/amortisation, write-downs and reversals thereof as at 31 March 2013 due to the required gross presentation. Deferred interest for the financial year and the previous year is shown in additions and disposals.

IKB AG:

in € million	Intangible assets	Tangible assets	Leasing assets	Equity investments	Investments in associates	Investments in affiliated companies	Bonds and other fixed-income securities	Equities and other non-fixed-income securities	Total
Acquisition costs as at 31 March 2013	**91.3**	**33.2**	**-**	**12.9**	**-**	**1,341.2**	**7,235.1**	**-**	**8,713.7**
Additions	0.2	-	-	-	-	0.5	813.2	-	813.9
Reclassifications/effects of currency translation	-	-	-	-1.7	-	-	-28.5	-	-30.2
Disposals	-6.4	-1.8	-	-0.2	-	-0.6	-880.2	-	-889.2
Acquisition costs as at 30 September 2013	**85.1**	**31.4**	**-**	**11.0**	**-**	**1,341.1**	**7,139.6**	**-**	**8,608.2**
Cumulative depreciation/ amortisation, write-downs and reversals thereof as at 31 March 2013	**-43.1**	**-27.7**	**-**	**-1.8**	**-**	**-1,216.5**	**-347.8**	**-**	**-1,636.9**
Reversals of write-downs	-	-	-	0.1	-	-	4.6	-	4.7
Depreciation/amortisation and write-downs	-4.5	-0.3	-	-	-	-	-6.8	-	-11.6
Reclassifications/effects of currency translation	-	-	-	1.7	-	-	15.4	-	17.1
Disposals	6.4	1.8	-	-	-	0.4	-	-	8.6
Cumulative depreciation/ amortisation, write-downs and reversals thereof as at 30 September 2013	**-41.2**	**-26.2**	**-**	**-**	**-**	**-1,216.1**	**-334.6**	**-**	**-1,618.1**
Residual book value as at 30 September 2013	**43.9**	**5.2**	**-**	**11.0**	**-**	**125.0**	**6,805.0**	**-**	**6,990.1**
Residual book value as at 31 March 2013	**48.2**	**5.5**	**-**	**11.1**	**-**	**124.7**	**6,887.3**	**-**	**7,076.8**

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

The item “Bonds and other fixed-income securities” predominantly includes issues by international industrial firms (corporate bonds), government bonds, mortgage bonds, CDOs and ABS bonds. Shares in special funds are also assigned to fixed assets in the item “Equities and other non-fixed-income securities” in the Group.

Operating and office equipment in the Group is included in tangible assets. As in the previous year, fixed assets do not include any land or buildings used for banking operations.

Amortisation on intangible leasing assets in the Group amounted to € 0.3 million (31 March 2013: € 0.7 million).

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

	Group			
	30 Sep. 2013		31 Mar. 2013	
in € million	Affiliated companies [1)]	Investees and investors	Affiliated companies [1)]	Investees and investors
Receivables from banks	-	-	-	-
Receivables from customers	20.6	30.5	20.6	30.1
Other assets	-	-	0.1	0.1
Liabilities to banks	-	-	-	-
Liabilities to customers	2.0	-	5.2	0.5
Securitised liabilities	-	-	-	-
Other liabilities	-	-	-	-

1) for affiliated companies not included in consolidation only

	IKB AG			
	30 Sep. 2013		31 Mar. 2013	
in € million	Affiliated companies	Investees and investors	Affiliated companies	Investees and investors
Receivables from banks	1.7	-	1.8	-
Receivables from customers	2,955.3	30.0	3,154.7	30.0
Other assets	0.2	-	72.2	-
Liabilities to banks	31.8	-	32.1	-
Liabilities to customers	101.7	0.5	67.9	-
Securitised liabilities	117.1	-	257.4	-
Other liabilities	54.8	-	-	-

(7) Subordinated assets

	Group		IKB AG	
in € million	30 Sep. 2013	31 Mar. 2013	30 Sep. 2013	31 Mar. 2013
Receivables from customers	903.4	1.019.8	886.2	999.9
Bonds and other fixed-income securities	0.7	0.7	0.7	0.7
Total	**904.1**	**1,020.5**	**886.9**	**1,000.6**

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

(8) Repurchase agreements

The carrying amount of assets reported in the balance sheet as at the reporting date and transferred in repurchase agreements is € 4,720.0 million (31 March 2013: € 3,736.9 million) in the Group and at IKB AG.

(9) Other assets and other liabilities

Other assets primarily include the following items:

	Group		IKB AG	
in € million	30 Sep. 2013	31 Mar. 2013	30 Sep. 2013	31 Mar. 2013
Inventories	91.1	90.9	-	-
Receivables from leasing business	35.2	50.0	-	-
Receivables from tax authorities	45.8	43.8	33.0	35.1
Hire-purchase properties not yet realised	15.9	13.7	-	-
Prepaid expenses and deferred income for derivatives	10.2	12.5	11.0	16.0
Trade accounts and other receivables	2.9	3.9	-	-
Receivables from affiliated companies	-	-	0.2	72.2

Two properties are reported at carrying amount under inventories in the Group. Hire-purchase properties not yet realised in the Group consist of hire-purchase properties from terminated hire-purchase agreements that are scheduled for realisation. Receivables from leasing business in the Group essentially relate to advance payments on hire purchase agreements not yet invoiced.

Other liabilities primarily include the following items:

	Group		IKB AG	
in € million	30 Sep. 2013	31 Mar. 2013	30 Sep. 2013	31 Mar. 2013
True sale securitisations	-	-	332.7	379.2
Synthetic securitisations	362.7	289.4	20.7	17.5
Obligations from derivatives	88.5	82.0	88.3	94.2
Deferred income for derivatives	21.0	31.7	10.5	9.5
Liabilities to tax authorities	21.4	14.4	4.7	5.3
Deferred income for subordinates liabilities	4.3	13.3	4.3	13.3

Lease receivables were sold in synthetic securitisation transactions. The transaction did not result in an accounting disposal; hence other liabilities are reported at the carrying amount of the lease receivables.

(10) Deferred income and prepaid expenses

Prepaid expenses include discounts on liabilities recognised at their nominal amount of € 14.9 million in the Group (31 March 2013: € 21.4 million) and € 16.1 million at IKB AG (31 March 2013: € 22.7 million) as well as prepaid expenses for derivatives trading of € 81.6 million in the Group (31 March 2013: € 33.5 million) and € 175.2 million at IKB AG (31 March 2013: € 160.3 million).

Deferred income includes discounts on receivables recognised at their nominal amount of € 28.8 million in the Group (31 March 2013: € 35.6 million) and € 25.4 million at IKB AG (31 March 2013: € 31.8 million) as well as deferred income for derivatives trading of € 77.8 million in the Group (31 March 2013: € 31.5 million) and € 200.4 million at IKB AG (31 March 2013: € 182.5 million).

(11) Deferred tax assets

	Group		IKB AG	
in € million	**30 Sep. 2013**	**31 Mar. 2013**	**30 Sep. 2013**	**31 Mar. 2013**
Total reported amount of deferred tax assets	230.8	148.2	233.4	150.7
Total reported amount of deferred tax liabilities	-	-	-	-

The increase in deferred tax assets is due to the higher level of deferred taxes on temporary differences in connection with business planning accompanied by an improvement in the earnings outlook.

As at 30 September 2013, a total of € 232.5 million in the Group and € 235.0 million at IKB AG was blocked from distribution. Of this figure, the recognition of deferred taxes accounted for € 230.8 million in the Group and € 233.4 million at IKB AG, while unrealised gains on plan assets accounted for € 1.7 million in the Group and € 1.6 million at IKB AG.

(12) Fund for general banking risks

The change between 31 March 2013 and 30 September 2013 in the amount of € 127.8 million is due to an addition to the fund for general banking risks in accordance with section 340g HGB, which is defined by CRR as tier I capital.

Notes on the income statement

(13) Other operating income

Other operating income in the Group and at IKB AG contains income from the reversal of interest rate swaps in the amount of € 227.4 million. As at 30 September 2012, these effects in the amount of € 17.5 million were reported in net gains and losses on risk provisioning. Income from the reversal of interest rate swaps in other operating income is offset by expenses in the Group and at IKB AG from the reversal of other interest rate swaps in the amount of € 205.7 million. In the previous year, these expenses in the amount of € 14.1 million were reported in net gains and losses on risk provisioning.

In the Group, this item also includes income from currency translation of € 21.4 million (previous year: € 34.9 million), income from the reversal of provisions of € 2.6 million (previous year: € 2.3 million) and rental income of € 3.7 million (previous year: € 4.2 million).

At IKB AG, this item includes income from the reversal of provisions of € 1.3 million (previous year: € 1.9 million) and income from cost allocation of € 2.4 million (previous year: € 3.2 million).

Income from the discounting of provisions amounted to € 0.6 million in the Group and at IKB AG (previous year: € 0.1 million).

(14) Other operating expenses

Other operating expenses are primarily composed as follows:

	Group		IKB AG	
in € million	**2013/14**	**2012/13**	**2013/14**	**2012/13**
Expenses from the reversal of swap agreements	-205.7	-	-205.7	-
Addition to provisions	-4.6	-3.7	-4.0	-2.7
Expenses from currency conversion	-23.7	-29.6	-	-
Rent/upkeep (not for operational purposes)	-3.9	-3.5	-2.7	-2.3
Expenses of interest on provisions	-1.1	-1.2	-1.1	-1.2

(15) Income taxes

The income contained in the item “Income taxes” in the amount of € 111.2 million in the Group (previous year: expense of € -2.8 million) and € 111.6 million at IKB AG (previous year: expense of € -1.2 million) is primarily attributable to the increase in deferred tax assets and the reversal of tax provisions for prior periods.

As a matter of principle, income taxes are calculated using the expected effective income tax rate for pre-tax earnings.

Other disclosures

(16) Consolidated group as at 30 September 2013

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

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

(17) Executive bodies

Board of Managing Directors

Hans Jörg Schüttler
(Chairman)

Dr Dieter Glüder

Claus Momburg

Dr Michael H. Wiedmann

Supervisory Board

Bruno Scherrer (Chairman)

Dr Karsten von Köller (Deputy Chairman)

Stefan A. Baustert

Dr Karl-Gerhard Eick (since 5 September 2013)

Dr Lutz-Christian Funke

Ulrich Grillo (until 5 September 2013)

Arndt G. Kirchhoff

Bernd Klein*

Rainer Lenz* (since 5 September 2013)

Dr Claus Nolting

Nicole Riggers*

Dr Carola Steingräber* (until 5 September 2013)

Carmen Teufel*

Dr Andreas Tuczka

*elected by the employees

Düsseldorf, 27 November 2013

IKB Deutsche Industriebank AG

The Board of Managing Directors

Hans Jörg Schüttler

Dr. Dieter Glüder

Claus Momburg

Dr. Michael H. Wiedmann

Review Report

Review Report of the auditor for the condensed interim financial statements of IKB Deutsche Industriebank AG for the period from 1 April to 30 September 2013

To IKB Deutsche Industriebank Aktiengesellschaft, Düsseldorf

We have reviewed the condensed consolidated interim financial statements - comprising the condensed balance sheet, condensed income statement and selected explanatory notes, which are combined with the selected explanatory notes of the condensed interim financial statements – and the interim group management report of IKB Deutsche Industriebank Aktiengesellschaft, Düsseldorf, for the period from 1 April to 30 September 2013. The preparation of the condensed consolidated interim financial statements in accordance with German commercial law and of the interim group management report in accordance with the provisions of the German Securities Trading Act applicable to interim management reports is the responsibility of the Company's Board of Managing Directors. Our responsibility is to issue a review report on the condensed consolidated interim financial statements and on the interim group management report based on our review.

We conducted our review of the condensed consolidated interim financial statements and the interim group management report in accordance with German generally accepted standards for the review of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). Those standards require that we plan and perform the review so that we can preclude through critical evaluation, with moderate assurance, that the condensed consolidated interim financial statements have not been prepared, in all material respects, in accordance with German commercial law and that the interim group management report has not been prepared, in all material respects, in accordance with the provisions of the German Securities Trading Act applicable to interim management reports. A review is limited primarily to inquiries of company personnel and analytical procedures and therefore does not provide the assurance attainable in a financial statement audit. Since, in accordance with our engagement, we have not performed a financial statement audit, we cannot express an audit opinion.

Based on our review, no matters have come to our attention that cause us to presume that the condensed consolidated interim financial statements have not been prepared, in all material respects, in accordance with German commercial law nor that the interim group management report has not been prepared, in all material respects, in accordance with the provisions of the German Securities Trading Act applicable to interim management reports.

We issue this report on the basis of the engagement agreed with the company, which comprises the attached General Terms of Engagement for Wirtschaftsprüfer and Wirtschaftsprüfungsgesellschaften as of 1 January 2002, which are also applicable to third parties.

Düsseldorf, 29 November 2013

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Mark Maternus
Wirtschaftsprüfer
(German Public Auditor)

ppa. Michael Meteling
Wirtschaftsprüfer
(German Public Auditor)

Review Report of the auditor for the condensed interim financial statements of IKB Deutsche Industriebank AG for the period from 1 April to 30 September 2013

To IKB Deutsche Industriebank Aktiengesellschaft, Düsseldorf

We have reviewed the condensed interim financial statements - comprising the condensed balance sheet, condensed income statement and selected explanatory notes, which are combined with the selected explanatory notes of the condensed consolidated interim financial statements – of the IKB Deutsche Industriebank Aktiengesellschaft, Düsseldorf, for the period from 1 April to 30 September 2013. The preparation of the condensed interim financial statements in accordance with German commercial law is the responsibility of the Company's Board of Managing Directors. Our responsibility is to issue a review report on the condensed interim financial statements based on our review.

We conducted our review of the condensed interim financial statements in accordance with German generally accepted standards for the review of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). Those standards require that we plan and perform the review so that we can preclude through critical evaluation, with moderate assurance, that the condensed interim financial statements have not been prepared, in all material respects, in accordance with German commercial law. A review is limited primarily to inquiries of company personnel and analytical procedures and therefore does not provide the assurance attainable in a financial statement audit. Since, in accordance with our engagement, we have not performed a financial statement audit, we cannot express an audit opinion.

Based on our review, no matters have come to our attention that cause us to presume that the condensed interim financial statements have not been prepared, in all material respects, in accordance with German commercial law.

We issue this report on the basis of the engagement agreed with the company, which comprises the attached General Terms of Engagement for Wirtschaftsprüfer and Wirtschaftsprüfungsgesellschaften as of 1 January 2002, which are also applicable to third parties.

Düsseldorf, 29 November 2013

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Mark Maternus
Wirtschaftsprüfer
(German Public Auditor)

ppa. Michael Meteling
Wirtschaftsprüfer
(German Public Auditor)

Note on forward-looking statements

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

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

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