Annual report 2008/2009

IKB
Deutsche Industriebank

Key figures – IKB Group

Balance Sheet Figures	31 March 2009 in € million	31 March 2008 in € million*
Total assets	44 711	50 224
Loans and advances to customers	27 928	28 844
Liabilities to banks	15 319	17 449
Securitised liabilities	14 026	18 185
Total equity	1 755	1 163

* Figures adjusted

Income Statement Figures	2008/09 in € million	2007/08 in € million*
Net interest income	302.6	451.6
Provision for possible loan losses	589.6	255.2
Net interest income (after provision for possible loan losses)	–287.0	196.4
Net commission income	33.2	54.7
Net income from financial instruments at fair value	–162.1	–1 830.2
Income from financial instruments	–282.1	–979.9
Administrative expenses	375.3	386.0
Other operating income	131.3	666.3
Result as of risk assumption	–	2 401.0
Other operating result	–1 002.2	124.0
Consolidated net loss	–580.3	–10.6

* Figures adjusted

Number of employees (FTE)	1 718	1 839

Rating of IKB as at 30 June 2009	Long-Term	Short-Term	Outlook
Moody's	Baa3	P-3	"Review for possible downgrade"
Fitch IBCA	BBB–	F3	"negative"

IKB Share	2008/09	2007/08
Share price	€ 0,71	€ 4,10
Number of shares*	585.08 million	96.8 million
Market capitalisation*	€ 415.40 million	€ 396.86 million

* as at the end of the financial year

IKB Shareholders*		
LSF6 Europe Financial Holdings L.P.	83.9%	
LSF6 Rio S.à.r.l.	7.6%	
Free float	8.5%	

* as at 14 July 2009

4 **Letter from the Chairman of the Board of Managing Directors**

8 **Executive Bodies and Committees**

8 Supervisory Board and Committees
10 Advisory Board
13 Board of Managing Directors

14 **Report of the Supervisory Board**

27 **Corporate governance**

33 **Group management report**
34 1. General conditions
37 2. Significant events in the reporting period
49 3. Net assets, financial position and results of operations
57 4. Risk report
99 5. Events after 31 March 2009 (Supplementary report)
102 6. Outlook
106 7. Remuneration report
114 8. Other financial information

119 **Consolidated Financial Statements in accordance with International Financial Reporting Standards as of 31 March 2009**

120 Consolidated income statement
121 Consolidated balance sheet
122 Statement of recognised income and expense
123 Cash flow statement
124 Notes
Auditor's Report
Responsibility statement in line with section 297 (2) sentence 4 HGB, section 315 (1) sentence 6 HGB

Development of key financial indicators

Letter from the Chairman of the Board of Managing Directors

Dear Shareholders,
Dear business partners of IKB,

The 2008/09 financial year, as in the previous year, focused on coping with the IKB crisis. Although the situation in the global financial markets and the real economy deteriorated dramatically during the course of the year, we made considerable progress. The risks from portfolio investments were contained and the Bank recapitalised. The EU approved the state aid measures on the condition of a clear reduction in businesses activities. Lone Star became a new major shareholder and contributed significantly to the capital resources of IKB. We concluded a balancing of interests and a redundancy scheme for staff cuts and set the course for a trimmed down IKB with an even stronger focus on our small and medium-sized business customers.

From September 2008, the most difficult conditions the banking sector have experienced for many decades deteriorated abruptly as a result of the collapse of the US investment bank Lehman Brothers. At the end of our financial year, signs of temporary stabilisation were appearing on the financial markets. However, the consequences for the real economy are now becoming even more apparent, with some dramatic declines in economic output and our customers experiencing considerable declines in incoming orders.

In November 2008, when I took on my new function with IKB, I worked on important decisions for the Bank. The EU approval for IKB state aid was granted under strict conditions. These require discontinuation of the Real Estate Finance and Portfolio Investments business units and closure of a few international offices. The total assets of IKB are to be reduced to € 33.5 billion by September 2011.

The EU approval paved the way for the capital increase of € 1.25 billion. It was subscribed to at a rate of more than 99% by the KfW Bankengruppe and was crucial for the survival of IKB. I emphasise this because I am aware that all shareholders and all investors in hybrid capital instruments at IKB suffered considerable losses in their investment. Without the help of KfW, all shareholders and subordinated creditors of IKB would have been left with nothing.

The purchase agreement for the acquisition of KfW shares in IKB by Lone Star was completed following the capital increase on 29 October 2008. With the two measures, Lone Star more than fulfilled the obligations from the share purchase agreement. The committed equity capital of € 225 million was transferred to IKB in 2008. In addition, Lone Star granted a mezzanine loan to the special-purpose entity into which the IKB transferred the majority of the remaining positions of the portfolio investments. The remaining risk from the portfolio investments which originally triggered the crisis at the bank is now clearly restricted.

In the current environment, refinancing on the capital market is virtually impossible for medium-sized banks such as IKB. At the beginning of July 2009, Sonderfonds Finanzmarktstabilisierung (SoFFin) informed IKB AG of its intention to extend the guarantees for new bonds to be issued by IKB by € 7 billion to a total of € 12 million, in order to secure liquidity. The additional guarantees must still be approved by the EU Commission. So far, IKB used € 5 billion of the guarantees for new issues.

In connection with the extension of the SoFFin guarantees, Lone Star has undertaken to strengthen the equity base of IKB further. By waiving claims from a subordinate bond and early voluntary conversion of a convertible bond, Lone Star fulfilled this obligation and strengthened IKB's Tier I capital. Following conversion of the convertible bond, Lone Star's stake in IKB is now 91.5%.

IKB will now refocus more strongly on its business with small and medium-sized enterprises, consolidating its traditionally good position with customers. As a result of equity and liquidity restrictions, we are now required to restrict our new business. However, 80% of new payments for the 2008/09 financial year were to our domestic companies and leasing customers. In this respect, we are operating in an environment that poses the greatest challenges for over 50 years with regard to the financial markets and economic development.

The consolidated income statement for the 2008/09 financial year significantly reflects both elements. Substantial market-induced losses of securities on the asset side were offset with gains from the measurement of liabilities.

In the Bank's operating business, even without taking into account non-recurring effects triggered by the crisis, the total of staff, material and risk costs was greater than income in the period under review. Increased refinancing costs had a negative impact on our interest income. As a result of the economic slump, the allowance for losses on loans and advances more than doubled compared to the previous year. This situation forced us to revise the IKB business model in order to make the Bank profitable.

IKB will remain the Bank for small and medium-sized companies. During the crisis, we maintained our good customer relations and we will continue to work on this basis. We will place the interests of our customers more strongly in the focus of our work. Building on its credit competence, our service range will be extended to include services such as M&A, restructuring consultancy, derivatives and capital market services. This will allow us to explore our customers' financing issues creatively and devise solutions to create value.

The fact that our customers have remained committed during this difficult time is due not least to the skill and unerring commitment of our employees. As a result, the current staff cuts are a difficult task. However, in view of the EU guidelines and the necessity to make the Bank more efficient and effective, there is no alternative.

In times of global recession and the persistence of the financial market crisis, the new strategic focus of IKB is a particularly challenging task. We are confident that the Bank will create sustained value for shareholders, investors, customers, employees and the corporate environment.

Hans Jörg Schüttler
Chairman of the Board of Managing Directors

Supervisory Board and Committees

Supervisory Board

Bruno Scherrer (Chairman)	Head of European Investments, Senior Managing Director, Lone Star Management Europe Ltd., London
Dr Karsten von Köller (Deputy Chairman)	Chairman Lone Star Germany GmbH, Frankfurt am Main
Stefan A. Baustert	President and CEO SINGULUS TECHNOLOGIES AG, Bad Homburg
Wolfgang Bouché*	Düsseldorf
Olivier Brahin	Head of European Real Estate Investments, Lone Star Management Europe Ltd., London
Dr Lutz-Christian Funke	Director of Business Strategy/Head of Staff Division Board of Directors of KfW Bankengruppe, Frankfurt am Main
Ulrich Grillo	Chairman of the Board of Managing Directors of Grillo-Werke AG, Mülheim an der Ruhr
Arndt G. Kirchhoff	Managing Partner of KIRCHHOFF Automotive GmbH, Attendorn
Jürgen Metzger*	Hamburg
Dr Claus Nolting	CEO of COREALCREDIT BANK AG, Munich
Dr Thomas Rabe	Member of the Board of Managing Directors of Bertelsmann AG, Berlin
Dr Carola Steingräber*	Berlin
Dr Andreas Tuczka	Head of European Financial Institutions, Lone Star Management Europe Ltd., London
Ulrich Wernecke*	Düsseldorf
Andreas Wittmann*	Munich

* Employee representative

Executive Committee

Bruno Scherrer	Chairman
Dr Karsten von Köller	
Dr Andreas Tuczka	
Ulrich Wernecke	

Finance and Audit Committee

Dr Karsten von Köller	Chairman
Wolfgang Bouché	
Dr Claus Nolting	
Bruno Scherrer	

Nomination Committee

Bruno Scherrer	Chairman
Dr Karsten von Köller	
Dr Claus Nolting	

Advisory Board

Jürgen R. Thumann (Chairman)	Chairman of the Shareholders Committee of Heitkamp & Thumann KG, Düsseldorf
Professor Dr Hermut Kormann (Deputy Chairman)	Heidenheim
Dipl.-Ing. Norbert Basler	Chairman of the Supervisory Board of Basler AG, Ahrensburg
Dr h.c. Josef Beutelmann	Chairman of the Board of Managing Directors of Barmenia Versicherungs-Gesellschaften, Wuppertal
Dipl.-Ing. Jan-Frederic Bierbaum	Managing Partner of Bierbaum Unternehmensgruppe GmbH & Co. KG, Borken
Dipl.-Kfm. Martin Dreier	Managing Partner of Dreier-Werk GmbH Dach und Wand + Dreier Immobilien, Dortmund
Professor Dr phil. Hans-Heinrich Driftmann	General and Managing Partner of Peter Kölln KGaA, Elmshorn
Dr Hugo Fiege	Chairman of the Board of Managing Directors of Fiege Holding Stiftung & Co. KG, Greven
Hans-Michael Gallenkamp	Managing Director of Felix Schoeller Holding GmbH & Co. KG, Osnabrück
Wolfgang Gutberlet	Chairman of the Board of Managing Directors of tegut... Gutberlet Stiftung & Co., Fulda
Dipl.-Kfm. Dietmar Harting	General Partner of Harting KGaA, Espelkamp
Dr Hannes Hesse	Managing Director of the German Engineering Industry Association (Verband Deutscher Maschinen- und Anlagenbau e.V. – VDMA), Frankfurt am Main

Dr Stephan J. Holthoff-Pförtner	Attorney and Notary, Essen
Martin Kannegiesser	Managing Partner of Herbert Kannegiesser GmbH & Co., Vlotho
Dr Michael Kaschke	Member of the Board of Managing Directors of Carl Zeiss AG, Oberkochen
Dr Jochen Klein	Chairman of the Advisory Board of Döhler GmbH, Darmstadt
Professor Dr-Ing. Eckart Kottkamp	Großhansdorf
Matthias Graf von Krockow	Chairman of the personally liable Partners Sal. Oppenheim jr. & Cie. KGaA, Cologne
Andreas Langenscheidt	Managing Partner of Langenscheidt KG, Munich
Dr-Ing. Wolfhard Leichnitz	Essen
Axel Oberwelland	General Partner and Chairman of the Management Board of August Storck KG, Berlin
Olivier Schatz	Paris
Hartmut Schauerte	Parliamentary State Secretary at the German Federal Ministry of Economics and Technology, Berlin
Dr Ingeborg von Schubert	Chairman of the Advisory Board of Gundlach Holding GmbH & Co. KG, Bielefeld
Reinhold Schulte	Chairman of the Board of Managing Directors of SIGNAL IDUNA Gruppe, Dortmund
Dr Eric Schweitzer	Member of the Board of Managing Directors of ALBA AG, Berlin

Dr-Ing. Hans-Jochem Steim	Managing Partner of Hugo Kern und Liebers GmbH & Co. KG, Schramberg
Dipl.-Kfm. Rainer Thiele	Managing Partner of KATHI Rainer Thiele GmbH, Halle/Saale
Dr Martin Wansleben	Managing Director of the Federation of German Chambers of Industry and Commerce, Berlin
Dr Ludolf v. Wartenberg	Berlin
Clemens Freiherr von Weichs	Président du Directoire Euler Hermes, Paris

Board of Managing Directors

Hans Jörg Schüttler (from 1 November 2008)

Dr Günther Bräunig (until 31 October 2008)

Dr Dieter Glüder

Dr Reinhard Grzesik (until 3 July 2009)

Dr Andreas Leimbach (until 31 January 2009)

Claus Momburg

Dr Michael H. Wiedmann (from 1 March 2009)

Report of the Supervisory Board

The past financial year 2008/09 was characterised by the change in the main shareholder and the Bank's new strategic focus following the economic situation that threatened its existence from mid-2007 onwards, which was triggered by developments on the US mortgage market and the global collapse of refinancing opportunities on the commercial paper market. In the year under review, the Supervisory Board intensively monitored the economic development of the Bank in a difficult environment.

Supervisory Board activities in the 2008/09 financial year

In the period under review, the Supervisory Board fulfilled the obligations incumbent upon it in accordance with the relevant legal requirements, the Articles of Association and its by-laws. It discussed the Group's course of business in 14 meetings.

The German Corporate Governance Code recommends that it should be noted in the Supervisory Board report when a member of the Supervisory Board has attended less than half of the Supervisory Board meetings in one financial year. In the 2008/09 financial year, the IKB Supervisory Board was decreased from 21 members to 15 members, a large number of whom were new. For this reason, many of the Supervisory Board members were not part of the Supervisory Board for the entire financial year. In total, 17 Supervisory Board members who only held this office during part of the financial year did not attend half or more of the board meetings.

The Supervisory Board obtained regular and intensive information from the Board of Managing Directors on the current economic situation of the Bank and the Group and, in particular, their risk situation.

The Supervisory Board also received information and advised on current economic measures. For example, on 30 October 2008 it was informed of the European Commission's approval of the proposed state aid measures for IKB and their impact on the Company. At its meeting on 19 November 2008, the Supervisory Board discussed portfolio acquisitions and disposals. On 30 October 2008 and 6 November 2008, it advised on the utilisation of the measures provided by the German Financial Market Stabilisation Fund Act and approved the application for a guarantee as a stabilisation measure in accordance with the German Financial Market Stabilisation Fund Act.

The plenary meetings also regularly discussed the liquidity and financial position of the Bank, particularly with a view to the financial crisis, and the earnings development of the Bank, its central divisions and the Group as a whole. In addition, the Board of Managing Directors provided regular, comprehensive reports on strategic development, the course of business and the Group's current situation.

The Board of Managing Directors informed the Supervisory Board about the sale of the IKB shares held by KfW to Lone Star LSF6 Europe Financial Holdings, L.P., Dallas (USA), a company belonging to the Lone Star Group (hereafter referred to as Lone Star). The Supervisory Board was informed about the status of the sales process on 20 August 2008 and 27 August 2008 and the completion of the sale on 30 October 2008.

The Supervisory Board also addressed the process of accounting for the Bank's crisis, commissioning a personnel-related review of the circumstances leading to the crisis and examining potential violations of duty with a view to potentially initiating claims for indemnification against the responsible parties. The Supervisory Board is committed to upholding the interests of the Company, particularly with regard to the enforcement of any claims for indemnification. There are a number of claimants who could pose a significant risk to the Bank. It cannot be in the interests of the Company to give third parties the opportunity to use any information gained from the pursuit of legal claims to assert and enforce unjustified claims themselves, and hence expose the Company to a high degree of risk. In the current financial year, the Supervisory Board will continue to take the Company's interests into account when addressing the pursuit of any claims for indemnification and will review these interests on a regular basis.

At its meeting on 5 February 2009, the Supervisory Board discussed the request by the main shareholder, LSF6 Europe Financial Holdings, L.P., Dallas (USA), for the convention of an Extraordinary General Meeting and the cancellation of the planned special audit of potential violations of duty by members of the Board of Managing Directors and the Supervisory Board, as well as the revocation of the appointment of the special auditor resolved by the General Meeting on 27 March 2008. In particular, the special audit is intended to examine whether the members of the Board of Managing Directors or the Supervisory Board properly fulfilled their legal, statutory and contractual obligations regarding the Board of Managing Directors' duty to manage the company and supervise its assets carefully and the Supervisory Board's duty to monitor, control and advise the Board of Managing Directors on the acceptance, resumption or expansion of transactions in or with securitised or refinancing conduits – in particular, "Rhineland Funding", "Rhinebridge", "Havenrock I and II" and "Elan" – and in connection with the organisation and outsourcing of significant functions to IKB Capital Asset Management GmbH ("IKB CAM"). An Extraordinary General Meeting held on 25 March 2009 resolved to cancel the special audit and revoke the appointment of the special auditor.

Activities of the Supervisory Board committees

In the 2008/09 financial year, the Supervisory Board had an Executive Committee and a Finance and Audit Committee. The Committee for Monitoring the Sales Process for the shares in the Company held by KfW Bankengruppe was dissolved by resolution of the Supervisory Board on 5 February 2009. The role of the nomination committee as defined in section 5.3.3 of the German Corporate Governance Code was previously performed by the Executive Committee. After an employee representative from the Supervisory Board was appointed to the Executive Committee by way of a Supervisory Board resolution and a corresponding amendment to the by-laws of the Supervisory Board on 19 November 2008, a Nomination Committee was formed consisting entirely of shareholder representatives.

The Executive Committee held a total of ten meetings in the 2008/09 financial year. It primarily discussed the Supervisory Board meetings in advance, focusing on business development (including the approval of any transactions requiring approval) and advising the Board of Managing Directors on the position of the Bank and the Group in particular. The Executive Committee also discussed decisions regarding personnel.

The Finance and Audit Committee held a total of seven meetings in the 2008/09 financial year. Its activities primarily focused on the single-entity and consolidated financial statements and the dependent company report, as well as issues relating to accounting standards, risk management and cooperation with the external auditors. In particular, it advised on the preparation of the single-entity and consolidated financial statements, the review of the report on the first six months and the appointment of external auditors. The Chairman of the Finance and Audit Committee also obtained the statement of independence from the external auditors required by section 7.2.1 of the German Corporate Governance Code and commissioned the external auditors to perform the audit. The Chairman and auditors also concluded an agreement on the focal points of the audit and the audit fee.

The Committee for Monitoring the Sales Process held five meetings in the financial year at which it addressed the status of the sales process and the implementation of the capital increase.

The Nomination Committee held one meeting at which it discussed the proposals to the Supervisory Board and the resolutions proposed to the General Meeting regarding the election of Supervisory Board members by the Extraordinary General Meeting on 25 March 2009. A further resolution was passed by circulation.

Members of the committees also engaged in extensive deliberations among themselves and maintained ongoing contact with the Board of Managing Directors and the advisors mandated by the Supervisory Board outside of committee meetings.

The chairmen of the Supervisory Board committees provided the plenary meetings with detailed accounts of the activities of the respective committees.

A list of the meetings held by the Supervisory Board and its committees, together with the important topics for discussion, can be found at the end of this report.

Corporate governance

The declaration of compliance dated 14 July 2009 and further information on this topic can be found in the "Corporate Governance" section of the annual report.

In the discussions by the Supervisory Board in the 2008/09 financial year and up to the present date, a total of eight conflicts of interest were disclosed by the respective Supervisory Board members. In each case, the Supervisory Board member affected did not attend the meeting or, in the case of the corresponding votes or discussions, noted the conflict of interest for the record and left the room or cast the final vote. The resolution on the latter variant was passed unanimously, meaning that this vote did not affect the result.

Examination and approval of the single-entity and consolidated financial statements and dependent company report for the 2008/09 financial year

The Board of Managing Directors prepared the single-entity and consolidated financial statements and the management reports for IKB AG and the Group. The external auditors, PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft (PwC) have audited the single-entity and consolidated financial statements and issued both sets of financial statements with unqualified audit opinions. The single-entity financial statements of IKB AG have been prepared in accordance with the German Commercial Code (Handelsgesetzbuch; HGB), and the consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) and the supplementary provisions contained in section 315a (1) of the HGB. The current report on business relationships with affiliated companies during the 2008/09 financial year, which was prepared by the Board of Managing Directors, was also examined by the external auditors. The dependent company report was issued with the following unqualified audit opinion with references to risk factors jeopardising the company as an ongoing concern: "Having duly examined and assessed this report in accordance with professional standards, we confirm that the factual statements made in the report are correct, the Company's consideration with respect to the transactions listed in the report was not inappropriately high, and there are no circumstances that indicate a materially different assessment of the measures listed in the report to that given by the Board of Managing Directors."

The members of the Supervisory Board reviewed the annual financial statements at the meeting held on 14 July 2009. The external auditors participated in the discussion of the single-entity and consolidated financial statements by the Supervisory Board and the Finance and Audit Committee on 14 July 2009, reporting on the key findings of their audit, answering questions and providing additional information. No objections were raised by the Supervisory Board based on the results of the examination of the audit by the Finance and Audit Committee and its own examination of the single-entity and consolidated financial statements and the management reports. The Supervisory Board has therefore approved the results of the audit.

At its meeting on 14 July 2009, the Supervisory Board approved the single-entity and consolidated financial statements prepared by the Board of Managing Directors by way of resolutions dated 9 July 2009 and 13 July 2009 respectively. The annual financial statements have therefore been adopted. Furthermore, no objections were raised with regard to the audit of the dependent company report or the declaration by the Board of Managing Directors at the end of the report. The Supervisory Board duly noted and approved the auditors' reports.

Personnel changes (Supervisory Board)

Jörg Asmussen stepped down from the Supervisory Board on 27 May 2008 following his decision not to pursue a supervisory mandate in the banking and insurance sector in light of his pending change of position in the function as State Secretary. With effect from the end of the Annual General Meeting on 28 August 2008, Dr Michael Rogowski stepped down from the Supervisory Board as scheduled. The Annual General Meeting on 28 August 2008 reappointed Dr Jens Baganz, Detlef Leinberger, Roland Oetker and Dr Martin Viessmann to the Supervisory Board and elected Dr Christopher Pleister and Werner Möller as new members.

The Supervisory Board meeting held after the Annual General Meeting on 28 August 2008 reappointed Detlef Leinberger as the Deputy Chairman. Mr. Roland Oetker was reappointed to the Committee for Monitoring the Sales Process.

The Finance and Audit Committee also held its constituent meeting on 28 August 2008. Detlef Leinberger was reappointed as the Chairman of the Finance and Audit Committee.

Detlef Leinberger stepped down from his position with effect from 6 October 2008. At its meeting on 8 October 2008, the Supervisory Board appointed Werner Möller as the Deputy Chairman of the Supervisory Board.

Due to the departure of Detlef Leinberger, the Board of Managing Directors submitted an application to the Düsseldorf Local Court for the appointment of a replacement by way of a court order. By order of the Düsseldorf Local Court dated 24 October 2008, Bruno Scherrer was appointed as a member of the Supervisory Board. Werner Oerter stepped down as Chairman of the Supervisory Board at the end of the Supervisory Board meeting on 30 October 2008; the same meeting appointed Bruno Scherrer as the new Chairman of the Supervisory Board.

By resolution of the Supervisory Board on 19 November 2008, Ulrich Wernecke was appointed to the Executive Committee as an employee representative.

As part of the reduction in the size of the Supervisory Board that was resolved by the Annual General Meeting on 28 August 2008 and entered in the commercial register on 15 December 2008, the following members of the Supervisory Board stepped down from their positions before the end of their appointed term: Werner Möller (with effect from 18 November 2008), Rita Röbel, Dieter Ammer, Dr Jens Baganz, Roland Oetker and Jochen Schametat (with effect from 30 November 2008), Randolf Rodenstock (with effect from 3 December 2008) and Hermann Franzen, Werner Oerter, Dieter Pfundt and Dr Alfred Tacke (with effect from 31 December 2008).

By order of the Düsseldorf Local Court dated 11 December 2008, Dr Karsten von Köller was appointed as a member of the Supervisory Board. Dr von Köller was elected as the Deputy Chairman of the Supervisory Board by way of a resolution passed by circulation. By order of the Düsseldorf Local Court dated 20 January 2009, Olivier Brahin, Dr Lutz-Christian Funke, Dr Claus Nolting and Dr Andreas Tuczka were appointed as members of the Supervisory Board.

Due to his appointment to the Steering Committee of the German Financial Market Stabilisation Fund, Dr Christopher Pleister stepped down from the Supervisory Board with effect from 1 February 2009.

The Supervisory Board meeting on 5 February 2009 elected Dr Andreas Tuczka as a member of the Executive Committee and Dr Claus Nolting as a member of the Finance and Audit Committee. The meeting on 5 February 2009 also elected Dr Karsten von Köller as the Chairman of the Finance and Audit Committee. Dr Karsten von Köller and Dr Claus Nolting were elected as members of the Nomination Committee on 5 February 2009. Dr Martin Viessmann stepped down from his position with effect from the end of the General Meeting on 25 March 2009.

At the Extraordinary General Meeting of IKB on 25 March 2009, Olivier Brahin, Dr Lutz-Christian Funke, Dr Karsten von Köller, Dr Claus Nolting, Bruno Scherrer and Dr Andreas Tuczka were elected to the Supervisory Board. Arndt G. Kirchhoff and Stefan A. Baustert were also appointed as new Supervisory Board members. Following the Extraordinary General Meeting on 25 March 2009, the Supervisory Board held its constituent meeting and appointed Bruno Scherrer as the Chairman and Dr Karsten von Köller as the Deputy Chairman of the Supervisory Board. Dr Andreas Tuczka was appointed to the Executive Committee, Dr Claus Nolting to the Finance and Audit Committee and Dr Claus Nolting and Dr Karsten von Köller to the Nomination Committee. The meeting on 25 March 2009 also elected Dr Karsten von Köller as the Chairman of the Finance and Audit Committee.

Dr Eberhard Reuther stepped down from the Supervisory Board on 27 April 2009. By order of the Düsseldorf Local Court dated 17 June 2009, Dr Thomas Rabe, Berlin, member of the Board of Managing Directors of Bertelsmann AG, was appointed as a member of the Supervisory Board.

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

Personnel changes (Board of Managing Directors)

During the current financial year, the Supervisory Board meeting on 8 October 2008 extended the term of office of Dr Günther Bräunig, which was scheduled to end on 15 October 2008, until 31 October 2008. The Supervisory Board meeting on 8 October 2008 also extended the term of office of Dr Dieter Glüder, which was similarly scheduled to end on 15 October 2008, by a further three years up to and including 15 October 2011.

The meeting on 30 October 2008 appointed Hans Jörg Schüttler as a member of the Board of Managing Directors and the Chairman of the Board of Managing Directors as the successor to Dr Bräunig for the period from 1 November 2008 to 31 October 2011.

Dr Andreas Leimbach stepped down from the Board of Managing Directors for personal reasons with effect from 31 January 2009.

The Supervisory Board meeting on 5 February 2009 elected Dr Michael H. Wiedmann as a member of the Board of Managing Directors of IKB for the period from 1 March 2009 to 29 February 2012.

Dr Reinhard Grzesik will step down from the Board of Managing Directors of IKB with effect from 3 July 2009 for personal reasons and at his own request.

For further information on the proceedings involving former members of the Board of Managing Directors, please refer to the Remuneration Report.

The Supervisory Board would like to thank the current members of Board of Managing Directors, the members who retired in the 2008/09 financial year and all employees for their personal commitment and contributions.

Düsseldorf, 14 July 2009
The Supervisory Board

Supervisory Board meetings in the 2008/09 financial year	
Date of meeting	**Topics for discussion**
29 April 2008	• Discussion of the half-yearly financial statements • IKB's current business development
28 May 2008	• IKB's current business development • Group interim result as of 31 December 2007 • Group risk dashboard as of 31 December 2007 • Report by Internal Audit for the 2007/08 financial year • Preparation for the Annual General Meeting
11 July 2008	• Report on the economic situation of IKB AG and IKB Group • Single-entity and consolidated financial statements as of 31 March 2008 and dependent company report • Group risk dashboard as of 31 March 2008 • Auditor's report for the 2007/08 financial year • Report by the Finance and Audit Committee regarding preparations for the audit of the single-entity and consolidated financial statements and the management reports of IKB AG and IKB Group and the dependent company report for the 2007/08 financial year • Approval of the single-entity financial statements and management report, approval of the consolidated financial statements and Group management report and approval of the dependent company report for the 2007/08 financial year • Report of the Supervisory Board • Corporate governance report and declaration of compliance • Proposed agenda items for the Annual General Meeting on 28 August 2008 • Authorisation of the Committee for Monitoring the Sales Process to resolve on the approval of the details of the capital approval and its implementation • Establishment of an appointed substitute position in Supervisory Board committees • Election of an appointed substitute for the Finance and Audit Committee and the Committee for Monitoring the Sales Process from among the employee representatives • Personnel changes • Miscellaneous – Resolution on Havenrock I and II large exposures – New distribution of responsibilities for the Board of Managing Directors
21 July 2008	• Information on the status of the capital increase and the sales process

Supervisory Board meetings in the 2008/09 financial year	
Date of meeting	**Topics for discussion**
20 August 2008	• Information on the sales process • Approval of portfolio disposals
27 August 2008	• IKB's current business development • Status of the sales process • Annual General Meeting on 28 August 2008 • Personnel changes
28 August 2008	• Election of a new Deputy Chairman of the Supervisory Board • Election of a member of the Committee for Monitoring the Sales Process
8 October 2008	• Election of a new Deputy Chairman of the Supervisory Board • IKB's current business development • Interim consolidated financial statements as of 30 June 2008 • Group risk dashboard as of 30 June 2008 • Election of additional appointed substitutes for the Committee for Monitoring the Sales Process • Personnel changes
30 October 2008	• IKB's current business development • Approval of the state aid measures for IKB by the European Commission • Implementation of the capital increase and closing of the sale of the IKB shares held by KfW to Lone Star • Election of a new Chairman of the Supervisory Board • Utilisation of measures provided by the German Financial Market Stabilisation Act • Personnel changes in the Board of Managing Directors
6 November 2008	• Utilisation of measures provided by the German Financial Market Stabilisation Act
19 November 2008	• IKB's current business development • Approval of portfolio acquisitions and disposals • Capital injection by Lone Star • Approval of the exclusion of subscription rights for fractional amounts with regard to the issue of a convertible bond • Election of an additional member of the Supervisory Board to the Executive Committee • Amendment of the Supervisory Board by-laws

Supervisory Board meetings in the 2008/09 financial year	
Date of meeting	**Topics for discussion**
December 2008	• Resolution (by circulation) on delegating the approval of the letter of commitment required when applying for a guarantee under the German Financial Market Stabilisation Act to the Executive Committee
5 February 2009	• IKB's current business development • IKB's new strategic focus • Group risk dashboard as of 30 September 2008 • Interim consolidated financial statements as of 30 September 2008 • Auditors' report on the review of the interim consolidated financial statements as of 30 September 2008 • Supervisory Board matters – Formation of a Nomination Committee for the election of Supervisory Board members – Amendment of the Supervisory Board by-laws – Election of an additional member of the Executive Committee – Election of an additional member of the Finance and Audit Committee – Election of two appointed substitutes for the Executive Committee – Election of an appointed substitute for the Finance and Audit Committee – Dissolution of the Committee for Monitoring the Sales Process • Proposed agenda items for the Extraordinary General Meeting on 25 March 2009 • Personnel changes in the Board of Managing Directors • Miscellaneous (revised distribution of responsibilities for the Board of Managing Directors)
24 March 2009	• IKB's current business development • Interim consolidated financial report as of 31 December 2008 • Extraordinary General Meeting on 25 March 2009 • Miscellaneous (new distribution of responsibilities for the Board of Managing Directors)
25 March 2009	• Election of the Chairman of the Supervisory Board • Election of a new Deputy Chairman of the Supervisory Board • Election of an additional member of the Executive Committee from among the shareholder representatives • Election of an additional member of the Finance and Audit Committee from among the shareholder representatives • Election of two members of the Nomination Committee

Executive Committee meetings in the 2008/09 financial year	
Date of meeting	**Topics for discussion**
17 April 2008	• Current situation of the Bank – Sales process – New business – Liquidity – Solvency – Personnel/employees – Follow-up to the Annual General Meeting/capital increase – Legal proceedings/legal risks • Forensic investigation • Personnel changes
28 May 2008	• IKB's current economic situation • Group risk dashboard as of 31 December 2007 • Personnel changes
10 July 2008	• Status of the sales process • Preparation for the Supervisory Board meeting on 11 July 2008 • Status of loans to employees • Personnel changes • Large exposure resolution Havenrock I and II
27 August 2008	• Annual General Meeting on 28 August 2008 • Advance discussion of Supervisory Board meeting (personnel changes)
20 September 2008	• Acquisition of a subsidiary of IVG • Approval of large exposures in conjunction with the Bacchus 2008-1 securitisation transaction
8 October 2008	• Personnel changes – Extension of terms of office of Dr Bräunig and Dr Glüder – Course of action with regard to former members of the Board of Managing Directors – Other personnel changes in the Board of Managing Directors • Election of additional appointed substitutes for the Committee for Monitoring the Sales Process • Approval of large exposure in conjunction with the Bacchus 2008-2 securitisation transaction
29 October 2008	• Preparation for the Supervisory Board meeting on 30 October 2008 • Personnel changes in the Board of Managing Directors
11 December 2008	• Economic development of the Bank • Personnel changes in the Board of Managing Directors
5 February 2009	• Preparation for the Supervisory Board meeting on 5 February 2009 • Status of the legal proceedings with former members of the Board of Managing Directors • Miscellaneous (revised distribution of responsibilities for the Board of Managing Directors)

Executive Committee meetings in the 2008/09 financial year	
Date of meeting	**Topics for discussion**
24 March 2009	• Extraordinary General Meeting on 25 March 2009 • Advance discussion of Supervisory Board meeting • Personnel changes • Miscellaneous (new distribution of responsibilities for the Board of Managing Directors)

Finance and Audit Committee meetings in the 2008/09 financial year	
Date of meeting	**Topics for discussion**
17 April 2008	• Discussion of the half-yearly financial report as of 30 September 2007
28 May 2008	• Group interim result as of 31 December 2007 • Capital increase at IKB International S.A., Luxembourg • Miscellaneous (Group risk dashboard as of 31 December 2007, resolution on loans to members of executive bodies for the IKB lending unit)
10 July 2008	• Report on economic development in the 2007/08 financial year • Single-entity and consolidated financial statements as of 31 March 2008 and dependent company report • Auditors‘ report • Group risk dashboard as of 31 March 2008 • Processing status of the findings of the PwC audit report
28 August 2008	• Election of the Chairman of the Finance and Audit Committee
8 October 2008	• Group risk dashboard as of 30 June 2008 • Interim consolidated financial statements as of 30 June 2008 • Auditors’ report on the review of the interim consolidated financial statements as of 30 June 2008 • Auditors’ report on audit planning for the half-yearly financial report as of 30 September 2008 and the single-entity and consolidated financial statements as of 31 March 2009 • Remuneration of the external auditors (PwC)
5 February 2009	• Election of the Chairman of the Finance and Audit Committee • Group risk dashboard as of 30 September 2008 • Interim consolidated financial statements as of 30 September 2008 • Auditors’ report on the review of the interim consolidated financial statements as of 30 September 2008 • Focal points of the audit of the single-entity and consolidated financial statements as of 31 March 2009
25 March 2009	• Election of the Chairman of the Finance and Audit Committee

Nomination Committee meetings in the 2008/09 financial year	
Date of meeting	**Topics for discussion**
5 February 2009	• Proposals to the Supervisory Board for the election of Supervisory Board members by the Extraordinary General Meeting on 25 March 2009
6 February 2009	• Resolution by e-mail on the resolutions proposed to the General Meeting on the election of Supervisory Board members

Meetings of the Committee for Monitoring the Sales Process in the 2008/09 financial year	
Date of meeting	**Topics for discussion**
29 April 2008	• Information on the sales process
27 May 2008	• Information on the sales process
9 July 2008	• Information on the sales process
24 July 2008	• Resolution on the approval of the implementation of the capital increase
23 October 2008	• Resolution on the implementation of the capital increase

Corporate governance

Joint report by the Board of Managing Directors and the Supervisory Board of IKB Deutsche Industriebank AG on corporate governance

The Board of Managing Directors and the Supervisory Board have thoroughly dealt with compliance with the specifications of the German Corporate Governance Code, including in particular the new requirements from 6 June 2008 (published in the electronic Federal Gazette on 8 August 2008) and composed this joint report on corporate governance at IKB on this basis.

Corporate Governance Officer at IKB. The implementation of and compliance with the German Corporate Governance Code is monitored by a Corporate Governance Officer appointed by the Board of Managing Directors by arrangements with the Chairman of the Supervisory Board. Since 6 February 2008, the Corporate Governance Officer has been Mr. Marcus Jacob, Head of the Office of the Board of Managing Directors, Corporate and Group Law, Compliance.

Recommendations and suggestions of German Corporate Governance Code. Since the last declaration of compliance in accordance with section 161 of the Aktiengesetz (AktG – German Stock Corporation Act) was issued of 11 July 2008, IKB has complied with the recommendations of the Code (in the version dated 6 June 2008) with the exception of items 3.8 (2) (deductible in D&O insurance), 4.2.1 sentence 2 (regulation of allocation of duties of Board of Managing Directors members in the by-laws), 4.2.2 (resolution by the Supervisory Board on the compensation system for the Board of Managing Directors including the key contractual elements), 5.6 (examination of the efficiency of the supervisory board), 7.1.2 sentence 2 (discussion of the half-year and quarterly financial reports by the Supervisory Board or its audit committee with the Board of Managing Directors prior to publication) and 7.1.2 sentence 4 (publication of the consolidated financial statements within 90 days of the end of the financial year and of interim reports within 45 days of the end of the reporting period). The Board of Managing Directors and the Supervisory Board had declared that IKB will comply with the recommendations of the Code with the exception of items 3.8 (2), 4.2.1 sentence 2 and 7.1.2 sentence 3 var. 2 (current version) For explanations of the deviations, please see the annual declaration of compliance printed at the end of this section and on the Internet site of IKB (www.ikb.de). The declarations of compliance from previous years can also be accessed there.

IKB basically complies with all the suggestions of the Code and deviated only in the following points: Only parts of the Annual General Meeting, namely until the end of the opening speeches by the Chairman of the Meeting and the Chairman of the Board of Managing Directors, are broadcast live on the Internet site of IKB (www.ikb.de) (2.3.4). The representatives appointed by IKB to exercise shareholders' voting rights in accordance with instructions are only reachable by the shareholders present during the Annual General Meeting (2.3.3 sentence 3 clause 2). Shareholders not taking part in the Annual General Meeting can still task the representatives before the Annual General Meeting. In contrast to the suggestion of the Code (4.2.3 (2) sentence 2), the variable compensation of the Board of Managing Directors does not include components with a long-term incentive effect containing risk elements, such as share options.

Management and control of the Company by the Board of Managing Directors and the Supervisory Board. In line with German stock corporation law, IKB's management and control structure is divided into the two levels of its Board of Managing Directors and its Supervisory Board. The Board of Managing Directors is appointed by the Supervisory Board. In line with the Drittelbeteiligungsgesetz (DrittelbG – German One-third Employee Participation Act), the Supervisory Board is composed two-thirds of shareholder representatives and one-third of employee representatives. The shareholder representatives are elected by the Annual General Meeting by way of individual elections. The tasks and responsibilities of both bodies are clearly stipulated by law. The Board of Managing Directors of IKB manages the Company under its own responsibility. It is bound to the Company's interests and business policy principles and has an obligation to increase the long-term enterprise value. It conducts business in line with the provisions of law, the Articles of Association, the by-laws, the distribution of responsibilities and the respective service agreements.

The Board of Managing Directors must inform the Supervisory Board regularly, comprehensively and in a timely manner of all key issues of business development, strategy and corporate planning, the income situation and profitability, compliance, the risk situation, risk management and risk controlling. It explains and provides reasons for deviations in business progress from the plans and targets prepared. Transactions of fundamental significance require the approval of the Supervisory Board.

The Supervisory Board advises and monitors the Board of Managing Directors in the management of the Bank and the Group companies. It conducts business in line with the provisions of law, the Articles of Association of IKB and its by-laws.

Until 15 December 2008, the Supervisory Board was composed of fourteen shareholder and seven employee representatives. At this time the amendment to Article 8 (1) of the Articles of Association resolved by the Annual General Meeting on 28 August 2008 was entered in the commercial register, whereby the Supervisory Board was reduced to fifteen members and the right of the Minister for Economic Affairs and Energy of the State of North Rhine-Westphalia to propose a Supervisory Board member for election was revoked. The other right of the German government to propose a Supervisory Board member for election was revoked by way of resolution by the Extraordinary General Meeting on 25 March 2009. The four shareholder representatives and two employee representatives who left the Supervisory Board in order to reduce its size resigned their mandates in advance. In line with the Articles of Association, the Supervisory Board now consists of ten shareholder representatives and five employee representatives. In particular, the reduction in the size of the Supervisory Board is intended to improve the efficiency of its work. Further details on the changes in the Supervisory Board can be found in the report of the Supervisory Board to the Annual General Meeting.

Some of the members who left the Supervisory Board in the past financial year or are currently on it are related parties of other companies with which IKB maintains business relations. Transactions between IKB and these companies are always performed under arm's length conditions. In our opinion, these transactions had or have no influence on the independence of the members of the Supervisory Board related to these companies. There were and are no consultancy or other service and work contracts requiring approval between Supervisory Board members and IKB or other Group companies. No conflicts of interest arose with the Company on the part of members of the Board of Managing Directors. In the financial year 2008/2009 and in eight cases to date, a conflict of interest has emerged in the Supervisory Board of the Company that was disclosed by the member of the Supervisory Board concerned. In each case, the Supervisory Board member concerned did not attend the

meeting or, in the case of the corresponding votes or discussions, noted the conflict of interest for the record and left the room or cast the final vote. The resolution on the latter variant was passed unanimously, meaning that this vote did not affect the result.

The Supervisory Board has formed three standing committees to perform its activities (the Executive Committee, the Finance and Audit Committee (5.3.2 sentence 1) and the Nomination Committee (5.3.3)). The Nomination Committee was formed on 5 February 2009. Until that time, the Executive Committee had performed these duties as stipulated by the German Corporate Governance Code. The committee for monitoring the sales process for the shares in IKB held by KfW Bankengruppe formed by the Supervisory Board on 25 January 2008 was dissolved effective 5 February 2009 following the completion of the disposal. The Supervisory Board provided information on the composition of its committees and its work in its report to the Annual General Meeting. The German Corporate Governance Code recommends that the Chairman of the Audit Committee has specialist knowledge and experience in the application of accounting principles and internal control processes (5.3.2 sentence 2). Dr Karsten von Köller, Chairman of the Finance and Audit Committee since 5 February 2009, has the necessary qualifications on account of his many years' experiences as a member and chairman of the board and deputy chairman of the supervisory board of various banks.

Handling of risks. The Board of Managing Directors is responsible for risk management at IKB. Based on business strategy and risk-bearing capacity, it determines principles for risk management policy which, together with the limit structure, are firmly established in the risk strategies of IKB. When establishing these principles, the Board of Managing Directors also takes into consideration the quality of risk management processes, particularly monitoring. In the coming financial year, the Financial and Audit Committee will deal intensively with monitoring the accounting process, the effectiveness of the internal control system and the risk management system.

The Annual General Meeting. The shareholders of IKB exercise their rights including their voting rights in the Annual General Meeting. They are informed of key dates in a financial calendar published on the Internet site of IKB (www.ikb.de). Shareholders can exercise their voting rights themselves at the Annual General Meeting or by appointing an agent of their choice or a representative of the Company bound by their instructions (2.3.3 sentence 3 clause 1).

Accounting and auditing of the financial statements. The IKB Group prepares its accounts in line with the International Financial Reporting Standards (IFRSs); the annual financial statements of IKB AG are prepared in line with the provisions of the Handelsgesetzbuch (HGB – German Commercial Code). In line with the provisions of stock corporation law, the auditor is elected by the Annual General Meeting. The Finance and Audit Committee prepared the proposal of the Supervisory Board for the Annual General Meeting to elect the auditor for the 2008/09 financial year and the auditor for the review of the condensed financial statements and the interim management report for the first half of the 2008/2009 financial year. It also obtained the declaration by the intended auditor recommended by the German Corporate Governance Code on grounds for disqualification or impartiality (7.2.1 (1)) and all agreements made with it in the context of granting the audit mandate (7.2.1 (2), 7.2.3 (1) and (2)).

As proposed by the Supervisory Board, PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Düsseldorf, was appointed by the Annual General Meeting of IKB on 28 August 2008 as the auditor of the single-entity and consolidated financial statements for the 2008/09 financial year and the auditor for the review of the condensed interim consolidated financial statements and the interim Group management report for the first six months of the 2008/09 financial year.

Transparency and information. IKB adheres to the principle of equal treatment. Private investors can find timely information on key dates and current developments (including ad hoc disclosures) in the Group on the Internet site of IKB (www.ikb.de). Furthermore, significant processes within the company are announced by way of press releases, which are also published on the Internet site. The Company offers all interested parties the option of subscribing to an electronic newsletter providing information on the latest financial reports, ad hoc disclosures and press releases.

Persons with management responsibilities, including in particular the members of the Board of Managing Directors and the Supervisory Board of IKB and persons closely related to them are legally required in line with section 15a of Wertpapierhandelsgesetz (WpHG – German Securities Trading Act) to disclose transactions with IKB shares or financial instruments based on them if the value of the transactions performed by the member and the related person within a calendar year amounts to or exceeds a total of €5,000. No such notifications were received in the reporting year.

There were no reportable shareholdings as defined by item 6.6 of the German Corporate Governance Code as of 31 March 2009. The mandates of the members of the Board of Managing Directors and the Supervisory Board and related parties are shown in the notes to the consolidated financial statements.

Compliance as a central management task of the Board of Managing Directors. Compliance – meaning the measures taken to ensure conformity with the law, regulatory requirements and internal corporate guidelines – is a central management task at IKB. The Board of Managing Directors has introduced a compliance concept for employees that is regularly reviewed and adapted as required.

The compensation report is included in the Group management report (section 7) as an element of the corporate governance report.

Declaration of compliance in accordance with section 161 AktG

In accordance with section 161 AktG, the Board of Managing Directors and the Supervisory Board of declare that the recommendations of the Government Commission on the German Corporate Governance Code (version dated 6 June 2008) published by the Federal Ministry of Justice in the official section of the electronic Federal Gazette have been complied with since the issue of the last declaration on 11 July 2008 with the following exceptions:

- *3.8 (2): Agreement of a suitable deductible when taking out liability insurance for the members of the Board of Managing Directors and the Supervisory Board (D&O insurance)*

  There is D&O insurance for the members of the Board of Managing Directors and the Supervisory Board that does not provide for a deductible. A decision on the agreement of a deductible will be made at a later date. The Company is not of the opinion that the attitude to work and responsibility of the members of the Board of Managing Directors and the Supervisory Board could be improved by such a deductible.

- *4.2.1 sentence 2: Regulation of the allocation of duties of members of the Board of Managing Directors in the by-laws*

  The allocation of responsibilities of the members of the Board of Managing Directors of IKB is regulated separately rather than in the by-laws of the Board of Managing Directors. The allocation of responsibilities is proposed by the Chairman of the Board of Managing Directors and passed, amended and cancelled by way of resolution by the entire Board of Managing Directors. We consider this method to be more flexible.

- *4.2.2: Resolution by the Supervisory Board on the compensation system for the Board of Managing Directors including the key contractual elements*

  The structure of the compensation system for the Board of Managing Directors has to date been resolved by the Executive Committee for reasons of efficiency. Following the reduction of the Supervisory Board from 21 to 15 members, the compensation system for the member of the Board of Managing Directors appointed thereafter including the key contractual elements were also resolved by the whole Supervisory Board.

- *5.6: Efficiency examination of the activities of the Supervisory Board*

  On account of the significant reorganisation of the Supervisory Board in the 2008/2009 financial year (including the reduction from 21 to 15 members) the Supervisory Board refrained from a formal examination of the efficiency of its activities.

- *7.1.2 sentence 2: Discussion of the half-year and quarterly financial reports by the Supervisory Board or its Audit Committee with the Board of Managing Directors prior to publication*

  The Company did not comply with this recommendation due to scheduling reasons and did not discuss the interim financial statements in the Supervisory Board until after their publication on two occasions.

- *7.1.2 sentence 4: Publication of the consolidated financial statements within 90 days of the end of the financial year and of interim reports within 45 days of the end of the reporting period*

  The consolidated financial statements for the 2007/08 financial year were published on 21 July 2008. The interim report, the interim disclosure (following the move of IKB shares from the Prime Standard to the General Standard expiring 26 February 2009) and the half-year financial report for 2008/2009 financial year were published on 17 October 2008 (first quarter), 15 January 2009 (half-year financial report) and 4 March 2009 (nine-months interim disclosure). The reasons for these delays were the special situation at IKB since the start of the crisis at the end of July 2007 and the special accounting requirements this entailed.

The Board of Managing Directors and the Supervisory Board also declare that IKB Deutsche Industriebank AG will comply with the recommendations of the Government Commission on the German Corporate Governance Code (version dated 06 June 2008) with the exception of items 3.8 (2), 4.2.1 (2) and 7.1.2 sentence 4 var. 2.

Düsseldorf, 14 July 2009

For the Supervisory Board of
IKB Deutsche Industriebank AG

Bruno Scherrer

For the Board of Managing Directors of
IKB Deutsche Industriebank AG

Hans Jörg Schüttler

Group management report

1. General conditions

2. Significant events in the reporting period

3. Net assets, financial position and results of operations

4. Risk report

5. Events after 31 March 2009 (Supplementary report)

6. Outlook

7. Remuneration report

8. Other financial information

1. General conditions

The financial year 2008/09 of IKB Deutsche Industriebank AG (IKB AG) and the IKB Group (IKB) was heavily influenced by the severe and lasting financial market crisis and its impact on international capital and credit markets. The crisis increased in intensity over the course of the financial year, finally spreading to the real economy. Germany experienced its worst economic slump for a long time. For the core business of IKB, the most important general conditions are overall economic development, the business performance of small and medium-sized manufacturers and the commercial property market in Germany.

General conditions for the core business

Overall economic conditions for the domestic and foreign lending business deteriorated considerably in the period under review. The global economy saw a significant slump in the course of 2008. A slight recovery is not expected until the second half of 2009 at the earliest.

During IKB's 2008/09 financial year, the German economy experienced its most severe recession since the Federal Republic of Germany was created. Growth of 1.3% was achieved in the GDP in the 2008 calendar year. Exports, which are important to the overall economy, grew slightly by 2.7%, while investment in equipment, which is important to IKB's business, recorded significant growth of 5.9%. In the course of 2008, however, there was a dramatic reversal in the positive growth trend. In the fourth quarter, overall economic output saw its sharpest ever decline. In particular, exports fell by a double-digit percentage, while the drop in investment in equipment was also extremely pronounced.

The first quarter of 2009 continued to be marked by extremely negative development: exports fell by over 20% year-on-year, and the manufacturing industry experienced a decline of more than 20%, its sharpest drop in production since reunification.

The countries of importance to IKB's lending business also experienced a downturn. France, Spain and the UK each recorded slight growth of around 1% in GDP for the 2008 calendar year. In contrast, Italy's economy saw a slight decline. As in Germany, the economic downturn intensified considerably in other Western European countries in the final quarter of 2008 and spread to Central and Eastern European countries, whose economic expansion had until then appeared relatively unimpeded. The extent of the economic turbulence varies significantly between individual countries; it depends on burdens from the financial market crisis and adjustments on regional property markets.

The financial market crisis reached a provisional peak with the insolvency of US investment bank Lehman Brothers: further deterioration was prevented only through large-scale intervention by governments around the world. Trust in banks was deeply shaken and the capital markets virtually came to a standstill. This resulted in massive disruptions to price determination and the valuation of securities, even for institutions of impeccable credit standing. With the exception of a few selected government bonds, almost all bonds declined in value significantly. The volatility of prices was also extremely high on all markets, even those that had previously been very liquid. This development also placed a considerable burden on the Bank's asset positions in the period under review.

IKB's strategic positioning

IKB AG is a specialist bank for corporate lending in Germany and Europe. Its target groups are small and medium-sized companies, along with international companies and project partners. As at 31 March 2009, the Bank had a share of almost 8% in the market for long-term corporate loans to German manufacturers. The strongest competitors of IKB AG in Germany are large universal banks and some larger institutions from the public banking sector.

In October 2008, the European Commission approved state aid for IKB under strict conditions. The conditions include a drastic reduction of IKB's business activities, the discontinuation of the Real Estate Finance segment and closing certain international offices. After the implementation of the EU decision, the offices in London, Madrid, Milan and Paris will remain as major operational sites abroad, while IKB Leasing GmbH and IKB Private Equity GmbH will remain as major subsidiaries within the Group. The total assets of the IKB Group are to be reduced to € 33.5 billion by September 2011.

The EU conditions and the expanding financial and economic crisis led to the review and realignment of the Bank's business model. In addition to the provision of loans, the business model is to be expanded to include innovative, customer-oriented financing solutions and consultancy services.

Segments

The Corporate Clients segment includes domestic corporate lending, particularly granting loans, equipment leasing and private equity. Loans are granted to German small and medium-sized companies from six sites throughout Germany. In particular, the Bank has expertise in the management of public development loans. IKB operates its equipment leasing business through its leasing subsidiaries on a national and international basis. There is a particular focus on the leasing of machinery. On the international market, the IKB Leasing Group operates in Central and Eastern Europe, France and Austria. The IKB Private Equity Group invests through both equity interests and various forms of mezzanine capital.

The Structured Finance products include acquisition and project financing in the European Economic Area. IKB acts as an arranger or participates in appropriate financing. The activities of IKB Capital Corporation, New York, (IKB CC) are to be discontinued in accordance with the EU conditions.

The Real Estate Clients segment is to be discontinued as part of the EU conditions concerning the state aid received. In the Real Estate Finance segment, IKB offered its customers financing and consultancy services relating to commercial property. The real estate leasing business, which comes under the umbrella of Movesta Lease and Finance GmbH – a joint venture between KfW IPEX Bank and IKB – is in the process of being sold to third parties, owing to the EU conditions.

The reduction of the portfolio investments was continued in the financial year 2008/09. In December 2008, the majority of the remaining portfolio investments were transferred to a special purpose entity in which IKB AG holds the first loss position and has thus limited its risks to this amount. In addition, there are still positions in portfolio investments with a nominal value of € 1.0 billion, which have not contained any subprime risks since May 2009.

At the end of the period under review, the Board of Managing Directors decided to discontinue the division of the segments used until then. IKB's new market presence allows for the separation of customer responsibility and product management. The new segmentation resulting from this is to be implemented in the financial year 2009/10.

2. Significant events in the reporting period

Reduction and transfer of portfolio investments

In its Portfolio Investments segment, IKB achieved a further significant reduction in its securities portfolio compaired to 31 March 2008. In several individual transactions with various market participants, a nominal volume of approximately € 1.0 billion was sold. In addition, a portfolio with a nominal value of € 1.4 billion was sold to KfW.

On 31 July 2008, as part of an auction, the total assets of the Rhinebridge special purpose entity with a nominal volume of US$ 947 million were partly sold at an average price of around 37%, while the remaining assets were paid out to holders of commercial papers. IKB AG acquired securities in connection with this in exchange for its commercial papers (nominal value of € 0.2 billion). Almost all of these securities were then sold to third parties at a profit, resulting in IKB generating an overall profit.

IKB AG acquired portfolio investments with a nominal value of US$ 1.5 billion from IKB International S.A., Luxembourg, (IKB S.A.) at the end of November 2008 for a purchase price of US$ 0.57 billion and transferred € 1.2 billion of those investments together with portfolio investments previously held by IKB AG to the special purpose entity Rio Debt Holdings (Ireland) Limited at the beginning of December 2008. For some of the portfolio investments, the transfer was carried out on a synthetic basis via total return agreements. This involved a nominal volume of € 1 billion, although only € 82 million of the total purchase price of € 903 million related to this sale. The senior funding of the special purpose entity is provided by KfW and amounted to € 565 million on the date of transfer of the assets as at 4 December 2008. The mezzanine financing for the special purpose entity amounted to € 145 million as at 4 December 2008 and was assumed by LSF Aggregated Lendings S.A.R.L., Luxembourg, a company in the Lone Star Group. The first loss position with respect to the special purpose entity amounted to € 193 million as at 4 December 2008 and was provided by IKB AG within the framework of a junior loan. The default risk for the IKB Group from transferred portfolio investments will be limited by the liability of the mezzanine and the senior loan for defaults at the level of the junior loan provided by IKB AG. Most of the reversal opportunities remain at IKB. The special purpose entity Rio Debt Holdings (Ireland) Limited is included in the consolidated financial statements of IKB.

In addition, there are still positions in structured securities with a nominal value of € 1.0 billion (book value € 1.0 billion as at 31 March 2009), which no longer contain any subprime risks.

Settlement of risk shielding measures

In 2007, IKB AG and KfW entered into an agreement according to which KfW secured default risks from portfolio investments on the IKB AG and IKB S.A. balance sheets up to a maximum level of € 1 billion. This risk shield was implemented on a contractual basis partly on the basis of CDSs, partly by means of a guarantee.

Furthermore, in May 2008, IKB and KfW also entered into and implemented an agreement according to which the risk shielding measures were partly formally settled early for those securities that were essentially permanently in default and that had a book value of zero but could not yet be settled according to the wording of the risk shielding (settlement amount: US$ 321 million and € 57 million).

In addition, first loss positions (with a nominal volume of € 86 million) based on securitised IKB corporate and real estate loan transactions have been removed from the rescue package risk shield, as these transactions relate to IKB's core business. As it was foreseeable that the maximum amount of the shield would be utilised by expected losses on other hedged securitisation transactions, this did not result in a reduction of the shielding effect for IKB.

On 24 July 2008, IKB AG and KfW entered into an agreement on the early settlement of the remaining risk shield for portfolio investments on the IKB AG and IKB S.A. balance sheets. As a result, the related CDS and the guarantee were settled and revoked in full. Subsequently, KfW paid IKB € 358 million. In return, IKB paid KfW a residual fee of € 1 million and US$ 5 million.

IKB AG and IKB S.A. also assumed first loss risks arising from the Havenrock entities at the rate of 25% (of a nominal value of € 4.4 billion). These risks were also almost completely covered by the KfW risk shield. This reduced the risk for IKB to US$ 79 million, which was fully included in the income statements of the previous years.

This Havenrock risk shield agreement with KfW was terminated early at the end of October 2008. To settle its outstanding payment obligations, KfW paid IKB a total of US$ 1,189 million at the beginning of November 2008.

Approval of rescue measures by the European Commission with conditions

In the matter of state aid from the Federal Republic of Germany for the restructuring of IKB, the EU Commission announced on 21 October 2008 that the state rescue measures that IKB had received since the start of the crisis in July 2007 were approved, subject to conditions and requirements.

The approval of the rescue measures made possible the continued existence of IKB AG as a bank focusing on small and medium-sized enterprises. The radical conditions include a drastic reduction of IKB's business activities, the discontinuation of the Real Estate Finance segment, the closure of certain international offices and the partial discontinuation of new business. By 30 September 2011, total group assets are to be reduced to € 33.5 billion (from € 63.5 billion on 31 March 2007, before the start of the IKB crisis).

With its decision of 15 May 2009, the European Commission approved a change to the schedule for the winding up of the Luxembourg site.

In detail the conditions are as follows:

- Discontinuation of the Real Estate Finance segment (no more new business; reduction of at least 20% of the portfolio by 30 September 2010; reduction of a further 40% by 30 September 2011; remaining portfolio over scheduled repayments); subsidiaries impacted: IKB Immobilien Management GmbH, IKB Projektentwicklung GmbH & Co. KG, IKB Projektentwicklungsverwaltungs GmbH

- Sale of the 50% IKB stake in Movesta Lease and Finance GmbH by 30 September 2011

- Winding up or sale of IKB CC by 30 September 2011 (reduction of 25% by 30 September 2010) and discontinuation of new business by 31 December 2008

- Winding up IKB S.A. by 1 April 2011 (the derivatives business and credit holdings may be relocated to IKB AG in Düsseldorf up to a maximum of € 3.2 billion) and discontinuation of new business by 1 December 2010

- Discontinuation and winding up of the IKB business activities in Amsterdam by 30 March 2010

- Sale of non-strategic asset positions by 30 September 2011.

In the case of unforeseen circumstances, particularly the continuation of the financial market crisis or the impossibility of selling specific asset positions, the conditions can be changed or replaced by the European Commission or an extension of the deadline granted.

Reporting takes place once a year to the European Commission on 31 July at the latest on the progress made in implementing the restructuring plan and the conditions.

Internal projects have been initiated to implement the EU conditions. New business in the Real Estate Finance segment and in IKB CC was discontinued. Preparations for the transfer of internal functions from the Luxembourg subsidiary slated for closure to the Group headquarters in Düsseldorf were initiated.

Around 230 jobs in the relevant units and subsidiaries are directly affected by the conditions. Furthermore, jobs in other units of the Group could also be affected by the restructuring.

The direct economic burden resulting from implementing the European Commission's decision depends to a large extent on the development of the markets for the assets which are to be scaled back. At the current moment in time, it is difficult to make a forecast on the matter.

In February 2009, the Board of Managing Directors decided on the main features of the future focus of IKB's business policy. By separating products and sales, the focus on customers is to be strengthened and the product range expanded, positioning IKB on the market for lasting success. At the same time, costs are to be reduced in loan processing by optimising processes and structures in the middle and back office and the organisation is to be streamlined, so that the profitability of IKB can be restored. Around 140 jobs will be affected by the reorganisation. Once the adjustments have been made, the expansion of the product range will lead to new jobs.

The implementation of the necessary reorganisation measures was commenced in March 2009 and is to lead to a new organisational structure in September 2009. The new product/sales organisation was implemented as early as mid-May 2009.

Towards the end of the last financial year, IKB AG, the affected German subsidiaries and employee representatives negotiated a reconciliation of interests and a redundancy scheme for the implementation of the necessary staff adjustment measures. The redundancy scheme that has been negotiated provides regulations on transfers between sites and compensation terms for compulsory redundancies, including an additional option to switch to a transfer company with advice on outplacement. There is also the possibility of early retirement and annulment agreements, which can be initiated by the employer.

A redundancy scheme has also been negotiated and approved for IKB S.A.

Capital increase

The cash capital increase resolved at the Annual General Meeting of IKB AG for the 2006/07 financial year on 27 March 2008 was concluded with the entry into the commercial register on 24 October 2008.

The challenges to the resolution on the capital increase were previously withdrawn following a settlement with the petitioning shareholders.

IKB AG received € 1.25 billion (before costs) from the capital increase, almost exclusively from KfW. With the entry of the implemented capital increase, the share capital of the company increased from € 247,794,332.16 by € 1,250,000,000.00 to € 1,497,794,332.16. Respectively 488,281,250 new shares were issued.

On the basis of a stock exchange issue prospectus, the new shares were authorised for stock exchange trading on 13 November 2008. Listing commenced on 14 November 2008.

Sale of the KfW IKB shares to Lone Star

According to the information provided by the parties, the agreement on the sale of the IKB shares held by KfW to LSF6 Europe Financial Holdings L.P., a company of US financial investor Lone Star, was signed on 21 August 2008 and implemented on 29 October 2008. The conditions precedent had been fulfilled (including a decision by the European Commission in the state aid proceedings, registering the implementation of the capital increase at the Düsseldorf local court, BaFin’s exemption from the obligation to make a mandatory offer in line with the Securities Acquisition and Takeover Act).

The 90.8% stake in IKB AG held by KfW was thus transferred to LSF6 Europe Financial Holdings L.P. The indirect controlling shareholder of LSF6 Europe Financial Holdings L.P. is John Grayken, USA.

As part of the sale transaction, the rights arising from compensation from future profits in connection with debt waivers relating to loans of € 1,050 million granted by KfW to IKB in the 2007/08 financial year were also transferred and then assigned to the company LSF6 Rio (Ireland) Limited, Dublin, another company in the Lone Star Group.

Capital strengthened with Lone Star

On the basis of the resolution of the Annual General Meeting of 28 August 2008, the IKB AG Board of Managing Directors decided to issue subordinate bonds with a contingent conversion privilege and a contingent conversion obligation at a nominal amount of € 123.7 million and at an issue price of 100%. Conditions for the existence of a conversion obligation and conversion privilege are that the recessionary actions against this resolution are settled and the contingent capital is entered as final into the commercial register. Unless these conditions have occurred by 11 April 2012, the final mandatory conversion date, conversion obligation and conversion privilege no longer apply. In this case, the bond would have to be repaid on 11 April 2014. The conditions for the existence of a conversion obligation and a conversion privilege have since been fulfilled, and LSF6 Rio S.à.r.l. has issued a conversion declaration regarding the shares it has purchased.

After the conditions are fulfilled, investors in the convertible bond have a conversion right that they can exercise at any time until the 25th day of trading before the final mandatory conversion date at the nominal amount. A conversion obligation exists on the final mandatory conversion date at the latest, or earlier if IKB falls below specific regulatory ratios.

Until maturity, the interest rate of the convertible bond is 9.5% p.a. In the case of conversion on the final mandatory conversion date, the interest rate increases by a further 12.5% p.a. for the period from the issue date to the final mandatory conversion date; in the case of an optional conversion before the final mandatory conversion date or an early mandatory conversion as a result of specific Tier I and overall capital ratios not being achieved, in addition to the interest rate of 9.5% an additional amount shall be granted equivalent to the interest amount which would have accrued at an interest rate of 1.25% p.a. for the period between the issue date and the final mandatory conversion date.

The subscription price is € 23.04 and the conversion price is € 2.56 per share.

In a public offer for subscription, IKB AG shareholders were offered these bonds at a ratio of 109 shares to 1 bond. One bond carries the authorisation to subscribe to 9 new shares at a conversion price of € 2.56 per share.

IKB received proceeds of € 123.7 million as a result of the bond issue on 11 December 2008. A company of the Lone Star group, LSF6 Rio S.à.r.l., Luxembourg, has taken up all convertible bonds not subscribed to by other IKB AG shareholders (€ 123.5 million). Should there be no change in the share capital, the new share capital of IKB AG after implementation of the full conversion would total up to € 1,621 million (previously: € 1,498 million), divided into up to 633,384,923 non-par shares (previously: 585,075,911).

In addition to the convertible bond, LSF6 Rio S.à.r.l., Luxembourg, purchased an IKB AG subordinate registered bond totalling € 101.3 million on 27 November 2008. The subordinate registered bond has a duration to 27 November 2018 and a coupon of 12% p.a. On 16 December 2008, LSF6 Rio S.à.r.l., Luxembourg, also took up a further IKB AG subordinate bond totalling € 150,000 with the same conditions as the subordinate registered bond totalling € 101.3 million from 27 November 2008.

With the purchase of the convertible bond and subordinate bonds, Lone Star has implemented the announced increase of IKB equity in the amount of € 225 million in line with the conditions of BaFin in the notification on the exemption from the obligation to publish the assumption of control and a mandatory offer for IKB AG shares.

SoFFin guarantees

In December 2008, the Financial Market Stabilisation Fund (SoFFin) granted IKB AG a guarantee framework for new bonds of up to € 5 billion. The guarantees have been approved by the European Commission.

The IKB Board of Managing Directors made an application for guarantees because the situation on the money and capital markets since the insolvency of US investment bank Lehman Brothers in September 2008 deteriorated in such a radical fashion that trading has virtually ground to a halt. In general, obtaining adequate refinancing was virtually impossible. IKB has not requested support from SoFFin for recapitalisation or the assumption of risks.

In the context of the guarantee agreement with SoFFin, the IKB AG Board of Managing Directors, with the approval of the Supervisory Board, undertook to carry out the measures stipulated by the European Commission in the state aid proceedings. In addition, IKB AG must adhere to a Tier I ratio of 8% and is subject to extensive reporting obligations.

The first state-guaranteed issues were placed on the market in January and March 2009 with an issue volume of € 2 billion each (maturity to 27 January 2012 and 13 March 2012 respectively). With a state-guaranteed issue of € 1 billion in April 2009 (maturity to 29 April 2011), the guarantees from SoFFin of € 5 billion from December 2008 have now been fully utilised.

Other transactions

To generate liquidity, IKB AG sold receivables to the special purpose company REPV-DS Finance 2008-1 GmbH at a purchase price of their nominal value of € 215 million in September 2008. The special purpose company was financed on the basis of a loan from another bank amounting to € 163 million and a subordinate loan of IKB AG amounting to € 52 million.

IKB also uses the securitisation platform Bacchus for collateralised loan obligations (CLOs) to securitise receivables from acquisition and project financing, in order to generate liquidity. The transactions Bacchus 2008-1 and Bacchus 2008-2 implemented in 2008 were to create collateral for ECB refinancing.

Bacchus 2008-1 is a true-sale securitisation of senior secured loans acquisition financing with a total volume of € 626 million divided into two tranches, € 500 million in the first and € 126 million in the second. In respect to the first tranche, the transaction was concluded on 10 October 2008. The closing for the second tranche occurred on 20 November 2008.

Bacchus 2008-2 is a true-sale securitisation of European infrastructure financing and financing of wind and solar parks. Closing (volume € 454 million) took place on 3 December 2008. The risk from the securities fully acquired by IKB AG is that of the credit risk of the securitised receivables.

The companies Bacchus 2008-1 Plc, Bacchus 2008-2 Plc and REPV-DS Finance 2008-1 GmbH are included in the IFRS consolidated financial statements by means of consolidation.

By agreement dated 22/23 September 2008, IKB Beteiligungen GmbH acquired 100% of IVG Kavernen GmbH, Bonn, a subsidiary of its Bonn-based corporate client IVG Immobilien AG. IKB is thus supporting IVG in structuring a sales transaction and reorganising its Caverns division. The purchase agreement was completed on 28 November 2008. IKB achieved a profit of € 187 million from the transaction.

In September 2008, in order to secure liquidity, IKB Leasing GmbH, IKB Leasing Berlin GmbH and IKB Autoleasing GmbH concluded a framework agreement with the special purpose entity Weinberg 2 Funding Limited, Dublin concerning the revolving sale of leasing receivables. This framework agreement provides for a maximum financing volume of € 300 million. As at 31 March 2009, a nominal volume of € 311 million of leasing receivables had been sold under the framework agreement, which amounted to a financing volume of € 280 million generated for IKB.

Further changes in the Group

IKB Credit Asset Management GmbH (IKB CAM) was merged with IKB AG with retroactive effect from 1 April 2008, following its restructuring and the resignation of the shareholder.

On 1 October 2008, IKB Leasing Finance IFN SA was founded in addition to the existing Romanian company, IKB Leasing SRL in Bucharest, as part of the further expansion of leasing activities in Central and Eastern Europe. The purpose of IKB Leasing Finance IFN SA is to enter the market for finance leases in Romania. It was necessary to establish a new company due to the fact that in Romania finance leasing is subject to approval and supervision by the National Bank. The new company will be included in the scope of consolidation from 1 October 2008.

With a notarial purchase agreement dated 23 December 2008, Movesta Lease and Finance GmbH acquired all shares in AIVG Allgemeine Verwaltungsgesellschaft mbH from IKB AG for € 4.2 million with effect from the same day.

Deposit insurance

In its capacity as service provider for the Deposit Protection Fund of the private banks, in line with its articles the Auditing Association of German Banks imposed conditions for IKB AG for maintaining its deposit protection. It has stipulated conditions above and beyond the conditions of the European Commission – primarily that the Tier I ratio of the IKB Group in line with the German Commercial Code may not move below 8% to the accounting dates until 31 March 2011 (including the mandatory convertible bonds). In addition, the level of client deposits protected is limited (see supplementary report). The conditions and their fulfilment have no effect on the protection of existing deposits at IKB AG.

Impact of the financial market crisis

After the insolvency of the US investment bank Lehman Brothers in September 2008, the financial market crisis intensified considerably. Money and capital markets are even less available than was previously the case. Volatilities for many products, especially for interest rates, reached all-time highs.

Model valuations of portfolio investments based on market indicators show fair values still declining. Due to the high volatility, IKB option issuer positions in long-term structured interest products have experienced sharp losses in terms of market value.

Currently a full estimate can not be given with respect to the impact of the global economic crisis on the credit business. Negative trends have already begun in certain industries, particularly in the automotive sector. Many industries are already experiencing a considerable decline in sales and production, a trend which is likely to accelerate in 2009/10. For this reason, we are expecting a considerable increase in the number of insolvencies in 2009/10, and thus an upturn in non-performing loans and defaults.

In the bond market and the secondary market for credits – to the extent that there is still liquidity – the lasting financial market crisis, the economic slump and further economic development are already having a tangible impact in the form of remeasurement losses through higher volatilities and risk premiums for counterparty risks (credit spreads). In particular, this has also impacted, and is continuing to impact, securitised credit risks.

In addition, IKB is currently unable to estimate the extent to which the economic difficulties affecting member banks of the Deposit Protection Fund will trigger payments from the other member banks.

Annual General Meeting on 28 August 2008

The Annual General Meeting of IKB AG for the 2007/08 financial year was held in Düsseldorf on 28 August 2008. The Annual General Meeting adopted all of 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. Among other points, a reduction in the number of Supervisory Board members from 21 to 15 was resolved.

Extraordinary General Meeting on 25 March 2009

Following a request from the majority shareholder, LSF6 Europe Financial Holdings L.P., the Board of Managing Directors of IKB AG invited shareholders on 13 February 2009 to an extraordinary general meeting on 25 March 2009 in Düsseldorf.

The General Meeting adopted all of the resolutions proposed by the Bank's management and the application of LSF6 Europe Financial Holdings L.P. by a large majority. The results of the individual votes can be found on the Bank's website under www.ikb.de.

Following the resolution proposal from LSF6 Europe Financial Holdings L.P., the resolutions passed by the General Meeting on 27 March 2008 regarding the conduction of a special audit of potential violations of duty by members of the Board of Managing Directors and the Supervisory Board of IKB AG were cancelled and the appointment of the special auditor was revoked. In the opinion of LSF6 Europe Financial Holdings L.P., there is no reason to doubt that the Board of Managing Directors and the Supervisory Board will examine, in line with their duties, whether former members of executive bodies have violated their duty. As it is believed that it is possible to deal with such matters in an appropriate manner internally whilst maintaining confidentiality, it is not thought to be in the interests of the company to allow internal information to become accessible to the public through a special audit.

Personnel changes in the Supervisory Board

Mr Jörg Asmussen stepped down from the Supervisory Board of IKB AG on 27 May 2008.

The Annual General Meeting on 28 August 2008 reappointed Dr Jens Baganz, Detlef Leinberger, Roland Oetker and Dr Martin Viessmann to the Supervisory Board and elected Dr Christopher Pleister and Werner Möller as new members. The Supervisory Board mandate of Dr Michael Rogowski expired at the end of the Annual General Meeting on 28 August 2008.

Detlef Leinberger stepped down from the Supervisory Board with effect from 6 October 2008.

On 30 October 2008, the Supervisory Board elected as its Chairman Bruno Scherrer, Head of European Investments, Senior Managing Director of the US investor Lone Star. In line with the application of the IKB AG Board of Managing Directors in accordance with section 104 of the German Stock Corporation Act, the Düsseldorf local court previously appointed Bruno Scherrer as a member of the IKB AG Supervisory Board. Werner Oerter had already stepped down as Chairman of the Supervisory Board at the end of the Supervisory Board meeting on 30 October 2008.

The resolution to reduce the number of members in the Supervisory Board to 15 passed by the Annual General Meeting on 28 August 2008 became effective on 15 December 2008. On 18 November 2008, Werner Möller resigned his mandate with immediate effect. Subsequently Dieter Ammer, Dr Jens Baganz, Roland Oetker and Jochen Schametat as well as Rita Röbel stepped down from the Supervisory Board with effect from 30 November 2008 and Randolf Rodenstock on 3 December 2008 with immediate effect.

By decision of the Düsseldorf local court, Dr Karsten von Köller was appointed as a member of the IKB AG Supervisory Board with effect from 16 December 2008.

Hermann Franzen, Werner Oerter, Dieter Pfundt and Dr Alfred Tacke stepped down from the Supervisory Board on 31 December 2008.

Dr Christoph Pleister stepped down from the Supervisory Board with effect from 1 February 2009.

By order of the Düsseldorf local court dated 20 January 2009, Olivier Brahin, Dr Lutz-Christian Funke, Dr Claus Nolting and Dr Andreas Tuczka were appointed as members of the Supervisory Board of IKB AG with effect from 22 January 2009. At the General Meeting on 25 March 2009, the members previously appointed by the Düsseldorf local court were elected as new members of the Supervisory Board. Arndt G. Kirchhoff, the CEO of the Kirchhoff Group, Attendorn, and Stefan A. Baustert, President and CEO of Singulus Technologies AG, Bad Homburg, were also elected to the Supervisory Board. Dr Martin Viessmann stepped down from his position with effect from the end of the General Meeting on 25 March 2009.

Personnel changes in the Board of Managing Directors

With effect from 1 April 2008, Dr Andreas Leimbach was appointed as the member of the Board of Managing Directors responsible for Corporate Clients within Germany.

At its meeting on 8 October 2008, the Supervisory Board of IKB AG extended the mandates of Dr Günther Bräunig, the Chairman of the Board of Managing Directors, until 31 October 2008 and Dr Dieter Glüder, a member of the Board of Managing Directors, until 15 October 2011, after the Supervisory Board meeting on 11 July 2008 decided to extend the appointments until 15 October 2008. As of 31 October 2008, the Chairman of the Board of Managing Directors, Dr Günther Bräunig, retired as scheduled from the Board of Managing Directors.

At its meeting on 30 October 2008, the Supervisory Board appointed Hans Jörg Schüttler as Chairman of the IKB AG Board of Managing Directors with effect from 1 November 2008.

On 31 January 2009, Dr Andreas Leimbach, a member of the Board of Managing Directors, left the company of his own accord.

At its meeting on 5 February 2009, the Supervisory Board of the Bank appointed Dr Michael H. Wiedmann as a member of the Board of Managing Directors of IKB AG with effect from 1 March 2009.

Stock exchange listing of IKB shares

IKB shares were removed from the SDAX on 22 December 2008. The reason for this decision by Deutsche Börse AG was that the free float of IKB AG was too small. At the request of IKB AG, the shares also left the Prime Standard of the Frankfurt stock exchange at the end of 26 February 2009 and since then have been listed on the General Standard.

Current rating situation

Following the signature of the purchase agreement between KfW and Lone Star LSF 6 Europe Financial Holdings, L.P. on 21 August 2008, Moody's revised its outlook to "Review for possible downgrade" and Fitch Ratings announced the downgrade of IKB AG's long-term rating to BBB–.

IKB Rating		**Long-Term**	**Short-Term**	**Financial strength Individual rating**	**Outlook**
Moody's	1 April 2008	Baa3	P-3	E	Negative
	21 August 2008	Baa3	P-3	E	Review for possible downgrade
Fitch	21 December 2007	A+	F1	E	Stable
	22 August 2008	BBB–	F3	D/E	Negative

3. Net assets, financial position and results of operations

Business development

The new business volume in the three segments of Corporate Clients, Real Estate Clients and Structured Finance declined to € 5.9 billion in financial year 2008/2009 (previous year: € 9.8 billion).

Earnings performance

The consolidated income statement in the 2008/09 financial year was strongly impacted by the crisis at the Bank and the general financial market and economic crisis.

The following table shows the main extraordinary factors affecting the Bank's operating result, broken down into the individual income statement items:

1 April 2008 – 31 March 2009 **Figures in € million**	Portfolio Invest-ments	Market value losses	Measure-ment of liabilities	Expenses resulting from crisis	Acquisi-tion of IVG Kavernen GmbH	Other	Non-recurring factors (total) FY 2008/09	Total FY 2008/09	Total FY 2007/08	Diffe-rence
+ Net interest income			–61			–49	–110	303	452	–149
– Provision for possible loan losses								590	255	335
= Net interest income (after provision for possible loan losses)			**–61**			**–49**	**–110**	**–287**	**196**	**–483**
+ Net fee and commission income								33	55	–22
+ Fair value result	64	–757	583				–110	–162	–1 830	1 668
+ Result on investment securities	–188	–32					–220	–282	–980	698
+ Net income from invest-ment accounted for using the equity method								–8	2	–10
– Administrative expenses				57			57	375	386	–11
+ Other operating result	–25		255	–7	–186	72	109	131	666	–535
+ Income from risk transfer									2 401	–2 401
– Restructuring expenses				52			52	52	0	52
= Operating result	**–149**	**–789**	**777**	**–116**	**–186**	**23**	**–440**	**–1 002**	**124**	**–1 126**
+ Taxes					373		373	422	–135	557
= Consolidated loss	**–149**	**–789**	**777**	**–116**	**187**	**23**	**–67**	**–580**	**–11**	**–569**

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

Portfolio investments. Portfolio investments led to realised and unrealised losses of € 149 million. By far the largest proportion of remaining portfolio investments are held by the special purpose entity Rio Debt Holdings (Ireland) Limited which is fully consolidated. In the financial year, valuation losses of € 467 million (in the fair value result and in result on investment securities) were incurred in this portfolio. This was offset by gains of € 174 million from the measurement of minority liabilities of the special purpose entity, meaning that a net loss of € 293 million was incurred.

Overall other portfolio investments led to a valuation and capital gain of € 169 million. In the first half of the financial year, one portfolio was sold to various market participants at a profit of € 81 million and a further sub-portfolio was sold to KfW at a loss of € 6 million. Added to this is the gain of € 13 million from the sale of the Rhinebridge investments in the context of auction proceedings implemented at the end of July 2008. Net gains of € 81 million resulted from the measurement of the remaining portfolios.

Other operating income includes costs from the final settlement of risk shielding and the settlement of Rhinebridge.

The Rhineland Funding conduit, which was deconsolidated with effect from 31 July 2007, and the Havenrock entities no longer affected or no longer had a material impact on the Bank's earnings situation in the 2008/09 financial year. In the last financial year, these companies were still the largest loss-makers alongside the other portfolio investments, with € 1,466 million in losses overall before the assumption of risks by KfW.

Losses on long-term investments and derivatives in terms of market value. For various purposes including proprietary trading, IKB holds government bonds, bonds from other public creditors, German and European mortgage bonds, promissory notes from companies as well as derivatives to hedge interest rate risks. These investments have predominantly long durations, and a considerable proportion of these are also in structured form including derivative elements. During the reporting period, market value losses on these investments and derivatives of € 757 million recognised in the income statement were incurred, which were caused by the following developments:

- Approximately half of this amount is due to interest rate derivatives, which were primarily concluded to hedge against changes in market interest rates. These have suffered value losses, mainly as a result of the sharp downturn in interest rates in the second half of the financial year. These losses are offset by interest-driven fair value gains in securities of approximately the same amount, which have not had an impact of the income statement.

- Approximately one third of this amount is the result of fair value losses based on the sharp rise in risk premiums for companies, but also for government debtors and mortgage bonds.

- The remaining losses are attributable to structured securities with option issuer positions, caused by high interest rate volatility as at the balance sheet date.

The net loss on investment securities in the amount of € –32 million is attributable to a write-down on our shares held in Natixis.

Measurement of liabilities. In accordance with IAS 39.AG8, both the compensation agreements reported as liabilities in accordance with IFRS relating to the debt waivers carried out by KfW in the past financial year as well as part of the profit participation certificates and silent partnership certificates are to be measured using the present value of estimated future cash flows. This has led in net terms to a positive earnings contribution of € 194 million:

- Interest expenses of € 61 million have resulted from unwinding. The discounting effect decreases over time, meaning that the liability is to be reported as higher. This increase in the liability must be shown as interest expenses.

- At the same time, the cash flows for these instruments used as a basis for measurement were reported as lower compared with the end of the previous financial year, resulting in a measurement gain of € 255 million. This is attributable to an adjustment in corporate planning, which takes into consideration the new business model with the effects of the EU decision on compensation measures, increased risk provisioning as a result of the economic slump and the considerably more difficult refinancing situation which has lasted longer than expected and the concomitant high funding costs.

Measurement of liabilities (due to creditworthiness). In the past financial year, for part of its liability items in accordance with IAS 39, IKB used recognition at fair value though profit and loss. As early as 31 March 2008, the crisis at IKB had already led to severe value losses for IKB bonds, profit participation certificates and silent partnership certificates, which were to be included as remeasurement gains € 1,735 million on these liabilities. During the financial year, primarily following the market shock caused by the Lehman insolvency, the carrying amounts for these liability items declined further, based on IKB's CDS spreads and other market indicators, resulting in a further positive fair value result at the reporting date of € 583 million. Here, it should be noted that there were significant distortions in the development of the liability spread during the financial year at each of the fixed quarterly dates and thus also in the respective income statements.

Administrative expenses due to the crisis impacted operating costs in the amount of € 57 million. These are primarily costs for external support (lawyers, consultants). Restructuring expenses for HR measures of € 43 million and for vacancy costs of € 9 million (€ 52 million in total) were also incurred.

Acquisition of IVG Kavernen GmbH. In September 2008, IKB acquired 100% of shares in IVG Kavernen GmbH, Bonn. Goodwill of € 186 million resulted from the transaction. Income tax provisions of € 373 million were reversed in the context of the merger of IVG Kavernen GmbH and IKB Beteiligungen GmbH. The goodwill was to be amortised in full at the same time. Overall, income of € 187 million resulted from this transaction.

Other. In this financial year, interest income was impacted in net terms by € 49 million from the write-down of compensating positions for hedging positions at the time of the changeover to IFRS (IFRS 1 IG 60 A and IG 60 B) (€ 93 million in previous year).

IKB also bought back own securities (own issues) at less than the nominal value in this financial year, generating a profit of € 72 million.

Changes beyond the one-off factors explained are as follows.

Net interest income declined by € 149 million to € 303 million. The key effects – in addition to the effects already given from the unwinding of liabilities of € –61 million and the decline in the impact from IG 60 A and IG 60 B by € 45 million – are:

- Decline in net interest income in the Portfolio Investments segment by € 105 million as a result of the deconsolidation of the RFCC conduit in July 2007, higher refinancing costs and strong declines in volume

- € 25 million decline in the Corporate Clients segment as a result of lower financing volumes and higher refinancing costs and € 5 million decline in the Structured Finance segment.

The allowance for losses on loans and advances more than doubled from € 255 million in the previous year to € 590 million. The addition to portfolio allowances was € 100 million, whereas € 20 million in portfolio allowances were reversed in the previous year. This increase in portfolio allowances accommodated the economic problems which occurred, but which have not yet been recognised at individual credit level. It was necessary to increase individual loan loss provisions and accruals in net terms by € 215 million to € 490 million. The rise in the allowance for losses on loans and advances focused on the Structured Finance segment.

Against the same period of the previous year, net fee and commission income was down € 22 million to € 33 million (previous year: € 55 million). This was largely due to lower commission income on account of the smaller new business volume and fee and commission expenses, which rose by € 8 million, driven mainly by transactions to procure liquidity.

The loss of € –8 million on investments accounted for at equity was primarily attributable to Movesta Lease and Finance GmbH.

Administrative expenses declined by € 11 million or 3% to € 375 million. While personnel expenses contracted by €11 million, due largely to the 6% lower headcount, other administrative expenses, including those resulting from the crisis, were hardly reduced at all. In the reporting period, the average number of fulltime employees was 1,749 (1,852). At the end of the financial year, IKB had 1,718 employees (1,839).

The operating result (before taxes) amounted to € –1,002 million (€ +124 million). In particular, the result of the previous year was positive because IKB reported income from risk assumption of € 2,401 million thanks to external support.

At € 422 million, the tax result is positive. This is predominantly the result of the reversal of tax provisions of € 373 million in the context of the IVG transaction. Furthermore, income from deferred taxes, for example from the activation of loss carryforwards as well as expenses including those from the reversal of deferred taxes at our subsidiary IKB Capital Corporation as a result of the indirect change in the major shareholder to Lone Star, is also included in the tax result. Overall, income of € 51 million resulted from deferred taxes.

Earnings per share amounted to € –1.88 (previous year: € –0.12).

Segment development

In the *Corporate Clients* segment, which includes domestic corporate lending, equipment leasing and private equity activities, IKB paid out € 3.5 billion (previous year: € 4.6 billion) in the period under review.

Of this figure, € 2.5 billion (previous year: € 3.6 billion) related to the domestic lending business. Here, the new business margin remained virtually constant at 1.03% (previous year: 1.02%) in terms of the Bank's average refinancing costs. The majority of new business in the domestic lending business (65%) related to companies with sales of between € 25 million and € 1 billion. Long-term loans from public development programmes accounted for 60% (previous year: 47%) of the new credit volume.

The IKB Leasing Group recorded a new business volume of € 1 billion, maintaining the previous year's level. At least two thirds of this new business relates to Germany and one third to the subsidiaries in France, Austria, Poland, Romania, Russia, Slovakia, Czech Republic and Hungary).

The IKB Private Equity Group generated a disbursement volume of € 30 million in the period under review (previous year: € 51 million). Two new direct participations were entered into and two exposures were sold. Today, IKB Private Equity manages assets with a nominal volume of approximately € 825 million.

The *Corporate Clients* segment generated an operating loss including restructuring expenses of € –106 million (previous year: € +21 million). At € 203 million, net interest income was down year-on-year (previous year: € 228 million) as a result of the reduced credit volume and higher refinancing costs. Provisions for possible loan losses were increased by € 60 million to € 126 million. This risk provisioning includes € 40 million added to portfolio allowances, whereas € 10 million was reversed here in the previous year. Risks provisions before portfolio allowances only needed to be increased by € 10 million. As yet, the economic crisis has still not been reflected strongly in recognised defaults. However, the increase in portfolio allowances reflects the fact that IKB anticipates considerable defaults, which still cannot be perceived at individual credit level, as a result of the severe economic slump. Administrative expenses increased to € 152 million in the reporting period (€ 141 million). This increase is attributable to the expansion of activities in the companies abroad of IKB Leasing GmbH (particularly Romania and Russia) and in the Group, as well as increased cost allocation from head office. The return on equity was –15.5% (previous year: 3.1%), while the cost/income ratio amounted to 88.8% (previous year: 61.7%).

In the *Structured Finance* segment, i.e. in acquisition and project financing and export financing, the new business volume was reduced again to € 1.8 billion (previous year: € 3.8 billion), with a focus on commitments already made. Both IKB-specific liquidity and equity restrictions and the development of the market played a decisive role in this decline. Activities involving company acquisitions in Europe virtually came to a standstill, which meant that almost no new acquisition financing was awarded. IKB was extremely cautious in business with project financing, owing to the lengthy terms involved. In particular, transactions were carried out with the use of development funds and with Hermes cover for existing customer relationships. In the USA, leveraged loans were sold.

The new business margin increased to 2.19% (previous year: 2.09%). The Structured Finance segment reported an operating loss of € –268 million (€ –3 million). At € 119 million, net interest income was at the level of the previous year. Risk provisioning increased dramatically by € 261 million to € 324 million (previous year: € 63 million). Of this increase, € 47 million related to portfolio allowances. Here, the high leverage ratio of debtors has particularly affected acquisition financing, with the economic slump leading to identifiable problems and thus individual loan loss provisions at a more rapid pace. In the case of financial assets, value adjustments of € 18 million were recognised on first loss tranches of securitisations for acquisition financing in the USA. These are in accordance with overall market development, which has led to a considerable widening of spreads, even for subordinate tranches. At € 70 million, administrative expenses remained almost unchanged (€ 69 million). The segment return on equity was –75.3% (previous year: –0.9%), while the cost/income ratio amounted to 56.4% (previous year: 53.5%).

The *Real Estate Clients* segment, which has discontinued new business in accordance with the EU conditions from October 2008, reported a new business volume of € 0.6 billion (previous year: € 1.4 billion), mainly due to the utilisation of loan commitments from previous years. The new business margin fell to 0.83% due to increased refinancing costs (previous year: 1.07%). The Real Estate Clients segment generated an operating result of € –48 million (previous year: € +11 million). At € 60 million, net interest income was down on the previous year (€ 62 million). Risk provisioning increased by € 45 million to € 68 million as a result of the economic crisis. The addition to portfolio allowances was thus increased to € 12 million, following a reversal of € 13 million in the previous year. Restructuring expenses of € 12 million were incurred, in particular for the personnel reductions required. The segment return on equity was –24.7% (previous year: 5.1%), while the cost/income ratio amounted to 72.2% (previous year: 55.3%).

The *Portfolio Investments* segment, which encompasses the portfolio investments remaining at IKB, reported an operating result of € –180 million (previous year: € –1,684 million). Broken down into individual items, the fair value result improved to € 64 million (previous year: € –3,246 million) and the result on investment securities to € –188 million (previous year: € –904 million). Administrative expenses in the segment fell to € 25 million (previous year: € 43 million).

Net assets

At € 44.7 billion, total assets declined by € 5.5 billion between 31 March 2008 and 31 March 2009. This was primarily attributable to the reduction in investment securities (including portfolio investments) and other assets as a result of the early settlement of risk shielding by KfW and, on the equity and liabilities side, the reduction of the portfolio of securitised liabilities due to repayments, early buy-backs and measurement effects.

Loans and advances to customers fell by € 0.9 billion to € 27.9 billion compared with 31 March 2008. This decline particularly relates to the Corporate Clients and Real Estate Finance segments based on the significant decline in new business in these segments.

Loans and advances to banks increased slightly by € 0.1 billion to € 3.0 billion. Here, short-term lending increased by € 0.6 billion, whereas medium and long-term receivables fell by € 0.5 billion.

Provisioning for possible loan losses only increased in net terms by € 0.1 billion to € 1.0 billion, as this was offset by the addition to loan loss provisions of € 0.6 billion in final write-downs and reversals of € 0.5 billion.

Total trading assets increased slightly by € 0.1 billion to € 3.7 billion. This growth is the result of the increase in positive fair values for derivative financial instruments.

Investment securities decreased by € 2.6 billion to € 10.2 billion. This was particularly due to the maturity and sale of financial instruments, as well as write-downs on portfolio investments.

The decline in other assets by € 1.9 billion to € 0.2 billion is due primarily to the early settlement of risk shielding by KfW.

On the liabilities side of the balance sheet, the main decline was in the portfolio of securitised liabilities, falling by € 4.2 billion to € 14.0 billion. This net decline is due to maturing bonds as well as early buy-backs and measurement effects, with SoFFin guaranteed bonds in the amount of € 4.0 billion being placed.

Liabilities to banks declined by € 2.1 billion to € 15.3 billion. While special-purpose financing from development banks including KfW continued to increase, interbank borrowing was still in strong decline as a result of the financial market crisis. The compensation agreements included in liabilities in the previous year, which were assigned in the context of the sale of the Bank to LSF6 Rio (Ireland) Limited, Dublin, are reported under liabilities to customers following the change in creditor (€ 0.5 billion according to measurement pursuant to IAS 39.AG8).

Liabilities to customers are almost unchanged at € 5.8 billion.

At € 5.5 billion (previous year: € 5.4 billion), liabilities held for trading are only up slightly year-on-year.

As a result of repayments (€ 0.2 billion) as well as rating and market-driven valuation allowances (also € 0.2 billion), subordinated capital declined by €0.4 billion to € 1.4 billion.

Subscribed capital increased by € 1.25 billion as a result of the capital increase implemented at the end of October 2008. In terms of equity, this only left an increase of € 0.6 billion to € 1.8 billion, particularly as a result of the consolidated loss.

At 31 March 2009, IKB held no treasury shares.

Financial position

The liquidity situation of IKB was difficult as at 31 March 2009. Borrowing on the money and capital markets was virtually impossible other than on a short-term basis and in collateralised form, except through state-guaranteed bonds. For further details, please refer to the disclosures in the risk report.

Overall assessment

Overall, the Bank's business development and situation in the 2008/09 financial year were heavily influenced by the crisis at the Bank and the general financial market and economic crisis, as well as the EU conditions. In the past financial year, IKB succeeded in stabilising its position as a result of the capital increase subscribed by KfW, the extensive reduction of portfolio investments and the guarantees provided by SoFFin.

4. Risk report

Risk management organisation

Individual tasks and areas of responsibility are outlined and documented in risk management rules and regulations, which specify the principles of the risk management system at IKB, taking into consideration statutory requirements and specific organisational instructions. With regard to the new strategic focus of business activities at IKB, both the business strategy and associated risk strategies are being revised.

Supervisory Board. The Board of Managing Directors regularly discusses the risk situation, business and risk strategies and the risk management of the Bank in detail during meetings held with the Supervisory Board.

Board of Managing Directors. The Board of Managing Directors at IKB AG is responsible for risk management at IKB. Based on business strategy and risk-bearing capacity, it determines principles for risk management policy which, together with the limit structure, are firmly established in the risk strategies of IKB. When establishing these principles, the Board of Managing Directors also takes into consideration the quality of risk management processes, particularly monitoring.

The departmental responsibility for risk management functions in the lending business, particularly transaction-related risk monitoring, intensive support and problem exposure processing, for portfolio-related credit risk controlling, market price risk controlling, securitisation commitments and operational risk monitoring lies with the Chief Risk Officer. The Chief Financial Officer is responsible for monitoring earnings management and capital resources. The responsibility for legal and compliance risks lies with the Chairman of the Board of Managing Directors. The entire Board of Managing Directors is responsible for managing risks associated with the strategic business focus and reputational risks.

Risk committees. Special committees set up to manage and monitor risk-relevant decisions support the Board of Managing Directors in risk management and decision-making. The most significant of these is the Risk and Capital Committee, which is responsible for planning the risk profile and the development of capital resources, monitoring capital utilisation on an ongoing basis and optimising refinancing. This Committee is composed of the members of the Board of Managing Directors as well as heads of the Economic Research, Credit Risk Management and Controlling, Market Price Risk Controlling, Financial Controlling and Treasury Central Divisions. The Chief Risk Officer is Chairman of this Committee and the Chief Financial Officer is Deputy Chairman.

The Risk and Capital Committee is supported by sub-committees in certain matters. These committees in turn comprise members of the Board of Managing Directors and representatives from the operating segments and representatives from the Central Divisions responsible.

Credit risk monitoring. At the start of the 2008/09 financial year, the areas of responsibility for individual transaction and portfolio-related risk monitoring were consolidated in the Credit Risk Management and Controlling Central Division in order to combine risk analysis and risk reporting activities, including portfolio-related aspects, and to manage these consistently. The key tasks of the Credit Risk Management and Controlling Central Division include activities associated with the credit approval process to be carried out independent of the front office, as well as developing and monitoring Group-wide standards for the lending business. Furthermore, this Central Division is responsible for assisting in credit portfolio management as well as managing and improving the rating systems used.

Exposures with an increased risk as well as restructuring and settlement cases are managed in special management units within the Credit Risk Management and Controlling Central Division. The prompt and continuous monitoring, analysis and reporting of credit risks at portfolio level and the validation of models used for risk quantification and credit assessments are also carried out in special units.

Monitoring risks from securitisation and structured credit products. IKB exposures in all securitisations, portfolio investments and other structured credit products are monitored centrally, consistently and independent of the front office by the back office Central Division, "Securitisation Structure Management", which was founded on 1 December 2008. This Division was established in the back office in the form of securitisation risk management under the responsibility of the Chief Risk Officer in order to provide comprehensive support for these complex products. The main responsibilities of this Central Division include implementing the credit approval process independent of the front office for exposures in structured credit products as well as the impairment process for the Bank's remaining portfolio investments, for the first loss position on portfolio investments sold to Rio Debt Holdings (Ireland) Limited and for all other own securitisation positions of IKB. Moreover, this Central Division is responsible for administering the assets of Rio Debt Holdings (Ireland) Limited, as well as meeting the extensive contractual commitments of IKB in connection with the Rhineland Funding conduit ("Rhineland Funding")[1] and the Havenrock Limited and Havenrock II Limited special purpose entities[2]. This Central Division is also responsible for reporting on these transactions in the context of overall risk management at IKB.

[1] This refers to Rhineland Funding Capital Corporation LLC, Delaware, ("RFCC") and various purchasing companies based in Jersey and Delaware. These legally-independent special purpose entities invested in similar securitised financial instruments both in terms of the underlying credit portfolios and the ratings. IKB serves in an advisory capacity for RFCC and the purchasing companies.

[2] These two legally-independent special purpose entities secured 25% of the liquidity risk for two providers of liquidity to Rhineland Funding and their total credit risk, which was based on a utilisation of the liquidity facilities. IKB acts as an administrator for the Havenrock entities.

Market price risk and liquidity monitoring. The Market Price Risk Controlling and Operations Central Division is responsible for calculating and analysing market price risks in the non-trading and trading book on a daily basis, monitoring compliance with the limits for market price and liquidity risks prescribed by the Board of Managing Directors and reporting on market price risk positions. Moreover, the examination and improvement of models and procedures used to measure financial instruments as well as ongoing monitoring and reporting in terms of liquidity risk is also carried out by the Market Price Risk Controlling and Operations Central Division.

Monitoring earnings development and capital resources. The Financial Controlling Central Division prepares monthly performance analyses for existing and new business in the context of performance controlling, where deviations in the net assets and results of operations from the projected figures are identified and analysed. This ensures that business risk is continually monitored and reported.

In addition, the Financial Controlling Central Division is responsible for capital controlling as well as integrated capital planning and monitoring within IKB, taking into consideration regulatory and economic aspects.

Operational Risk Management. Operational Risk Management is responsible for Group-wide monitoring of operational risk. In addition to identifying, analysing and reporting on operational risk, this also includes developing and establishing methods for measuring operational risk in the IKB Group. Central Operational Risk Management is supported by local Operational Risk managers in the segments, subsidiaries and Central Divisions.

Compliance activities are integrated into the Legal Central Division. These activities are coordinated by the newly appointed Chief Compliance Officer, who will carry out these activities in addition to his responsibilities as Head of the Office of the Board of Managing Directors and Corporate Governance Officer.

Internal Audit. The Group Audit Central Division is organised as a process-independent part of the risk management system and the internal control processes in accordance with the Minimum Requirements for Risk Management (MaRisk). Group Audit acts on behalf of the entire Board of Managing Directors as an independent body, with no obligation to follow instructions, and reports directly to the Chairman of the Board of Managing Directors. All activities and processes across the Group are examined on the basis of process-oriented checks. Here, emphasis is placed on particularly risk-sensitive processes and quantitative methods as well as IT processes in the lending and trading business. There is also a focus on loan reviews on a case-by-case basis. Group Audit also carries out special audits as required by order of the Board of Managing Directors. The Board of Managing Directors is given ongoing reports on the audit findings. In its annual report, Group Audit informs the Board of Managing Directors of the significant and serious audit findings and their processing status in summarised format. The member of the Board of Managing Directors responsible for Group Audit then informs the Supervisory Board of current developments and results at least once a year.

Regulatory capital resources and risk-bearing capacity

Regulatory capital resources. The Bank calculates regulatory capital resources for the 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: maturity-based method, option risks: delta-plus method).

The following table provides an overview of the Bank's regulatory risk items, equity base and equity ratios:

At a Bank Group level (Section 10a KWG)

Regulatory capital situation	As at 31 March 2009 in € million	As at 31 March 2008 in € million	As at 31 March 2007 in € million
Risk-weighted assets	24 718	30 269	32 747
Market risk equivalent	613	795	750
Operational risk	1 324	1 330	–[2]
Risk position	**26 655**	**32 394**	**33 497**
Tier I capital	2 276	1 941	2 435
Tier II capital	1 245	1 191	1 726
Tier III capital	35	45	9
Deductions[1]	–236	–18	–88
Equity capital	**3 320**	**3 159**	**4 082**
Tier I ratio in %	8.1	6.0	7.1
Overall capital ratio in %	12.5	9.8	12.2

[1] Deductions as at 31 March 2009 were predominantly made up of securitisation positions, which are included in risk-weighted assets at a risk weighting of 1,250% in accordance with SolvV (German Solvency Regulation), and participations in accordance with Section 10 (6) Sentence 1 No. 1 KWG
[2] First calculated as at 1 January 2008

At 8.1%, the Tier I ratio at Group level is higher than the regulatory minimum of 4.0%. Similarly, the overall capital ratio of 12.5% is higher than the regulatory minimum overall capital ratio of 8.0%.

As a result of the capital increase of € 1.25 billion which was entered into the commercial register on 24 October 2008 and has been included in Tier I capital since this date, the Tier I ratio and the overall capital ratio have significantly increased. The Board of Managing Directors expects it to be possible to meet both statutory minimum requirements and the minimum requirements imposed by SoFFin and the Auditing Association of German Banks (including Tier I ratio of 8%) in the future.

The decline in risk-weighted assets as at 31 March 2009 is the result of the sale of portfolio investments on the one hand, and scheduled repayments at the same time as limiting new business on the other.

Risk-bearing capacity. Risk-bearing capacity and the use of capital resources with the aim of creating an adequate risk-yield ratio at Group level form the basis of risk management. In order to monitor risk-bearing capacity, as well as monitoring regulatory minimum capital resources and targeted ratios for regulatory capital resources, the level of risk cover available is compared with overall Bank risk (economic capital requirements) measured according to business methods both from an equity capital provider perspective (going concern approach) and from a lender perspective (liquidation approach). In so doing, systematic improvements have been carried out in comparison to the previous year, both for calculating the level of risk cover and quantifying risk.

From an equity capital provider perspective, only capital components which exceed a benchmark specified by the Bank subject to risk-weighted assets (benchmark capital) can be used as risk cover. Hybrid capital components such as profit participation certificates and silent partnership contributions are only included proportionately depending on the respective eligibility for cover. Added to this is the operating pre-tax result expected for the next twelve months. Interest-driven hidden charges from closed positions are deducted from the risk cover; all other interest and volatility-driven hidden charges, which may be realised in the next five years according to the Bank's assessment, are also deducted from the risk cover. Here, the five-year horizon has been selected in accordance with the medium-term earnings planning horizon of the Bank. Spread-driven hidden charges for securities held as fixed assets have to a large extent not been taken into consideration as these are intended to be held in the long term. If hidden charges are attributable to securities to be sold in connection with the implementation of EU requirements, these hidden charges are deducted from risk cover.

From the perspective of a non-subordinated lender, the expected pre-tax result, all capital components, including silent partnership contributions, profit participation certificates and subordinated liabilities are available as risk cover. However, almost all interest, volatility and spread-driven hidden charges in the securities portfolios are deducted from the risk cover here. It is only credit spread-driven hidden charges from structures similar to the credit book, such as promissory note loans, which are not taken into consideration.

Risk cover components[1)]

Equity capital provider perspective in € million		Lender perspective in € million	
Share capital, reserves[2)]	3 386	Share capital, reserves[2)]	3 386
Net retained profits/loss carryforward	–1 380	Net retained profits/loss carryforward	–1 380
Section 340g special reserve	190	Section 340g special reserve	190
Planned operating result	–185	Planned operating result	–185
Hidden charges[3)]	–377	Hidden charges[4)]	–1 188
"Tier I capital"	**1 634**	**"Tier I capital"**	**823**
Pro rata profit participation certificates and silent partnership contributions	386	Profit participation certificates and silent partnership contributions	621
		Subordinated capital	535
Benchmark capital	**–1 333**		
Risk cover	**687**	**Risk cover**	**1 979**

1) Information gained and market development up to 19 June 2009 taken into consideration.
2) Including € 225 million former subordinated capital which has since been converted into Tier I capital.
3) All interest-driven hidden charges from closed positions and interest and volatility-driven hidden charges which are expected to be recognised in the income statement in the next 5 years. Credit spread-driven hidden charges only to be expected to the extent of realisation in the next 5 years. No hidden charges from loan refinancing.
4) All hidden charges (interest, volatility and credit spread-driven) included with the exception of hidden charges in loan refinancing.

The Group's economic capital requirements in order to cover "unexpected" counterparty default risk, market price risk and general business and operational risk are determined using the Bank's own models. Economic capital is not calculated for liquidity, reputational or participation risks; however, these are also subject to ongoing monitoring. The Group's economic capital requirements in order to cover "unexpected" counterparty default risk, market price risk and general business and operational risk are determined using the Bank's own models. Economic capital is not calculated for liquidity, reputational or participation risks; however, these are also subject to ongoing monitoring.

In order to calculate "unexpected" counterparty default risk ("expected" counterparty risk is accounted for in risk provisioning planning), the Bank applies a self-developed credit portfolio model (see also "Quantifying the credit risk"). Compared with the previous method, which was based solely on stressed variables (particularly higher probabilities of default, forecast losses and assumptions on correlation) as a result of the Bank's crisis, statistical parameters adjusted if necessary by means of appropriate mark-ups or deductions in line with the risks involved to take into consideration changes to be expected (e.g. economic factors) have been applied in calculating counterparty default risk since mid-2008. Against the backdrop of the current economic situation, the Bank has almost doubled the statistically calculated probabilities of default, for example, on the basis of economic analyses.

Market price risk is calculated as the integrated value at risk (VaR) assuming a holding period of one year (previous method: 10 days plus a separate fair value performance limit in the form of a discount in risk cover for management interventions) for the entire portfolio of the Bank, taking into account all relevant risk factors (interest, exchange rates, credit spread, volatility).

The value at risk in the market price risk is calculated using historical simulation. IKB regards market development between the Lehman insolvency in September 2008 and the end of the 2008 calendar year as an extraordinary stress scenario. As IKB assumes that there will not be another bank failure of a similar magnitude and therefore that there will not be comparable market trends, IKB calculates the VaR of the market price risk for the risk-bearing capacity excluding the above period of time on the basis of 430 working days.

A 20% discount on the value at risk calculated is applied for the option of management interventions. Credit spread risks from loans and corporate promissory note loans in fixed assets are generally excluded from market risk calculations for risk-bearing capacity based on the fact that these assets are similar to loans and the Bank's intentions to hold these in the long term.

Furthermore, while credit spread risks from fixed assets securities are not included from an equity capital provider perspective, since the Bank generally intends to retain these positions beyond one year, these are included in full from a lender perspective.

As at 31 March 2008, operational risk was still calculated using a simplified basic indicator approach in conjunction with an additional stress factor (+200%). Under the new method, VaR quantification is also performed using a Monte Carlo simulation based on loss allocation.

There were no changes to the method applied in calculating business risk. It is based on an historical observation of the quarterly deviations between the targeted and actual interest and fee/commission income and the observed deviations in administrative expenses.

In the following, the risks quantified for a risk horizon of one year for the available risk cover are compared from the perspective of an equity capital provider and from the perspective of a non-subordinated lender.

Equity capital provider perspective

Economic capital requirements – equity capital provider perspective at a confidence level of 90%

	31 March 2009		31 March 2008	
	in € million	in %	in € million	in %
Counterparty default risk	321	60	177	36
Market price risk[1)]	115	22	227	46
Operational risk	30	6	29	6
Business risk	67	12	62	12
Total	**533**	**100**	**495**	**100**
Minus diversification effects	–121		–138	
Overall risk position	**412**		**357**	
Risk cover	**687**		**1 058**	

[1)] Information gained, market developments and total sales from 1 April to 19 June 2009 are included in the above table; market risk not including extreme market development from mid-September 2008 to the end of 2008 and credit spread risks for fixed asset securities.

If market development in the period of time between the Lehman insolvency in September 2008 and the end of the 2008 calendar year is included, the market price risk increases from € 115 million to € 145 million. By also including credit spread risks for fixed asset securities, the aforementioned figures would increase to € 133 million and € 223 million respectively.

This increase in total risk by € 55 million is primarily attributable to counterparty default risk, which has increased from € 177 million to € 321 million as a result of probabilities of default having almost doubled.

It was only possible to offset this with the decline in market price risk to a certain extent. The fall in market price risk has resulted from the reduction in the interest rate risk by means of concluding hedge swaps and selling a structured security position, which until now has contributed significantly to the volatility risk of the Bank.

At the same time, the available risk cover has also considerably declined, primarily as a result of the loss incurred in the 2008/09 financial year.

Lender perspective

The following table shows economic capital requirements from the perspective of a non-subordinated lender. As at 31 March 2008, the Bank still used a confidence level of 99.96% as a basis (2008 old method). The selection of this confidence level resulted from the Bank's then target rating of "A" (single A). However, once the financial crisis began, this dropped to "BBB–".

As the Bank assumes that it will not be possible to achieve an external rating of “A” in the next few years due to the uncertainty as to the extent, duration and effects of the current financial market crisis, risk has been quantified at a confidence level appropriate to the current “BBB” rating of 99.76%.

Economic capital requirements – lender perspective

	31 March 2009		31 March 2008			
	New method		New method		Old method[1]	
	in € million	in %	in € million	in %	in € million	in %
Counterparty default risk	1 141	58	726	48	1 206	67
Market price risk[2]	609	31	559	37	169[3]	9
Operational risk	84	4	84	6	277	15
Business risk	129	7	136	9	156	9
Total	**1 964**	**100**	**1 505**	**100**	**1 808**	**100**
Minus diversification effects	–243		–202		Complete intercorrelation assumed	
Overall risk position	**1 720**		**1 303**		**1 808**	
Risk cover	**1 979**		**3 837**			

[1] 99.96% at stressed parameters
[2] Information gained, market developments and total sales from 1 April to 19 June 2009 are included in the above table.
[3] 10-day VaR without credit spread risks

If the full market history was applied (stress scenario), the market price risk would increase from € 609 million to € 1,053 million.

The increase in counterparty default risk as at 31 March 2009 compared with 31 March 2008 (new method) is the result of probabilities of default having almost doubled in view of the current recession. Therefore, counterparty default risk is now around the level of the scenario regarded to date as a “stress case”.

The year-on-year increase in market price risk is based on the fact that credit spread risks are now fully included and that historical simulation has been introduced to measure risk for the portfolio as a whole.

The available risk cover has also considerably declined, primarily as a result of the loss incurred in the 2008/09 financial year and the increase in credit spread-driven hidden charges.

As a result, the Bank has prepared various forecast calculations for the next three financial years. The basis for these forecast calculations is various stress scenarios as well as the business plan for the Bank. As a result of this, it must be ensured that when the business plan is effective, the risk-bearing capacity for the next three financial years is in place without qualification. Analysis of stress scenarios shows that even if business performance is below that given in the business plan, the risk-bearing capacity will be unchanged due to the risk cover which will have diminished as a result of this. However, there is no further buffer available to cushion further risks. In the event of a significant expansion of the current recession beyond 2010 and yet another severe impact on the capital market such as it was forced to witness after the collapse of the Lehman Brothers Bank, there would no longer be available risk-bearing capacity.

Counterparty default risk

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

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

Credit risk strategy. The credit risk strategy provides the framework for the focus of the lending business at IKB. In the current financial year, the credit risk strategy has been revised in view of the compensatory measures resolved upon by the EU and the altered economic situation. New business has been significantly restricted in consideration of the EU decision. For example, new business in Real Estate Finance and on the US market is only permitted within limits approved by the EU. Portfolio investments are not permitted, with the exception of restructuring the existing portfolio.

In order to accommodate the management of concentration and cluster risks, it is particularly important to maintain a diverse range of target groups and products.

The provisions included in the credit risk strategy are put into operation by means of “Guidelines on the management of individual credit risks”.

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

Following voting by the front office, all credit decisions – with the exception of minor decisions concerning existing exposures – are made either centrally by the person holding powers of approval within the Credit Management and Controlling Central Division or by the Board of Managing Directors within the scope of approval power regulations. This is subject to the size of the Group's existing credit exposure, the credit rating of the borrower, the collateral, the term and, not least, the existing and planned portfolio structure. The dual-control principle is always observed in this process.

Loan disbursement and contract implementation are also carried out by Legal employees of the Legal Division who operate independently of the front office.

The basis for every credit decision is a detailed credit analysis which shows and evaluates all information relevant to the decision, and documents this clearly in a decision paper. In this regard, a self-developed instrument, the "Portfolio Adviser", is used for portfolio management in the decision-making process, both at an individual transaction level and an exposure level. Various risk factors are calculated on the basis of the customer credit rating and transaction-specific features, such as the term and collateral, as well as portfolio-related ratios in order to provide important stimulus in the context of portfolio management as soon as new business is acquired. At the same time, a great deal of importance is attached to the mobility of loans, i.e. their eligibility for outplacement, as the synthetic securitisation of loan receivables plays an important role in portfolio management.

Credit decisions regarding securitisation, portfolio investments and other structured loan products are made either by the person holding powers of approval in the Securitisation Structure Management Central Division or by the Board of Managing Directors within the scope of existing approval power regulations. The dual-control principle is also always observed in this process.

Existing credit exposures are generally reviewed every twelve months by means of appropriate processes and approval procedures in the same way as new credit decisions. Furthermore, individual sub-portfolios and key individual exposures are analysed with regard to their risk situation and exposure strategies derived during annual meetings held between Credit Risk Management and the segments. Regular portfolio analysis and valuation for all securitisations, portfolio investments and other structured loan products are carried out by the Securitisation Structure Management Central Division.

Rating process and procedures. The central element of the entire credit process are customer and investment credit assessments. The selection of business partners and investments is made feasible in terms of operations by means of requirements in respect to creditworthiness and collateral provided for exposures given in the credit guidelines.

IKB uses IT-supported rating procedures which are tailor-made to the respective customer segment or the specific finance type to carry out credit assessments. In each procedure, the model-specific risk parameters are consolidated in the result. In this way, each customer is assigned to a rating class within an 11-tier internal scale ranging from 1.0 (best rating) to 6.0 in increments of 0.5. The individual rating classes are assigned probabilities of default based on the analysis of historical defaults and economic expectations. Therefore, in the 2008/09 financial year, the Bank has adjusted its industry ratings taking into account its own economic analysis regarding the potential effects of the current recession. It has also set probabilities of default for all rating classes at almost twice as high as they have been observed on average over the past few years.

Corporate financing. In the case of corporate financing, the company uses the “IKB-Mittelstandsrating” (IKB rating system for SMEs) which assesses the economic situation of the borrower based on financial ratios using mathematical and statistical processes. Individual customer and industry characteristics (qualitative factors) are taken into consideration by means of expert opinions.

Project and special financing. Specific features for project and special financing are accommodated by means of special rating procedures. Since the focus here is on the amount and sustainability of the cash flow for servicing interest payments and repayments which arise during the project duration, IKB applies models which allow an assertion to be made as to the debt service capacity by means of various scenarios and simulations. This quantitative assessment is supplemented by additional qualitative consideration of sponsors, operators, sales and procurement markets as well transaction specifics. The Bank uses an enhanced procedure based on the “IKB-Mittelstandsrating” for acquisition financing.

Real estate financing. The real estate rating procedure applied in the context of commercial real estate financing rates creditworthiness on the basis of a variety of specific property data and investor information. This includes not only detailed information on the location and nature of the property, but also information on the tenant structure and creditworthiness, the property’s financial capacity to repay the loan from the cash flow generated as well the individual credit rating of the investor taking into consideration assets and liquidity.

Country risks. Country ratings are determined using economic data and ratios regarding the economic development of the country and its solvency in conjunction with a qualitative assessment of the political and social situation in the country. International databases, country reports and other external sources are used as sources of information.

Quantifying the credit risk. An internally developed model is used to quantify counterparty default risk for the traditional lending business, which generates a distribution of potential credit losses, taking into consideration fluctuation ranges for statistical default probabilities. As well as individual loan/investment information (loan/investment amount, collateral, duration, industry allocation, rating), a number of statistical figures based on internal Bank experiences or external reference figures are also entered into this model, such as probabilities of default, recovery rates and industry/asset correlation.

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

Portfolio monitoring and management. When monitoring portfolios, the central focus is on examining the entire credit portfolio. The Economic Research Central Division is responsible for promptly observing sector and market changes. This Central Division's extensive sector expertise is an important component of the cluster analyses carried out in the context of risk management. The aim here is to recognise and limit sector risks in the lending business as early as possible, taking into consideration expected developments.

Regular monitoring by the Limit Committee, which comprises representatives from the Economic Research and Credit Risk Management and Controlling Central Divisions and the segments, is the starting point for determining concentration limits, which are oriented towards business policy target figures and risk policy guidelines. Volume and risk contribution limits are determined for individual economic sectors based on existing structures and in due consideration of identified sector risks and economic influences. In addition, upper limits for individual loans and loans to company groups are defined in order to avoid concentration risks.

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

As a result of the current situation on the financial markets, a white list of counterparties with whom transactions may still be carried out has been prepared, in particular to limit the risk of default. This list is currently monitored on a daily basis and adjusted if necessary. Payments to banks may only be executed following the approval of the Credit Risk Management and Controlling Central Division.

Structure of counterparty default risk. For internal reporting purposes, the Bank has calculated the credit volumes as of 31 March 2009 and 31 March 2008 as follows:

Credit volume	31 March 2009 in € million	31 March 2008 in € million	Change in € million
Loans to banks	23	30	–7
Loans to customers	25 678	26 844[1]	–1 166
Portfolio investments, corporate and government bonds	4 201	5 717	–1 516
Operating and finance leases	2 101	1 951	+150
Contingent liabilities, CDS and guarantees	1 283	3 100	–1 817
Total credit volume	**33 286**	**37 642**	**–4 356**
Other significant counterparty default risks outside the credit volume			
Loans and advances to banks	2 957	2 821	+136
Assets held for trading	3 680	3 572	+108
Investment securities	6 088	7 188	–1 100
Committed credit facilities	2 932	4 436	–1 504

[1] As a result of a correction to amortisation, loans and advances to customers from the previous year have been reduced by € 25.3 million (included in accordance with IAS 8). However, the previous year values for the credit volume have not been changed for reasons of comparability.

Since the start of the financial year, the overall credit volume has declined by approximately € 4.4 billion. The decline in the case of portfolio investments as well as corporate and government bonds results in particular from the sale of portfolio investments, the settlement of receivables against KfW from the risk shielding measures and ongoing fair value losses.

Exposures in the Corporate Clients and Real Estate Clients segments also declined, whereas a slight increase – particularly abroad – was posted in the Structured Finance segment as a result of lower repayments.

The decline in contingent liabilities, CDS and guarantees is predominantly due to the disposal of CDS.

The counterparty default risk positions which are not allocated to the credit volume primarily relate to short-term loans and advances to banks, bonds – mainly mortgage bonds – and committed credit facilities.

Size[1] in € million	31 March 2009 Credit volume		Number[1]	31 March 2008 Credit volume	
Under € 5 million	5 666	17%	21 026	6 059	16%
Between € 5 million and € 10 million	3 748	11%	507	3 840	10%
Between € 10 million and € 20 million	5 195	16%	384	5 077	13%
Between € 20 million and € 50 million	4 414	13%	156	4 635	12%
Over € 50 million	3 124	9%	31	3 700	10%
Total	**22 147**	**67%**	**22 104**	**23 311**	**62%**
Risk transfers[2]	9 811	29%	168	9 965	26%
Market segments (total)	**31 957**	**96%**	**22 272**	**33 276**	**88%**
Under € 50 million	586	2%		2 198	6%
Between € 50 million and € 100 million	294	1%		594	2%
Over € 100 million	449	1%		1 574	4%
Portfolio Investments segment	**1 329**	**4%**		**4 366**	**12%**
Group (total)	**33 286**	**100%**		**37 642**	**100%**

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

[1] Borrower groups in accordance with section 19 KWG; number of borrower groups
[2] Hermes guarantees, indemnifications, risks transferred

In the size group “Over € 50 million”, the average exposure amount for the market segments declined from € 105.7 million to € 100.8 million.

The credit volume in the Portfolio Investments segment, which has decreased from € 4.4 billion to € 1.3 billion since the start of the financial year, consists of

- € 0.6 billion in assets with a nominal value of € 2.7 billion transferred to the special purpose entity Rio Debt Holdings (Ireland) Limited with a residual risk for IKB of € 0.1 billion,
- € 0.55 billion in portfolio investments not sold to Rio Debt Holdings (Ireland) Limited which are predominantly being wound up, and which no longer contain any subprime risks, and
- € 0.15 billion in risks covered by KfW.

Collateral, risk transfer and securitisation. The provision of cover by means of classic collateral (property liens, transfers of ownership and guarantees) is still of great importance for the traditional long-term lending business at IKB. The carrying amounts for collateral used for security in the classic lending business are continually checked and updated.

Collateral in € million	31 March 2009 Credit volume		31 March 2008 Credit volume	
Property liens and charges	7 191	22%	8 245	22%
Transfers of ownership	2 562	8%	2 460	7%
Other collateral[1]	7 172	22%	6 753	18%
Without collateral	5 222	16%	5 853	16%
Total	**22 147**	**67%**	**23 311**	**62%**
Risk transfers[2]	9 811	29%	9 965	26%
Market segments (total)	**31 957**	**96%**	**33 276**	**88%**
Portfolio Investments segment	1 329	4%	4 366	12%
Group (total)	**33 286**	**100%**	**37 642**	**100%**

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

[1] E.g. assignment of receivables, participation rights, assignment of shares, ownership rights, subordinations, fixed and floating charges, mortgage over shares

[2] Hermes guarantees, indemnifications, risks transferred

Not least as a result of the decrease in real estate financing, the credit volume secured by property liens and charges decreased since the beginning of the financial year by approximately € 1 billion. The approximately € 0.4 billion increase in volume backed by other collateral is the result of expanded volume in the Structured Finance segment.

Risk limitation is supported by the collateral provided by risk transfer. In total, approximately € 22 billion has been transferred by means of synthetic securitisation since 2001. Risks currently transferred to third parties, which total € 9.8 billion, include loans for which the default risk has been assumed by other banks or public authorities, as well as the synthetic transfer of loan receivables. The Bank is secured against counterparty default risks by means of synthetic securitisations, although these are still reported in the balance sheet and continue to be managed by IKB. At the reporting date, the utilisation of these loans totalled € 6.6 billion, of which € 5.0 billion accounts for loans for which the Bank has only retained first loss risks of € 14 million. Loans with a volume of € 1.6 billion relate to risk transfers, for which only the expected, and parts of the unexpected, loss in the amount of € 39 million have been transferred. This subordination is currently still seen as sufficient on the basis of expected values, even under recession conditions.

Geographical structure. As at 31 March 2009, the total credit volume can be broken down by regions as follows:

Regions in € million	31 March 2009 Credit volume		31 March 2008 Credit volume	
Germany	13 407	40%	15 231	40%
Western Germany	11 258	34%	12 543	33%
Eastern Germany	2 149	6%	2 688	7%
Outside Germany	8 739	26%	8 080	21%
Western Europe	6 516	20%	6 063	16%
North America	1 180	4%	1 098	3%
Other	1 043	3%	919	2%
Total	**22 147**	**67%**	**23 311**	**62%**
Risk transfers[1]	9 811	29%	9 965	26%
Market segments (total)	**31 957**	**96%**	**33 276**	**88%**
Portfolio Investments segment	1 329	4%	4 366	12%
Group (total)	**33 286**	**100%**	**37 642**	**100%**

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

[1] Hermes guarantees, indemnifications, risks transferred

The approximately € 0.7 billion increase in credit volume outside Germany took place primarily in Western Europe (€ +0.5 billion) with a focus in Italy, France and Spain. Approximately € 0.7 billion applies to Central and Eastern Europe, of which approximately half was for equipment leasing and corporate and export financing.

Breakdown of the country lending obligations according to the IKB country rating

Country ratings[1] Credit volume in € million	31 Mar 2009 Total[2]	Rating				
		1–1.5	2–2.5	3–3.5	4–4.5	5–6
Outside Germany	8 739	8 078	349	254	54	4
Western Europe	6 516	6 361	155	0	0	0
North America	1 180	1 180	0	0	0	0
Other	1 043	538	194	254	54	4

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

[1] Excluding risks transferred to third parties; higher credit ratings reflect higher risk levels

[2] Export credit guarantees are deducted from the figures presented above. No other adjustments for collaterals are made.

92% of the credit volume attributed to countries outside Germany were to be assigned to the two best country risk classes, 1 and 1.5. In addition, risk transfers (e.g. secured by Hermes) of € 0.7 billion accounted for borrowers outside Germany.

The utilisation of loans and advances reported under risk classes 5.0 to 6.0 relates almost exclusively to Iran. IKB was impacted by the Iceland crisis with only a single-digit loss in millions.

Country risks are included implicitly in the rating procedure of the Bank and when calculating impairments for significant receivables. Separate country risk provisioning based on country exposures is not included.

Sector structure. In order to measure sector risk, IKB regularly carries out a rating process for approximately 370 sectors. In the past financial year, this led to some considerable rating adjustments for individual borrowers, taking into consideration economic development in individual sectors. This procedure is based on an econometric model which incorporates both macroeconomic national and international developments and sector interrelations. The expertise of the sector specialists in the Economic Research department of the Bank are deployed here.

Sectors in € million	31 March 2009 Credit volume		31 March 2008 Credit volume	
Industrial sector	15 791	47%	16 476	44%
Mechanical engineering	1 365	4%	1 261	3%
Energy supply	1 267	4%	1 086	3%
Chemical, coal and oil processing	869	3%	750	2%
Transport support services	850	3%	760	2%
Metal manufacturing	831	3%	786	2%
Retail (excluding motor vehicles)	817	2%	993	3%
Services	813	2%	895	2%
Trade mediation	716	2%	674	2%
Food/beverages and tobacco	622	2%	764	2%
Health and community care	614	2%	729	2%
Manufacturing of vehicles and parts	559	2%	663	2%
Other (under € 550 billion)	6 468	19%	7 116	19%
Real estate	3 256	10%	3 779	10%
Financial sector	989	3%	1 039	3%
Public sector/banks	2 110	6%	2 017	5%
Total	**22 147**	**67%**	**23 311**	**62%**
Risk transfers[1)]	9 811	29%	9 965	26%
Market segments (total)	**31 957**	**96%**	**33 276**	**88%**
Portfolio Investments segment	1 329	4%	4 366	12%
Group (total)	**33 286**	**100%**	**37 642**	**100%**

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

[1)] Hermes guarantees, indemnifications, risks transferred

The Bank continues to demonstrate a high degree of diversity in terms of industrial sectors, with no single sector representing more than 5% of its total lending portfolio. Half of real estate financing is attributable to office property. The rest is distributed almost equally between the other property types.

In order to be able to introduce risk reduction measures in the sense of early detection of risks and active risk management, various special analyses were carried out in the reporting year on the portfolio in sectors we believed to require critical evaluation. For example, early detection measures were implemented for the automotive sector in particular, which has been particularly affected by the weakened economy. The risks identified as a result have been taken into account in the context of risk provisioning.

Credit rating structure: market segments. The total credit volume without the Portfolio Investments segment is broken down into internal rating classes as follows:

Credit rating structure[1] in € million	31 March 2009 Credit volume		31 March 2008 Credit volume	
1–1.5	4 745	15%	5 633	17%
2–2.5	7 159	22%	7 734	23%
3–3.5	5 055	16%	5 386	16%
4–4.5	2 017	6%	2 000	6%
5 and above[2]	439	1%	536	2%
Problem exposures[3]	2 732	9%	2 021	6%
Total	**22 147**	**69%**	**23 311**	**70%**
Risk transfers[4]	9 811	31%	9 965	30%
Market segments (total)	**31 957**	**100%**	**33 276**	**100%**

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

[1] Higher rating classes reflect lower creditworthiness
[2] Adjustment of previous year's figure, as € 379 million was attributable to the problem exposures categoryn
[3] Carrying amounts, i.e. after deducting losses from impaired financial assets 31 March 2009: € 156 million; 31 March 2008: € 43 million. €
[4] Hermes guarantees, indemnifications, risks transferred

The credit rating structure of the entire portfolio is characterised by a moderately negative migration across almost all credit rating classes. In addition, the decline in credit volume for rating classes 1-1.5 and 2-2.15 is the result of a worsened average industry classification resulting in weaker internal ratings overall. The Bank expects there to be a noticeable deterioration in the credit rating structure in the 2009/10 financial year as a result of the recession.

Identification and management of problem exposures. All credit risk-carrying positions are constantly monitored. The management of problem exposures is carried out in specialised management units. The aim of this special management is to take viable action in good time by means of close monitoring, in order to maintain the company's ability to survive or, in the event that these endeavours fail, to reduce the economic damage. In view of current economic development, the Bank has again expanded its monitoring by not only placing a particular focus on non-performing loans, but also by flagging as problem exposures all exposures for which ongoing impairments are not expected, but which require special management by the units specialising in settlement or restructuring on the basis of available information. In addition, the criteria for classification as a (non-impaired) problem exposure have been expanded in the course of the reporting year.

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

Problem exposures[1)] **Market segments**	31 March 2009 Credit volume in € million	31 March 2008 Credit volume in € million	Change	
			in € million	in %
Impaired (non-performing loans)	2 138	1 669	+469	+28
Non-impaired	751	395	+356	+90
Total	**2 889**	**2 064**	**+825**	**+40**
As % of market segments credit volume	9.0%	6.2%		

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

1) Carrying amounts including losses from impaired financial assets (31 March 2009: € 156 million, 31 March 2008: € 42 million).

The problems exposures do not include a volume of € 459 million relating to loans of IKB CC held for sale. For these loans, individual loan loss provisions of € 28 million were calculated on the basis of current market price indications. There is no acute risk of default. The sale is expected to be completed shortly.

3 A loan is classified as non-performing if (i) insolvency proceedings have been initiated, (ii) interest or principal payments are more than 90 consecutive days in arrears, or (iii) there are other clear signs that the debtor is unable to meet the respective contractual obligations in the absence of any objective indications of subsequent payment or the realisation of collateral. The liquidation value of the available collateral is taken into account in such cases.

The following table provides an overview of the loans and advances in the market segments that are classified as non-performing:

Non-performing loans Market segments	31 March 2009 Credit volume in € million	31 March 2008 Credit volume in € million	Change	
			in € million	in %
Germany	**1 245**	**1 364**	**–119**	**–9**
Western Germany	763	730	+33	+5
Eastern Germany	482	635	–153	–24
Outside Germany	**472**	**107**	**+365**	**+341**
Impaired (non-performing) loans	**1 717**	**1 471**	**+246**	**+17**
Securities (impaired financial assets)[1)]	**421**	**198**	**+223**	**+113**
Non-performing loans (total)	**2 138**	**1 669**	**+469**	**+28**
As % of market segments credit volume	**6.7%**	**5.0%**		

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

[1)] Carrying amounts plus losses from impaired financial assets (31 March 2009: € 156 million; 31 March 2008: € 42 million)

The increase in non-performing loans is particularly attributable to acquisition financing outside Germany and an increase in permanently impaired financial assets in the market segments. The main reason for the latter are first-to-default securities at a country level, which have been classified as permanently impaired based on the current market spreads in the wake of worsened country ratings.

The decline in non-performing loans in Germany is due exclusively to the ongoing reduction in problem exposures in Eastern Germany, whereas there has been an increase in Western Germany.

Risk provisions. Risk provisions in the form of a value adjustment are recognised for possible loan losses from an anticipated permanent impairment of the loan. For contingent liabilities, a provision is recognised in the event of threatened utilisation. Risk provisioning is also recognised in the form of a provision for permanent impairment of CDSs as well as for CDSs embedded in CLNs.

When measuring the value adjustment required, IKB takes into consideration both expectations with regard to future cash flows and the value of the respective collateral. The Credit Risk Management and Controlling Central Division in IKB AG and IKB S.A. is responsible for setting value adjustments, which judges each case on an individual basis, assesses the restructuring strategy and carries out an estimate of the expected incoming payments. In the subsidiaries IKB Leasing GmbH, IKB CC and IKB Private Equity, the subsidiaries are responsible for determining value adjustments.

In the reporting period from 1 April 2008 to 31 March 2009, the provision for possible loan losses was € 590 million, significantly above the previous year's level of € 255 million. In the Structured Finance segment in particular (2008/09: € 324 million; 2007/08: € 63 million), a significant increase in individual loan loss provisions was posted in acquisition financing both inside and outside Germany. The negative economic impact also resulted in an increase in portfolio value adjustments in the other segments. Consequently, the provision for possible loan losses posted an additional increase (2008/09: € 100 million, 2007/08: € –20 million). In addition, releases of individual loan loss provisions declined by approximately € 60 million.

Provision for possible loan losses

	1 April 2008 – 30 March 2008 in € million	1 April 2007 – 30 March 2008 in € million	Change in %
Additions to individual loan loss provisions/accruals	549.0	391.5	+40
Direct write-downs	11.9	11.5	+3
Receipts from loans written down	–7.9	–6.8	+16
Additions to/releases of portfolio allowances	99.8	–19.6	–
Releases of individual loan loss provisions/accruals	–63.2	–121.4	–48
Provision for possible loan losses	**589.6**	**255.2**	**+131**
Development of individual loan loss provisions/accruals			
Opening balance	801.5	1 019.3	–21
Utilisation	–399.9	–453.4	–12
Release	–63.2	–121.4	–48
Reclassification	–0.8	–0.7	–
Unwinding	–21.1	–32.9	–36
Additions to individual loan loss provisions/accruals	549.0	391.5	+40
Effect of changes in exchange rates	5.8	–0.9	–
Total individual loan loss provisions/accruals	**871.3**	**801.5**	**+9**
Portfolio allowances			
Opening balance	83.0	103.6	–20
Addition/release	99.8	–19.6	–
Effect of changes in exchange rates	1.8	–1.0	–
Total portfolio allowances	**184.6**	**83.0**	**+122**
Total risk provisions (including accruals)	**1 055.9**	**884.5**	**+19**

Risk provisions for the Bank's traditional lending business, including portfolio allowances, totalled € 1,056 million as at 31 March 2009. The risk provision cover of loans classified as impaired amounted to 49% (31 March 2008: 54%). This decline is due to the continued derecognition of commitments considered uncollectible for which a significant bad debt allowance had already been established in previous years.

Portfolio allowances. Portfolio allowances cover losses that have already been incurred but have not yet been identified individually. The Bank distinguishes between two sub-portfolios. One subportfolio relates to loans that for which there is no objective indication of an individual impairment, and the other for loans that have been identified as problem loans but an individual loan loss provision was not considered necessary as a result of their security and/or cash flow expectation.

The loss estimate is calculated on the basis of historical data and expert assessments. The time delay until an occurred loss is identified or recognised is taken into account by applying a scale factor for the time between occurrence of the loss event and its identification (loss identification period factor).

In determining the portfolio allowances in the reporting year, the parameters for estimating the probability of default were aligned to the default definition in line with Basel II. In addition, the probabilities of default established on the basis of historical values increased significantly in line with expectations for the economy.

The loss given default estimate was changed from a global recognition of historically observed default rates to determination on an individual loan basis taking into account the available collateral values. The higher loss ratios expected to result from this are considered by the Bank to be in line with the risks involved in view of the worse realisation expectations due to the general economy.

This gives the following increase effects totalling € 98 million in comparison to the calculation parameters used at the beginning of the financial year:

- Default definition in line with Basel II: € +37 million

- Increased default probabilities: € +34 million

- Calculation of LGD on individual loan basis: € +27 million

This change in estimate was applied prospectively in accordance with IAS 8.

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

Investments in structured credit products. As at 31 March 2009 the situation in portfolio and securitisation investments and other structured credit products of the Group was as follows:

The portfolio held by the special purpose entity Rhinebridge plc. was discontinued with effect from the end of July 2008. The commercial paper held by IKB was redeemed in the context of a portfolio sale agreement in return for a stake in the valuable Rhinebridge Assets. The ABS part of this asset was sold to a third party in August 2008; the majority of the remaining CDOs of ABS Investments were transferred to the special purpose entity Rio Debt Holdings (Ireland) Ltd. (see below) in December 2008.

In December 2008, in addition to the retained Rhinebridge Assets, a majority of the IKB AG portfolio investments and former ABS investments of IKB S.A. with a total nominal volume of € 2.7 billion was converted into the fully consolidated special purpose entity Rio Debt Holdings (Ireland) Limited – including € 1.0 billion synthetically by concluding total return swaps. From an accounting perspective, a disposal would not take place for either for IKB AG or for the IKB Group since IKB AG had assumed the first loss risk of US$ 243 million (€ 183 million) by issuing a junior loan to Rio Debt Holdings (Ireland) Ltd. The additional risk was assumed by KfW by a senior loan and by the Lone Star Group by a mezzanine loan. The total nominal liabilities of the special purpose entity to KfW and Lone Star amount to approximately € 0.7 billion.

Further IKB portfolio investments include four synthetic translations being wound up as a result of the Lehman insolvency with seven tranches and a volume of € 0.46 billion. In addition, at the balance sheet date, two synthetic transactions with six tranches and mixed reference assets (Corporates and ABS) with a total nominal volume of € 0.20 billion were held. In May 2009, these were restructured as reference assets to become credit-linked notes with companies and governments. Consequently, they were given a Baa2 rating. As a result, a compensation agreement with KfW relating to the original transactions was lifted by a corresponding compensation payment.

In addition to the above portfolio investments and a principal protected note with a nominal value of € 0.08 billion, securitisation positions in the amount of € 0.26 billion from the market segments and IKB CC which belong to the core strategic business of the Bank are still on the balance sheet. The following rating class distribution of portfolio investments is given for the IKB Group, including the investments transferred to Rio Debt Holdings (Ireland) Ltd.

Credit rating structure of the IKB Group portfolio investments*

	31 March 2009 Nominal amount in € billion**	31 March 2008 Nominal amount in € billion
Aaa	0.3	1.6
Aa	0.1	1.8
A	0.2	1.1
Baa	0.6	0.4
Ba/B	0.3	0.3
Sub B and no rating***	2.1	0.5
Total	**3.6**	**5.7**

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

* Moody's rating scale. Where two or more ratings are available, the less favourable rating is used.

** € 2.7 billion of the total € 3.6 billion total volume of portfolio investments relate to the company Rio Debt Holdings (Ireland) Ltd. The risk for IKB is limited to the first loss position of US$ 243 million. Risks in addition to the Rio portfolios are borne by Lone Star and KfW.

*** The category "Sub B and no rating" includes three synthetic translations with a volume of € 0.33 billion being wound up as a result of the Lehman insolvency. Despite the poor rating, the risks for IKB resulting from these transactions are limited to legal risks with regard to the wind-up process and the value of the available collateral. In addition, this category includes further transactions totalling € 0.2 billion for which the rating improved to Baa2 after 31 March 2009 as a result of restructuring.

The distribution of underlying assets for these structured credit products is as follows:

Underlying asset structure of the IKB Group portfolio investments

	31 March 2009*		31 March 2008	
Underlying portfolios	Nominal amount in € billion	in %	Nominal amount in € billion	in %
Corporates	1.2	32	2.7	46
ABS	2.3	62	2.3	41
thereof with sub-prime content**	1.6	44	1.8	32
ABS/Corporates mixed	0.2	5	0.7	13
thereof with sub-prime content	0.2	5	0.2	4
Total	**3.6**	**100**	**5.7**	**100**

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

* € 2.7 billion of the total € 3.6 billion total volume of portfolio investments relate to the company Rio Debt Holdings (Ireland) Ltd. The risk for IKB is limited to the first loss position of US$ 243 million. Risks in addition to the Rio portfolios are borne by Lone Star and KfW.

**Relates to a synthetic translation being wound up as a result of the Lehman insolvency. No further risks with regard to the exposure of this transaction arise for IKB.

€ 0.4 billion of the € 1.2 billion structured credit products with underlying corporate assets (CDOs of corporates and CLOs) relates to the rating classes Sub B. This includes six of the portfolio investments being wound up totalling € 0.3 billion. In addition, it includes approximately € 0.06 billion of the CLOs of IKB CC. Of the investments with underlying corporate assets, 49% of the reference companies are domiciled in North America (31 March 2008: 55%).

In addition to the structured credit products with underlying ABS assets totalling € 2.1 billion held by Rio Debt Holdings, a portfolio investment being wound up (CDO of ABS) totalling € 0.1 billion with a rating of Baa3 and a student loan ABS (€ 0.01 billion) with a rating of Aaa existed as at 31 March 2009. The majority (94%) of the underlying assets are located in North America (31 March 2008: 93%).

As at 31 March 2009, the investments in structured credit products with mixed underlying assets amounted to € 0.2 billion, which all relate to the rating class Sub B and no rating. These are the portfolio investments restructured in May 2009 (CDO2 of corporates and ABS). Of the mixed underlying assets, 48% relates to North America (31 March 2008: 41%).

In addition, five first-to-default notes with a value of € 0.2 billion are included in the IKB balance sheet. These notes include the default risks of several EU states and, in one case, also Japan.

Liquidity and market price risk

Liquidity risk

Liquidity and refinancing risk is the risk of IKB no longer being in the position to meet its payment obligations on schedule (liquidity risk) or to raise refinancing funds on the market at appropriate conditions (refinancing risk).

In the reporting period, the Bank has primarily covered its liquidity requirements by means of secured money market borrowing (cash and term deposits), carrying out securitisation transactions with its own lending business to generate ECB-eligible securities, participating in ECB tenders, selling liquid securities investments and promissory note loans and accepting customer deposits on a promissory note basis (see also "Significant events in the reporting period/other transactions"). Furthermore, the Bank received funds from the capital increase in October 2008.

Two secured liquidity facilities from KfW limited to March 2011 will also allow the Bank to raise up to € 3 billion. Part of these facilities has currently been utilised. In December 2008, the Bank received approved guarantees from the Special Fund for the Stabilisation of the Financial Market (Sonderfonds Finanzmarktstabilisierung – SoFFin) with a volume of € 5 billion in order to secure liquidity. The duration of the bonds issued here is limited to three years. On the basis of these guarantees, IKB issued two bonds each with a volume of € 2 billion and a duration of three years in January and March 2009, and a bond in the amount of € 1 billion in April 2009. On 3 July 2009, SoFFin declared its intention to IKB AG to make an additional guarantee volume of € 7 billion available, including the option to issue bonds with a duration of up to five years for a partial amount from this of € 3 billion. The Bank plans to use this guarantee gradually to issue corresponding

securities. The Bank also receives funds from public assistance programmes initiated by KfW and regional development authorities, which it uses to provide financing to its small and medium-sized corporate clients.

The volume of new client deposits taken on has also developed positively in the reporting period. The Bank intends to make use of this opportunity both now and in the future to refinance by means of liabilities guaranteed by the Deposit Protection Fund.

Depending on the development of its new business, the Bank expects its liquidity requirements to amount to between € 11 billion and € 12 billion over the next twelve months. In order to refinance these requirements, the main available options are SoFFin guarantees, drawing options at the ECB and within the KfW liquidity facilities as well as taking on liabilities guaranteed by the Deposit Protection Fund and selling assets within the scope of EU requirements.

Liquidity planning is based on a range of assumptions as to the above and other factors which can determine liquidity, both on the assets side and the liabilities side. In the event that a number of these assumptions do not come to fruition, this may result in liquidity risks. A market development may come into question here, for example, which allows neither assets to be sold, nor liabilities guaranteed by the Deposit Protection Fund to be extended.

Market price risk

Market price risk constitutes the risk of value changes resulting from fluctuations of parameters observable on the market (risk factors). The relevant risk factors for IKB include foreign currency, interest rate, credit spread, volatility (option price) and share price risk. Market price risks are managed at Group level.

IKB differentiates between the portfolios for own account trading, the investment portfolio (proprietary trading and liquidity reserve) and loan refinancing. The liquidity reserve constitutes investments which can be utilised at the Central Bank or in interbank business in order to generate liquidity at short notice. Loan refinancing covers the lending business, the credit substitute business (e.g. corporate bond and promissory note loan investments) and the non-subordinated refinancing instruments of the Bank. All portfolios are measured daily. Their risk content is measured in a present-value value at risk system, which forms the basis for limiting market price risks.

Interest rate risk. Interest rate risks exist in potential changes in value for asset or liability positions in the event of shifts in the risk-free interest rate curve. IKB applies a variety of instruments to manage and hedge this interest rate risk. It concludes transactions using these instruments, both in its trading book and non-trading book. Risks in the trading and non-trading book are measured and monitored using comparable methods.

The interest rate risk at IKB is particularly present in the investment portfolio.

Credit spread risk. Spread risk results from changes in the default and liquidity premiums over the risk-free interest rate that are priced into securities and derivatives.

The relevant spread risk at IKB comes particularly as a result of securities and promissory note loans in the investment portfolio, the first loss piece retained from the transaction with Rio Debt Holdings (Ireland) Limited and other portfolio investments remaining on the IKB balance sheet.

Volatility risk. Volatility risks exist in potential changes in value for option positions which have not been micro-hedged as a result of implicit volatility observable on the market or option prices. Remaining option writer positions are held, particularly in the investment portfolio of the Bank.

Foreign currency risk. Foreign currency risks result from fluctuations in the respective exchange rate with the euro. At IKB, currency positions essentially only exist in USD, GBP, JPY and CHF. Loans and advances denominated in foreign currencies, including their future income streams, are essentially hedged in full.

Quantifying market price risks. In order to quantify market price risk in the context of operating management and daily monitoring, the Bank applies a value at risk approach assuming a holding period of 10 days and a confidence level of 99%. The value at risk expresses the maximum loss in value for the portfolio of the Bank over a period of 10 days (holding period) which has a 99% probability (confidence level) of not being exceeded. The value at risk is calculated using historical simulation, taking into consideration all relevant risk factors (interest rates, volatility, exchange rates, spreads, share prices). In order to give consideration to the specific features of all products, a complete valuation of structured interest products takes place using historical market scenarios and incorporating correlation effects when carrying out historical simulation. For non-structured instruments, an assessment of the market value effect is carried out on the basis of interest, exchange rate and spread sensitivities of the instruments. When calculating value at risk, historical simulation takes place on the basis of a two-year history of 500 scenarios. Currently, this essentially covers the period of time since the start of the financial market crisis. In this case, the value at risk for a 99% confidence level corresponds to the fifth worst scenario result from the simulation. The value at risk is calculated at a confidence level of 99.76% (liquidity perspective) or 90% (going concern perspective) assuming a holding period of one year for the purposes of risk-bearing capacity (see section "Risk-bearing capacity").

In the previous year, a confidence level of 99.8% was still used for operating management, which corresponded to the worst scenario result. The changeover to the 99% confidence level was carried out in order to stabilise VaR development and to implement alignment with the prevalent selection in the sector.

Regular back-testing is carried out in order to test the ability of the models used to make predictions. The Board of Managing Directors is informed of the results of these tests during monthly MaRisk reporting. This back-testing has shown to date that the daily changes in results have been represented appropriately by the value at risk calculations.

Development of the market price risk profile. The following table shows the development of the market price risk profile of the Bank based on basis point value (BPV), vega and the value at risk at the 99% confidence level assuming a holding period of 10 days. BPV indicates the upward change in the present value of the Bank's portfolio assuming a parallel shift of one basis point (0.01%) across all interest rate curves Vega indicates the change in the present value of the Bank's portfolio assuming a 1% increase in interest rate volatility.

in € million	31 March 2009	31 March 2008	
			Previous year values (VaR) at 99.8% confidence level
Basis point value	0.1	–1.9	
Vega	–17.1	–23.2	
VaR foreign currency	–9.3	–11.3	–14.0
VaR interest rate and volatility	–126.1	–104.6	–129.4
VaR spread*	–123.8	–	–
Correlation effect*	54.7	–	–
VaR total	**–204.5**	**–115.9**	**–143.4**

* Not calculated in previous year

The change in BPV is the result of the Bank strategy implemented in the 2008/09 financial year to secure the portfolio to a large extent against small changes in interest rates. The vega decline resulted from the reduction in option writer positions in the investment portfolio. Based on these risk reduction measures, the interest rate and volatility value at risk has only increased slightly year-on-year, despite the considerably lower interest rate level and the huge increase in interest rate volatility in the wake of the financial crisis.

Furthermore, the Bank has integrated credit spread risks into market risk measurement by means of value at risk in the 2008/09 financial year. The widening of credit spreads and credit spread volatility, particularly as a consequence of the Lehman insolvency in September 2008, has led to a considerable increase in the credit spread risk in the portfolio of the Bank. The credit spread risk is largely the result of government bonds, mortgage bonds, corporate bonds and promissory note loans. The credit spread risk for IKB resulting from portfolio investments is only of minor significance due to the loans granted by KfW and Lone Star (LSF Aggregated Lendings S.A.R.L.) to Rio Debt Holdings (Ireland) Limited and the risk that was transferred as a result.

By changing methods, the Bank has calculated a diversification effect for the first time in the amount of € 54 million or 20%, in relation to the total of individual risks.

Limiting. Limiting consists of a value at risk limit for the Group, based on a 99% confidence level and assuming a holding period of 10 days. The value at risk limit is aligned towards the limit amount for the risk-bearing capacity of the Bank. Furthermore, currency risks in aggregate holdings are restricted by way of a volume limit for the open positions.

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

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

Operational risk

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

Operational Risk Management (ORM) coordinates and monitors the management of operational risks. ORM is also responsible for analysing potential damages across the Group and developing Group-wide OpRisk management and training concepts. Operating risk management is the responsibility of individual segments, Central Divisions and subsidiaries.

Here, the focus is on not only regular analysis and identifying weak points and improvement approaches for all business workflows and processes, but also on expanding the security organisation and underlying processes. Annual business impact analyses are carried out for this purpose, under the management of ORM, which not only reflect the specific risk profiles for the individual segments and Central Divisions, but also highlight potential risks.

A risk assessment is carried out once every quarter for the OpRisk areas of activity HR, processes, infrastructure, legal risks and projects in cooperation with the head of the Central Division responsible. Information gained is added to the risk report.

All business units are required to report loss events which have occurred or almost occurred to Operational Risk Management. Loss events are brought together in a central loss database and examined for how they were caused and the impacts they had. Ideas for improvement can be derived from this and implemented.

Group-wide business continuity management is also the responsibility of Operational Risk Management, which is kept up to date by means of regular business impact analyses. In order to ensure Group-wide transparency, all contingency plans are presented both in comprehensive format on the IKB intranet and in written, paperbound format in business continuity management handbooks.

The quality of the contingency plans is ensured by means of regular emergency drills in all Central Divisions, front office units and subsidiaries.

Risk reporting and risk communication. ORM informs the Board of Managing Directors of operational risks as well as individual losses and how they were distributed amongst the individual business units every quarter. In the event of significant risks or losses which have occurred, an ad hoc report is submitted to the Chief Risk Officer and, if necessary, to the members of the Board of Managing Directors responsible for the departments which were also affected.

Legal risk

Legal risk is also included in operational risk. This constitutes the risk of losses incurred by breaching general statutory conditions, new statutory conditions or changes to or interpretations of existing statutory regulations (e.g. high court decisions) which are unfavourable for the Bank. It is the responsibility of the Legal Central Division to limit legal risks.

This task is performed by means of available internal resources. If necessary, external law firms are brought in for support.

Basic legal quality is ensured in day-to-day business by using a sample contract system based on text modules, which can be used in particular to prepare loan and collateral agreements. Deviations from these samples are checked and approved by the Legal Central Division.

All sample contracts are continually reviewed to determine whether adjustments are required as a result of legislative changes or adjudications.

Legal developments which are of direct significance to the business of the Bank are monitored in particular, by means of collaboration in the executive bodies and committees of the supervisory authorities and the Association of German Banks. At the same time, legislative proposals to change equity backing regulations are also monitored in the same manner.

In legal proceedings, the Legal Central Division ensures that the legal positions of the Company are maintained and that general legal conditions are observed by deploying specialised resources which obtain access to information available in the Company using a specific method. The following legal proceedings are particularly relevant to risk.

Legal proceedings due to alleged incorrect capital market information. As of 6 June 2009, a total of 134 claims have been asserted against the Bank by investors in IKB securities since the start of the crisis in summer 2007. These claims primarily relate to the alleged incorrect content of the press release issued on 20 July 2007, but also in individual cases to the alleged false content of the financial press conference held on 28 June 2007 and the alleged incorrect content of capital market information prior to this date.

In the press release dated 20 July 2007 which formed the focus of the legal proceedings, the Bank issued a profit forecast of € 280 million for the 2007/08 financial year. It also referred to two analyses by Moody's and Standard & Poor's stating that it would only be affected by the sub-prime crisis to a limited extent. These forecasts subsequently proved to be incorrect.

The legal proceedings detailed above have a (preliminary) total value in dispute of around € 8.3 million. The possibility that additional investors will assert claims for damages against the Bank cannot be ruled out. The success of these claims could increase the overall risk to which the Bank is exposed.

In the meantime, 51 of these claims asserted by investors have already been rejected in the first instance by the Düsseldorf district court; these decisions are legally binding in at least 27 of these cases. However, this does not mean that conclusions can be drawn as to the outcome of the other legal proceedings or any decisions by higher courts. However, the 22nd and 9th civil divisions of the Düsseldorf higher regional court have already dismissed appeals in five cases by means of judgements made on 19 June 2009 and 29 June 2009. Both civil divisions declared these cases to be not subject to review.

IKB considers the outstanding claims by investors to be unfounded. At the time, IKB did not identify any material risks in relation to the liquidity facility extended to the Rhineland Funding Capital Corporation conduit, as it did not appear feasible that the entire asset-backed commercial paper market would collapse and that refinancing would not be possible in the long term. In its press release issued on 20 July 2007, IKB therefore focussed on the risks contained in its own balance sheet at that date. Even before this time, IKB was of the opinion that there was no incorrect capital market information which would substantiate relevant claims.

In addition to the claims detailed above, some shareholders and investors in IKB securities have approached the Bank with out-of-court claims for damages.

Legal proceedings by FGIC and those potentially arising from other parties. On 10 March 2008, the U.S.-based Financial Guaranty Insurance Company (FGIC) and its British subsidiary (together FGIC) filed claims against IKB, its (then) subsidiary IKB Credit Asset Management GmbH, Havenrock II Limited and Calyon with a New York court. In the first instance, the plaintiffs have applied to be released from contractual obligations in respect of Havenrock II and Calyon totalling up to US$ 1.875 billion. Claims for an unspecified amount of damages have also been made against IKB. IKB held and continues to hold the view that the accusations set out in the court submission are unfounded.

In late August 2008, FGIC Corporation (FGIC's parent company) announced that FGIC and Calyon had agreed a separate settlement, under the terms of which FGIC paid US$ 200 million to Calyon.

The New York court dismissed the claim filed by FGIC in late December for procedural reasons. Consequently, at the start of February 2009, FGIC filed an application at the court in New York which dismissed the claim to be able to negotiate the case again. At the same time, FGIC lodged an appeal against the dismissal at the New York Court of Appeals. FGIC needs to have fully substantiated this appeal by the start of November 2009.

At the end of May 2009, the very same first instance court also dismissed FGIC's application to review the judgement made in December. This decision is legally binding, and the proceedings in New York are therefore classed as no longer pending before the court of first instance, despite the appeal lodged at the Court of Appeals. FGIC can also appeal against this decision made in late May 2009 by 13 July 2009.

According to New York procedural law, a decision made by the court of first instance is classed as a legally binding court ruling, and this applies until it is revoked by means of an appeal.

The dismissals to date in New York have been of a procedural nature. For this reason, FGIC can still bring the claim before other courts outside New York.

There is a possibility that further claims for damages could be brought against IKB AG as a result of its activities or the activities of IKB Credit Asset Management GmbH in relation to Rhineland Funding Capital Corporation, the Havenrock transactions and/or Rhinebridge by other parties involved in these transactions.

In an agreement dated 10/16 September 2008, KfW provided a degree of indemnification to IKB for claims from legal disputes against IKB (including the relevant court costs) in connection with the Rhineland Funding, Rhinebridge or Havenrock entities for events which occurred before 29 October 2008. Even if the indemnification amount is limited, IKB anticipates that the risks from currently asserted legal disputes are largely covered by the indemnification. In this connection, IKB AG has extensive duties to KfW in respect to information, disclosure, notification and action. Claims from IKB AG shareholders of investors in financial instruments linked to the development of IKB shares are not covered by the indemnification.

If IKB culpably violates a concrete obligation in the indemnification agreement in connection with a concrete claim covered by the indemnification agreement, under certain circumstances, the indemnification claim to this specific claim may be extinguished. The Board of Managing Directors regards the risk of a dereliction of duty as slight. This is because, to assure the contractual obligations of the IKB, the necessary implementation steps for securing behaviour in line with the agreement were specified in detail and documented in writing following in close coordination and cooperation with KfW. The indemnification claims of IKB are also extinguished retroactively if the share sale and transfer agreement or the share transfer in rem between KfW and LSF6 Europe Financial Holdings L.P. are null and void or one of the parties exercises a right to terminate a legal relationship by unilateral declaration which results in the reversal of the performance rendered in the transaction coving the obligation. Furthermore the claims from the indemnification agreement are extinguished if, also taking into account the claims for the indemnification agreement, there is reason for insolvency at IKB AG or insolvency proceedings have been instituted against the assets of IKB AG.

Investigation by the public prosecutors. In July 2009, the Düsseldorf Department of Public Prosecution brought an action against the former Chairman of the Board of Managing Directors, Mr Ortseifen, as a result of market manipulation and breach of trust. The charge of breach of trust relates to the construction of a property in which Mr Ortseifen lived, but which the Bank owned.

In this respect, an application was also filed at the Düsseldorf local court for penalty orders against two further former members of the Board of Managing Directors. Preliminary proceedings against all other defendants (also in terms of proceedings for breach of trust concerning irresponsible investments) were suspended due to a lack of adequate suspicion. Additional investigations are still ongoing beyond this reporting period regarding the suspicion of false representation.

The Bank is the potentially aggrieved party in this case. The Board of Managing Directors is supporting the Department of Public Prosecution in its work and cooperating with it in every respect in order to ensure that the matters concerned are resolved in full as soon as possible.

State aid proceedings. In connection with the rescue measures taken by KfW with the support of the banking associations for the benefit of IKB, the European Commission qualified the measures as aid and approved them in October 2008 under strict conditions. The Bank must deploy considerable resources to implement these conditions. If it is unable to do so, the Bank may be significantly disadvantaged, both legally and economically.

Recessionary actions against resolutions from General Meetings. A recessionary and revocation claim against resolutions made at the General Meeting held on 28 August 2008 under item 6 of the agenda (election of the Supervisory Board) is currently still pending.

The following claims against resolutions made at the Extraordinary General Meeting held on 25 March 2009 are currently (as at 7 July 2009) still pending:

- 11 recessionary and revocation claims regarding agenda item 1 (authorised capital),
- 9 recessionary and revocation claims regarding agenda item 2 (contingent capital increase),
- 25 recessionary and revocation claims regarding agenda items 3 and 4 (cancelling the special audit with regard to the Board of Managing Directors and the Supervisory Board),
- 9 recessionary and revocation claims regarding agenda item 5 (election of the Supervisory Board),
- 1 recessionary and revocation claim regarding agenda item 8 (amendment of the Articles of Association with regard to the election of the Chairman of the General Meeting) and
- 4 claims against the resolution to refuse the motion brought forward in the General Meeting to vote out the Chairman of the General Meeting.

Risks in connection with SoFFin conditions

As well as other conditions, one condition of the Special Fund for the Stabilisation of the Financial Market (SoFFin) requires IKB to prepare monthly, quarterly, half-yearly and annual reports presenting the financial and economic situation of IKB. If these obligations are not adhered to, this will result in certain legal repercussions, including punitive sanctions in the amount of € 1 million per infringement. For this reason, processes have been implemented to minimise operational risks of non-compliance.

IKB AG must continue to ensure that it is sufficiently capitalised, i.e. that it has a definite Tier I ratio available in accordance with Section 10 (2a) KWG of at least 8% of the denominator of the overall capital ratio given in Section 2 (6) Sentence 2 SolvV. If the Tier I capital of the Bank in accordance with Section 10 (2a) KWG declines during the term of the guarantee agreement to less than 8% of the denominator of the overall capital ratio given in Section 2 (6) Sentence 2 SolvV, then IKB must inform SoFFin of this immediately and take all necessary action without delay to return to the required Tier I ratio of at least 8% of the denominator of the overall capital ratio given in Section 2 (6) Sentence 2 SolvV (see supplementary report for the conditions for the extended SoFFin guarantee dated 3 July 2009).

IT risk

In the area of IT risks, the focus is on measures to improve Bank-wide business continuity management, the security of IT systems and the security of the database. As well as continually improving information security management (ISMS) based on the international standards ISO 27001:2005, ISO 27002:2005 and the standards of the Federal Office for Information Security (BSI), this also includes bringing system and network security in line with ever increasing external threats. Commissioning a backup computer centre (in a separate building) has considerably reduced operational risks. Staff training is also an integral element of our provisions. These measures are supported by regular checks and emergency drills. The implementation of a suitable management system for IT security in accordance with ISO 27001 was again certified by TÜV Rheinland.

By carrying out various tests, it has been noticed that applications developed in specialist areas (IDP applications) are not sufficiently documented. The IT Central Division is currently coordinating the preparation of corresponding documentation and will provide training to specialist areas on request. However, the responsibility for preparing documentation and reporting the IDP application to IT still rests within the specialist areas.

Compliance risk

As a bank, IKB is subject to specific legal standards. These include regulations on avoiding conflicts of interest, market manipulation as well as insider trading and money laundering. The regulations on money laundering prevention are contained in special organisational instructions for IKB as well as in specific handbooks at each of the affected sites abroad.

Furthermore, IKB has implemented a compliance concept in which conduct requirements with regard to securities compliance are specified as binding for all employees. This is supplemented by the Group guideline on handling conflicts of interest. Location-specific compliance concepts have been issued for each of the sites in London, Luxembourg and New York.

IKB has also formulated a Code of Conduct which describes the moral concepts and beliefs of IKB. The principles given in the IKB Code of Conduct include requirements for the conduct of all employees at all locations of the IKB Group. These provide a binding frame of reference for day-to-day business.

To begin with, a preparatory analysis was carried out in the reporting year, in which risks from external/internal fraudulent acts were brought to light for the purpose of further preparation. The first stage of this analysis (status November 2008) was to identify any abstract areas of exposure to fraud risks. Due to a lack of any completed findings in the case of external fraud at IKB, an average threat situation had to be assumed, which corresponded to that of other banks of a similar size and with a comparable business model. In order to validate and verify findings acquired at that time, a further, more in-depth threat analysis is scheduled. In December 2008, compliance activities were integrated into the Legal Central Division, setting up a direct specialist reporting line to the Chairman of the Board of Managing Directors. As such, these activities are now coordinated by the newly appointed Chief Compliance Officer, who carries out these activities in addition to his duties as Head of the Office of the Board of Managing Directors and Corporate Governance Officer. In the 2009/10 financial year, the new Chief Compliance Officer has been assigned the task of further developing the measures already introduced in the reporting year and implementing an expansion of compliance functions. This includes preparing a more detailed Code of Conduct, particularly with regard to the introduction of benefit value limits, and establishing an external whistleblower system.

In March 2008, IKB prepared a threat analysis in terms of money laundering risk, covering all companies belonging to the Group and branches in Germany and abroad. New business at IKB was examined for the reporting year using an evaluation as of March 2009. This did not bring up any significant changes. If there had been significant changes, this would have necessitated a re-evaluation of the threat situation.

A process modification was only carried out with regard to the higher requirements for duty of care in lending transactions abroad. This stipulates that a money laundering official must be involved in the case of loans in specified risk countries.

In terms of internal risks (procedural and structural organisation), a re-evaluation was not carried out in the reporting year, as the Bank resolved upon a new business model in January 2009 which is to be implemented over the course of the 2009/10 financial year. In this regard, a fundamental re-evaluation of the threat analysis and the organisation of money laundering prevention must be carried out without delay.

Risks specific to customers, products and transactions are recorded, identified and categorised accordingly in the threat analysis. Indicators have been derived from the risks identified, which form the basis of monitoring as search criteria and parameters. In the results of the analysis it can be seen that, based on its specific business activities, the IKB Group is subject to a considerably lower money laundering risk than banks with over-the-counter business and current account payment transactions.

Personnel risk

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

Since the start of the Bank crisis in July 2007, IKB has posted a considerably higher reduction in the number of employees across all Central Divisions, which has not been completely offset by acquiring new qualified staff as a result of the current situation of the Bank. The adverse effects of this situation are currently being managed via the use of internal transfers and the intensive deployment of external consultants. Over the last two quarters, the number of resignations received has considerably declined, which could be attributed on the one hand to the situation on the job market, and on the other, to a general inclination to wait and see the effects of the reconciliation of interests and the redundancy scheme.

As a result of the extensive reorganisation project, this will lead to a reorganisation of the workplace and a reduction in the number of jobs. Existing structures and deeply-rooted processes will be changed and job descriptions modified. This may lead to inefficiencies and an increased proneness to error in the transition phase. Furthermore, there may also be incongruities between individual employees' need for protection based on social measures and the interests of the Bank. By means of clear regulations in the reconciliation of interests and the redundancy scheme, as well as management structures which are still stable, we do not anticipate operating risks when implementing the above regulations.

Strategic risk and reputational risk

Strategic risks refer to the threat to the long-term successful position of the Bank. These can come about as a result of changes in the legal or social environment, but may also emanate from aspects of market or competitive conditions for customers or refinancing partners.

Due to the fact that there are no regularities as regards strategic risks, it is difficult to capture these as special risks in an integrated system. They are therefore under the close observation of the Board of Managing Directors and the Strategic Planning department and are continually monitored. This also includes regularly examining the altered business strategy (once it has been conclusively adopted), even in the context of the strategic planning process, as well as implementing strategic initiatives and restructuring measures as a result of this. The current business model of IKB has been restricted in individual Central Divisions (primarily Real Estate Clients) as a result of the conditions of the European Commission. By means of the new strategic focus of the business model of IKB, including measures involving an expansion of the product range for SME customers (range of consulting products) and more intensive leverage of customer potential, the objective is to offset the effects of the European Commission conditions with regard to income.

Reputational risks are the risk of losses, falling income, increasing costs and reduced enterprise value as a result of a deterioration in the Bank's reputation in the eyes of the public, primarily in the case of customers, shareholders, rating agencies and employees. Reputational risks frequently result from other types of risk and compound these as a result of their public impact.

A key aim of IKB over the course of the new strategic focus is to improve its reputation once more, which has been damaged as a result of the crisis. The management of reputational risks at IKB is carried out by the Board of Managing Directors directly.

Business risk

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

The operating management of business risk – i.e. the risk of a negative change in earnings performance within the business strategy agreed with the Board of Managing Directors – is the responsibility of each individual segment, Central Division and subsidiary. Results Controlling, which is part of the Financial Controlling Central Division, is assigned the task of tracking proceeds and cost trends throughout the year by carrying out ongoing plan/actual comparisons and reporting these to the Board of Managing Directors and the segments.

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

Risk reporting and risk communication. Deviations from planning and target figures are reported to the Board of Managing Directors as well as the relevant Central Division and segment managers on a monthly basis in order to be able to take countermeasures in good time. In so doing, all segments and Central Divisions are provided with the information they require in good time and in full.

Overall assessment of the risk situation

In a market still characterised by extreme levels of uncertainty and volatility and in a deep recession, IKB remains exposed to considerable default, interest, liquidity and legal risks.

It is currently very difficult to give an estimate in respect to the impact of the global economic downturn on counterparty default risks in the credit business. The risk of a further deterioration in the economy is still very high. Negative trends are already clearly evident in certain industries, particularly in the automotive sector. In the past financial year, the effects of the recession have left a noticeable mark on acquisition financing, which accounted for more than half of all value adjustments.

As well as the ongoing financial market crisis, the abrupt economic slump is also having an impact on all capital markets in the form of yet another strong increase in volatility and credit spreads, which will at the very least contribute to severe remeasurement losses. In particular, this also impacted securitised credit risks.

In the past financial year, there were further valuation losses on structured securities and thus additional charges in the income statement. After the transfer of a large part of the portfolio investments to the fully consolidated special-purpose company Rio Debt Holdings (Ireland) Limited in December 2008, the risk at IKB is now limited to

- the subordinate loan (first loss risk) granted by IKB AG to the special-purpose company Rio Debt Holdings (Ireland) Limited,

- portfolio investments with a nominal value of € 0.5 billion being wound up but not sold. The risks for IKB resulting from these transactions are largely limited to the value of the collateral provided and other legal risks with regard to the enforcement of claims to proceeds from the collateral during settlement,

- two transactions with a nominal volume of € 0.2 billion which were restructured in May 2009 with companies and governments as reference assets,

- the structured securities resulting from business activities in the front office units and subsidiaries, predominantly in connection with the risk transfer of IKB's own financing

In view of market jitters, despite all the measures initiated with a view to reducing interest rate risk, the Bank still has a relatively high exposure to increases in the volatility of interest rates (volatility risk, vega) due to the optional elements used in proprietary trading.

Liquidity risk has been cushioned thanks to the support of SoFFin, to the extent that IKB will be able to implement its own planned measures to procure liquidity in peace and in a market environment returning to normality.

As at 31 March 2009, there is risk-bearing capacity from both an equity capital provider and a lender perspective, yet this is highly strained. The level of risk cover has considerably declined as a result of losses, while at the same time, economic equity capital requirements to cover risks have risen as a result of the crisis. In the event of a significant expansion of the current recession beyond 2010 and yet another severe impact on the capital market such as it was forced to witness after the collapse of the Lehman Brothers Bank, there would no longer be available risk-bearing capacity.

For this reason, the Bank is making use of all economically viable opportunities actively to lower its risk position significantly. This relates to both counterparty default risks, which are set to decrease not least as a result of the reduction in the real estate portfolio, and market price risks. As such, the Bank will press ahead with the policy of structured decrease of the interest position it decided upon as early as start of the crisis.

IKB's ability to continue as a going concern depends on compliance with the requirements

- of the SoFFin for the provision of guarantees,
- of the European Commission for the approval of state aid and
- of the Deposit Protection Fund of private banks

and the European Commission's approval of the extended SoFFin guarantees.

To do this, it is of paramount importance that

- the Tier I ratio of at least 8% is adhered to at individual Bank level and Group level,

- total Group assets are reduced to € 33.5 billion by 30 September 2011,

- the Real Estate Finance segment and activities at the sites in Luxembourg and New York are ceased on schedule and

- risk-bearing capacity is also present in the future in due consideration of the above points and the new business model.

If IKB is unable to maintain a Tier I capital ratio of at least 8%, guarantee its risk-bearing capacity and sufficiently reduce risk items in the coming financial years, further additional equity will be required.

IKB has not only taken these provisions into consideration into its planning, but has also set up processes and executive bodies for the sustainable balance sheet structure management which this will require. As well as the sale of certain risk assets which no longer belong to the Bank's core business to institutional investors, this also includes changing the refinancing structure.

In addition to the time element regarding the implementation of the EU requirements, effects on key economic indicators such as Tier I capital, ongoing impacts on earnings, and liquidity will also be monitored on an ongoing basis.

In the event that the financial and economic crisis continues for longer than expected, there is still scope to carry out any necessary adjustments for the implementation of these measures. Depending on the length of the market jitters, the sale of assets will not need to be carried out at any price, for example, in order to meet the EU requirements. Even if the Bank temporarily falls below the minimum Tier I ratio required by SoFFin, appropriate measures can be agreed with SoFFin.

However, the Board of Managing Directors is assuming that the requirements will be implemented on time and that the economic specifications will be complied with at the same time.

5. Events after 31 March 2009 (Supplementary report)

The following new developments have arisen since 31 March 2009.

Tier I capital strengthened with Lone Star

The subordinated bonds of IKB AG with a total nominal value of € 101.5 million that were taken up by LSF6 Rio. S.à.r.l. in November and December 2008 were transferred to LSF6 Europe Financial Holding L.P. on 4 June 2009. Through a waiver and agreement on compensation from future profits between LSF6 Europe Financial Holdings L.P. and IKB AG dated 5 June 2009, LSF6 Europe Financial Holdings L.P., as the holder of subordinated bonds of IKB AG with a total nominal value of € 101.5 million, has waived its repayment claim and future interest payment claims against IKB AG arising from these bonds, suspensively dissolving conditional on improvement, and has thus made an additional payment to the capital reserve of € 101.5 million in accordance with Section 272 (2) No. 4 HGB. An improvement occurs if IKB AG achieves an annual net profit and meets the regulatory equity ratio of at least 9.0% at an individual Bank level.

In addition, the Bank's share capital will increase by € 123.5 million on 14 July 2009 with the issue of shares to LSF6 Rio S.à.r.l., Luxembourg, following the conversion of the bonds purchased on 11 December 2008 with a contingent conversion obligation and a contingent conversion privilege of IKB AG in the amount of € 123.5 million. IKB AG's share capital will amount to € 1,621 million from 14 July 2009 (previously: € 1,498 million), comprising 633,326,261 notional no-par value bearer shares (previously: 585,075,911). After the delivery of the shares, Lone Star's stake in the share capital of IKB AG will increase to 91.5%.

Expansion of the guarantee framework provided by SoFFin

With a state-guaranteed issue of € 1 billion in April 2009, the guarantees from SoFFin of € 5 billion from December 2008 have been fully utilised.

SoFFin informed IKB AG on 3 July 2009 of its intention to extend the guarantee for new bonds to be issued by IKB in future by € 7 billion. Following the contractual implementation of this decision and the pending approval by the European Commission – notification has already been given – IKB will have total guarantees of € 12 billion, € 5 billion of which was previously used to issue state-guaranteed bonds.

One of the conditions of the guarantee agreement is that IKB continues to maintain a Tier I capital ratio of at least 8%.

In connection with this, the Auditing Association of German Banks, in its capacity as service provider for the Deposit Protection Fund of the private banks, set the maximum limit for the protection of customer deposits at € 11 billion (previously € 9 billion until 30 September 2011) for the duration of the SoFFin guarantees, for maintaining deposit protection.

The members of the Board of Managing Directors of IKB AG are to voluntarily waive payments exceeding € 500 thousand p.a. from 3 July 2009 to 31 December 2010. Fringe benefits (e.g. company cars, insurance, pension instalments, use of the telephone) remain unaffected by this. Additional payments are permitted only after the SoFFin guarantees have expired.

For a maximum of € 4 billion, the state-guaranteed bonds from the expanded framework may have a maturity of up to 36 months and for a maximum of € 3 billion a maturity of up to 60 months. However, they must expire by 31 December 2014 at the latest. In addition to the guarantee fees agreed, IKB AG will pay 2% on the amount of the SoFFin-guaranteed IKB bonds still outstanding on 30 June 2013 to SoFFin on maturity.

With the expansion of the guarantee framework, IKB is using the guarantee instrument provided by the government, as the situation on the money and capital markets remains so difficult, particularly for banks, that it is all but impossible for IKB to receive adequate refinancing at this time.

With the issue of state-guaranteed securities, IKB intends to maintain its liquidity and stabilise its business with SMEs. IKB has not requested support from SoFFin for recapitalisation or the assumption of risks.

The first state-guaranteed issue within this guarantee framework is scheduled for the end of July 2009.

Status of implementation of EU conditions

The status of implementation of the EU conditions was as follows at the end of June 2009:

- Real Estate Finance segment: the credit volume in this segment has already been reduced by 10% (interim target by 30 September 2010: reduction of 20%); the winding up/sale of affected subsidiaries has been initiated.

- Movesta Lease and Finance GmbH: considerable progress has already been made with the sale process for the 50% stake held by IKB AG in Movesta Lease and Finance GmbH. Now that the due diligence process has largely been concluded, further analyses and contractual negotiations are currently taking place on an exclusive basis with prospective buyers. The purchase agreement is expected to be signed in August 2009.

- IKB CC, New York: the interim target "reduction of 25% in the loan portfolio by 30 September 2010" – starting with a loan portfolio with a nominal value of € 1.2 billion as at 31 March 2007 – has already been largely achieved, with a current nominal value of € 0.9 billion as at 31 March 2009. This target had already been implemented by 30 June 2009, as the loan portfolio now contains only around € 0.61 billion.

- IKB S.A.: the conceptual and practical preparations are currently underway for winding up IKB S.A. and the assumption of certain duties by the parent company.

- The business activities of IKB in Amsterdam have already been discontinued.

- Considerable progress has already been made with the sale of non-strategic asset positions; the credit volume as at 31 March 2009 has dropped from € 1.7 billion to € 0.6 billion compared with 31 March 2007.

Personnel changes

With effect from 27 April 2009, Dr (honorary) Eberhard Reuther stepped down from the Supervisory Board of IKB AG. By order of the Düsseldorf Local Court, Dr Thomas Rabe, Berlin, a member of the Board of Managing Directors of Bertelsmann AG, was appointed as a member of the Supervisory Board of IKB AG with effect from 23 June 2009.

Dr Reinhard Grzesik, a member of the Board of Managing Directors of IKB AG, stepped down from the Board of Managing Directors of IKB AG with effect from 3 July 2009 for personal reasons and at his own request. The Board of Managing Directors of IKB AG is to be reduced to four members. The areas of responsibility of Dr Grzesik, finance, taxes, real estate and IT, have been taken over by Dr Dieter Glüder, until now responsible for Products, Treasury and Economic Research as a member of the Board of Managing Directors of IKB. In addition to their existing duties, Hans Jörg Schüttler, the Chairman of the Board of Managing Directors, assumed responsibility for Treasury and Dr Michael H. Wiedmann, the member of the Board of Managing Directors with responsibility for Sales, assumed responsibility for the Product Central Division and the Economic Research Central Division. Claus Momburg continues to be responsible for Risk Management, Credit Operations and Human Resources on the Board of Managing Directors of IKB AG.

6. Outlook

Future general economic conditions

The Board of Managing Directors expects general conditions for the Bank's core business to become even more difficult during the rest of 2009 and 2010:

The global downturn has intensified dramatically as a result of the aggravation of the international financial crisis in autumn 2008. Almost all countries in the world are affected directly or indirectly by the consequences, such as the liquidity squeeze on the interbank markets, the loss of confidence on the capital markets, slumps in demand in global trade and falling commodity prices. The financial crisis has thus expanded into a global crisis in the real economy.

Germany's export sector – the driving force behind the previous upturn – was hit particularly hard by the worldwide slump in demand for capital goods. The crisis has also gradually spread to the overall economy. This means that, since autumn 2008, Germany has been in the worst recession since the Federal Republic was founded.

In their spring reports, the leading economic research institutions estimate that GDP will fall by 6% in 2009. A significant recovery is not expected in 2010. Exports will see a substantial drop of over 20% in 2009 as a result of the slump in global trade and will register only a slight increase of 2% in the following year.

Investment by companies in equipment, the most important overall economic determinant for the Bank's lending business, is also set to be drastically reduced in the wake of the worldwide crisis and in view of uncertainty about the further development of the economy. Research institutions are anticipating a drop of 16% for 2009 and a further decline of 2% in 2010. On the other hand, investment in construction is expected to rise, as public sector investment programmes will come to fruition. Consumer spending is also expected to provide support initially. With the increasing threat to jobs, however, consumer trends are set to worsen, which means that consumer spending will fall significantly at the end of 2009.

An important factor in further development is that trust must be restored in banks all over the world as soon as possible. This will not be possible without effective state support. Only then will lending adapt again fully to the needs of an economic recovery.

In Europe (EU 27), economic output will fall by 4% in 2009 and 0.5% in 2010 as a result of the global recession, following growth of 0.9% in 2008.

Prospects have also become gloomier for countries in Central and Eastern Europe. The effects of the financial crisis can also be keenly felt here. In the region as a whole, there has been a slowdown in economic development since the third quarter of 2008, although developments have varied considerably in individual countries. Overall, the region is expected to see a drop in the gross domestic product of 1.7% in 2009 and a slight recovery of 0.8% in 2010.

Opportunities presented by future developments

The conditions imposed by the European Commission necessitate a radical revision of the business activities pursued by IKB. Among other points, the real estate financing business is to be discontinued, while by 30 September 2011, total Group assets are to be reduced to € 33.5 billion. IKB will therefore focus its customer business more strongly on services not impacting the balance sheet.

Business relations with corporate clients are to be expanded through improved market penetration (better leverage of existing customer relationships and gaining more new customers) and the introduction and sale of new products. Long-term corporate loans and structured financing forms will remain key products which can be supplemented by consultancy and services which generate no or little credit risk or balance sheet charges. The more intensive leverage of customer potential is also reflected in the reorganisation of sales and product management. Customer responsibility and product management are to be separated.

The provision of innovative financial solutions to the Bank's customers will remain an integral part of the business model. Through securitisation, growth in the assets under management is to be reconciled with adherence to the EU condition on the limitation of total Group assets, the available equity and liquidity.

The interbank market is in turmoil. As a result, it is not possible to say much at present about the future structure of the market. Margins in the Corporate Clients business are expected to rise. A quick (re)focus on the role of a bank that provides innovative services and products to small and medium-sized companies in particular is advisable and promising in this climate. Companies need to adapt to and in the recession and require a partner to advise them on this.

Regulatory changes and restrictions with regard to higher equity and liquidity buffers in the banking sector are also emerging, and it is possible to manage adherence to these in a targeted way through securitisation.

Net assets

IKB's net assets were stabilised in the last financial year through the capital increase. The solvency ratios of IKB have improved considerably and, despite the losses incurred in the last financial year, are much higher than at the beginning of the financial year.

Although the economic environment remains difficult, IKB expects its solvency ratios to continue to fulfil all legal requirements in future. IKB also believes that its solvency ratios will continue to exceed certain minimum figures to which it has committed itself by contract. In particular, this includes adherence by IKB AG to a Tier I ratio of at least 8%. To secure these and other minimum ratios, IKB will take further measures to strengthen its capital base if necessary, particularly if the economic downturn continues.

Liquidity situation

With SoFFin approving a further guarantee for € 7 billion and the planned closure of a contract shortly, the subsequently planned issues and asset sales in the amount of € 3.9 billion can help to safeguard IKB's liquidity at the planned level for a period of about two years. In connection with the guarantees of € 5 billion approved in December 2008 and already utilised, IKB has made certain undertakings to SoFFin. These include regular extensive reporting, the implementation of the EU conditions and the maintenance of a Tier I ratio of 8%. These requirements also apply to the extended guarantee of € 7 billion from 3 July 2009, among other things.

Collateralised borrowing and the lending of securities or loan assets with the Central Bank have become important sources of refinancing for all banks, and IKB is no exception. In its interbank business, the Bank also uses collateralised borrowing as an instrument to cover its liquidity requirements. A prerequisite for refinancing in an unsecured form is that the international capital markets must return to normal. In addition, IKB will refinance a larger portion of its lending business than in the past by borrowing from government development banks.

The plans also include a liquidity effect of € 3.9 billion from asset sales, which are necessary to fulfil the EU conditions regarding a reduction in total assets. The planned asset sales are therefore also an important component in the provision of liquidity.

The Bank is also taking advantage of opportunities for borrowing through money market transactions and promissory note loans secured through deposit insurance. Since the fourth calendar quarter of 2008, the Bank has gained more than € 1 billion in new customer deposits, with a focus on term deposits. Promissory note loans have also been placed with institutional investors and companies in a few cases.

In view of the current rating (Baa3/BBB-), it will be possible to issue unsecured bearer bonds on the capital market only very selectively and in small parts, if at all. This may improve in the longer term through a change in investor behaviour and/or positive changes in the rating.

The future liquidity situation will continue to depend on the development of new business and the extent to which customers draw on existing loan commitments. Both factors have been included in plans for liquidity requirements at sufficiently conservative levels.

Collateral requirements of banking partners, particularly in the derivatives business, can also influence the Bank's liquidity. Potential risks from this are also reflected in liquidity planning.

Earnings performance

Once restructuring is complete, the Bank is expected to have a substantially different earnings structure and a lower overall earnings level than in the financial years prior to 2007/08 as the income from portfolio investments will decline considerably. The financial years 2009/10 and 2010/11 will be significantly impaired by the consequences of the financial market crisis and its spread to the real economy and thereby the corporate sector. The main negative factors will be the restriction of new business, greater allowances for losses on loans and advances and the sharp rise in refinancing costs. Furthermore, IKB will reduce its costs significantly by lowering operating expenses by 30% year-on-year and shedding an anticipated 370 jobs in the Group. In the medium term, the Bank is aiming to achieve a reasonable return on the capital employed in its operating activities. This means that additional fee and commission income will have to be achieved from the planned expansion of consultancy services.

The Bank's continued development also depends on its ability to obtain adequate refinancing. In addition to the expanded guarantee framework of SoFFin, this means that the capital markets will have to return to normal, at least for collateralised borrowing, and that trust will have to be restored in banks in general, resulting in more favourable refinancing costs than under the SoFFin guarantees.

The need to service the compensation agreements relating to the provision of € 1,050 million of regulatory core capital by KfW Bankengruppe in the 2007/08 financial year, the compensation agreement relating to the waiver by LSF6 Europe Financial Holdings L.P. of its repayment claim and future interest payment claims arising from the subordinated bonds of IKB AG taken up in November and December 2008 and the value recovery rights of hybrid investors means that the Group and IKB AG are unlikely to record more than a negligible profit for several years.

7. Remuneration report

This remuneration report relates to the remuneration of members of the Board of Managing Directors and the Supervisory Board in and for the 2008/09 financial year and presents the organisation of the remuneration systems in and for this financial year. It takes into account the regulations of the German Commercial Code and the principles of the German Corporate Governance Code.

The remuneration system of the Board of Managing Directors

The composition of the Board of Managing Directors changed considerably in the 2008/09 financial year, as in the previous financial year. The following members belonged to the Board of Managing Directors in the period to which this remuneration report relates:

- Hans Jörg Schüttler (member and Chairman of the Board of Managing Directors from 1 November 2008),
- Dr Günther Bräunig (member and Chairman of the Board of Managing Directors until 31 October 2008),
- Dr Dieter Glüder,
- Dr Reinhard Grzesik,
- Dr Andreas Leimbach (1 April 2008 to 31 January 2009),
- Claus Momburg,
- Dr Michael H. Wiedmann (from 1 March 2009).

The total remuneration of members of the Board of Managing Directors consists of a fixed annual basic salary, a performance-related variable remuneration and fringe benefits and pension commitments that are not performance-related. There are no stock option plans or comparable arrangements. Four members of the Board of Managing Directors receive or received an additional monthly amount of € 10,000 gross in compensation for the fact that retirement benefits had not been agreed, on top of their fixed annual basic salary.

A new remuneration structure has not been developed as yet, in view of the Bank's current economic situation. The Executive Committee is responsible for determining the remuneration of individual members of the Board of Managing Directors.

Criteria for the adequacy of remuneration include, in particular, the duties of the relevant member of the Board of Managing Directors, his personal performance, the performance of the Board of Managing Directors as a whole and the particular situation of the Bank. The Executive Committee regularly reviews the adequacy of the respective total remunerations. Any remuneration from Group mandates is included.

Non-performance-related remuneration components

The non-performance-related basic annual salary is paid as a monthly salary. Members of the Board of Managing Directors also receive fringe benefits in the form of remuneration in kind, consisting mainly of insurance premiums and use of a company car. As these fringe benefits are a remuneration component, tax is to be paid on them by the individual member of the Board of Managing Directors. The exact amount will vary among the individual members of the Board of Managing Directors, depending on their personal situation. No loans or advances were granted to members of the Board of Managing Directors in the reporting year.

Performance-related remuneration components

In accordance with the recommendations of the German Corporate Governance Code, the monetary remuneration components of the total remuneration include fixed and variable components. The variable remuneration component involves a risk element, which means that this remuneration is not secured, apart from a minimum share of 30% or 60% in the target management bonus. In principle, it is not possible to make subsequent changes to the performance targets agreed.

The basis of the variable remuneration will initially be the achievement of the targets agreed in writing with each active member of the Board of Managing Directors for the relevant financial year at the beginning of that year. The amount of variable remuneration obtained will then be determined according to the extent to which the targets have been achieved. A maximum bonus of 200% and a minimum of 30% is possible, in one case 50% and in another case 60% of the target management bonus is achieved. In addition, the Executive Committee may take into account other aspects in determining variable remuneration at its discretion. This may result in a higher or lower bonus within the set limits. For the 2008/09 financial year, the Supervisory Board has agreed only targets with members of the Board of Managing Directors for the stabilisation of the Bank. The variable remuneration for the 2008/09 financial year was agreed by the Executive Committee in a meeting held on 11 May 2009. As a result of the financial situation of the Bank and in recognition of their extraordinary commitment in the context of restructuring, the members of the Board of Managing Directors Dr Glüder, Mr Momburg, Mr Schüttler and Dr Wiedmann shall receive their target bonus.

In the event of a change of control, Dr Grzesik shall receive a minimum bonus of 150%. A change of control is deemed to exist of a third party, alone or through the voting rights attributed to it in accordance with Section 22 WpHG, obtains a share of the voting rights that would have given a share of the voting rights in an Annual General Meeting of IKB AG of at least half of the present share capital conveying voting rights. In the 2008/09 financial year, this condition occurred with the acquisition of the stake in KfW by LSF6 Europe Financial Holdings L.P.

For Dr Bräunig, the minimum bonus was determined at his request. The Supervisory Board was prepared to pay Dr Bräunig a higher bonus.

Change of control

The members of the Board of Managing Directors in office as at 31 March 2009 do not have a change of control clause in their contracts of employment, or have subsequently waived any clause originally agreed.

Payments from third parties

In the last financial year, no member of the Board of Managing Directors received payments or promises to such from a third party with the exception of emoluments from subsidiaries of IKB in respect of their function as a member of Board of Managing Directors.

Details on the remuneration of the Supervisory Board for the 2008/09 financial year are presented in the table below in accordance with contractual agreements and the resolutions of the Executive Committee:

	Annual remuneration (in € thousand)				
	Fixed remuneration	Variable remuneration	Pension compensation	Value of fringe benefits*	Total
Hans Jörg Schüttler (from 1 November 2008)	312	313	50	8	683
Dr Günther Bräunig (until 31 October 2008)	321	125		15	461
Dr Dieter Glüder	442	650		43	1 135
Dr Reinhard Grzesik	480	975	120	17	1 592
Dr Andreas Leimbach (from 1 April 2008 until 31 January 2009)	375	458	100	1 135	2 068
Claus Momburg	410	550		72	1 032
Dr Michael H. Wiedmann (from 1 March 2009)	40	46	10	1	97
Total	**2 380**	**3 117**	**280**	**1 291**	**7 068**

* Including remuneration received for carrying out functions on executive bodies of subsidiaries totalling € 67 thousand (Dr Glüder: € 20 thousand; Mr Momburg: € 47 thousand) and payment of compensation totalling € 1,120 to Dr Leimbach.

For the 2007/08 financial year, the yearly remuneration of the Board of Managing Directors as a whole amounted to € 4,264 thousand, of which € 1,967 thousand related to fixed remuneration, € 2,044 thousand to variable remuneration, € 56 thousand to pension compensation payments and € 197 thousand to fringe benefits.

In the context of the “Expansion of the guarantee framework provided by SoFFin” (see supplementary report), the members of the Board of Managing Directors of IKB AG are to voluntarily waive payments exceeding € 500 thousand p.a. from 3 July 2009 to 31 December 2010. Fringe benefits (e.g. company cars, insurance, pension instalments, use of the telephone) remain unaffected by this. Additional payments are permitted only after the SoFFin guarantees have expired.

Payments in the event of termination of employment

The retired member of the Board of Managing Directors Dr Leimbach, in accordance with agreements made with him, had the right to request early termination of his contract of employment in the event of new participation ratios among the shareholders. The agreement of this clause was necessary at the time of the IKB's existential crisis with the pending change of the main shareholder to enable it to attract high-quality management. At his own request and for personal reasons, Dr Leimbach terminated his contract of employment with effect from 31 January 2009. To settle the claims resulting from this contract of employment, Dr Leimbach received a payment of € 1,120 thousand contractually agreed for the event of resignation following a change in the participation ratio among the shareholders (one year's salary plus pension compensation benefits plus a bonus of 100% of the target bonus for the 2008/09 financial year).

Repayment claims of the Company

In a meeting held on 16 February 2008, the Executive Committee resolved to reclaim the performance-related remuneration paid to the members of the Board of Managing Directors for the 2006/07 financial year in July 2007.

With the former member of the Board of Managing Directors Mr Braunsfeld, in relation to the repayment of bonuses for the 2006/07 financial year, an annulment agreement was concluded for his contract of employment in the context of which the repayment claim (€ 25 thousand) was offset.

The claims to management bonuses between IKB and the former members of the Board of Managing Directors, Dr Doberanzke and Dr Guthoff, were settled in December 2008. Voluntarily and without prejudice, Dr Doberanzke and Dr Guthoff repaid the management bonuses demanded by the Bank (€ 583 thousand and € 600 thousand respectively) in an amount of € 494 thousand and € 499 thousand respectively in October and December 2008. The repayments were made by common consent. The differences to the gross amounts represent the level of the tax disadvantage which resulted because the repayments of the management bonuses paid in 2007 were first made in 2008. In addition, the difference in the case of Dr Doberanzke is due to the fact that, in the 2006/07 financial year, he was a member of the Board of Managing Directors for only ten months. In the context of the repayment agreements with Dr Doberanzke and Dr Guthoff, it was agreed with both parties to pay the remuneration previously withheld for their role on the Advisory Council in companies of the IKB group in the financial year 2006/07 (€ 24 thousand and € 50 thousand respectively). The remuneration was paid in January 2009.

Mr Momburg repaid the reclaimed bonuses for the 2006/07 financial year (€ 558 thousand) to IKB in the 2008/09 financial year.

Since May 2008, in relation to the former member of the Board of Managing Directors Mr Neupel, IKB has offset the repayment claim for the overpaid bonus for the 2006/07 financial year (€ 451 thousand) monthly against his pension claims towards the IKB, to the extent permitted by law. Mr Neupel instituted legal proceedings leading to a judgement on payment of his pension benefits for the months from May to July 2008. The provisional judgement issued in December 2008 was decided in Mr Neupel's favour. On the basis of the reservation requested by the Company, subsequent proceedings are now being implemented. In addition,

the Company is claiming compensation from Mr Neupel for non-approved expenses reimbursed by the Company in the residential property rented by Mr Neupel from the Company and expenses for which he was liable in the residential property rented by Mr Ortseifen.

The repayment of the overpaid bonus (€ 805 thousand) by Mr Ortseifen is the subject of ongoing legal proceedings. The Company has also filed an action against Mr Ortseifen and his wife for payment of rental payments in arrears and clearance of the residential property rented by the Company. The Company is also claiming compensation from Mr Ortseifen for non-approved expenses reimbursed by the Company in the residential property rented by Mr Ortseifen from the Company and expenses for which he was liable in the residential property rented by Mr Ortseifen.

Retirement benefits

The members of the Board of Managing Directors Dr Glüder and Mr Momburg are entitled to pension benefits on ceasing employment with the Company in the event of reaching the legal retirement age (currently 63), permanent incapacity for work and early termination or non-renewal of their contract of employment. In the latter case, members of the Board of Managing Directors shall receive a reduced pension until the end of the 63rd year of age as a transitional payment if the reason for early termination or non-renewal of the contract of employment is not the employer's own fault (due to intent or gross negligence) or refusal of a similar or better offer for renewal of the contract of employment. This regulation applies to Dr Glüder from 16 October 2008 onwards. Until this date, a retirement benefit commitment existed in the context of an employment contract with KfW which was in place before he joined IKB. For this commitment, IKB paid KfW the relevant transfer amounts of € 72 thousand due for the continuation of the commitment from 1 April 2008 until 15 October 2008. By agreement, Mr Momburg waived his contractual entitlement to transitional payments. However, this agreement was made under the condition precedent that a court determines personal liability (intent or gross negligence) in a final and absolute judgement in connection with the crisis of the Bank. No other member of the Board of Managing Directors is entitled to receipt of transitional payments in the event of ceasing employment with the Company.

The pension benefit to be paid depends on the length of service on the Board of Managing Directors. The basic entitlement for Dr Glüder amounts to 35% and for Mr Momburg 50% of the pensionable income. The amount of the transitional payment depends on the age of the member of the Board of Managing Directors and amounts to between 5% and 75% of the basic yearly pay for the last year. Other pension entitlements and other income from employment shall be offset against the Company's pension benefits to a specific extent. Current pensions shall be adjusted annually in accordance with the development of the consumer price index for Germany.

After the death of Dr Glüder or Mr Momburg, a reduced pension shall be paid as a surviving dependent's pension. Widows shall receive a life-long entitlement to up to 60% of the pension benefit. Widow's pension shall no longer apply in the event of re-marriage. Children with maintenance entitlements shall receive 15% of the pension benefit (25% if there is no entitlement to a widow's pension) until reaching their 18th birthday and beyond this date for the duration of their school or professional education including national or civilian service up to the 25th year of age. In the event that widow's and orphan's pensions combined exceed the amount of the pension benefit, the orphan's pension shall be reduced proportionately by the amount in excess of the pension benefit.

For future pension entitlements of members of the Board of Managing Directors, the Company has established pension provisions. In the event of a pension claim, this shall result in the following pension payments:

in € thousand	Annual benefits in the event of a pension claim As at 31 March 2009	Addition to pension provisions as at 31 March 2009 (service cost)
Dr Dieter Glüder	360*	421
Claus Momburg	308*	115

* Based on employment until the end of the 63rd year of age

Due to different pension regulations, the members of the Board of Managing Directors Dr Grzesik, Mr Schüttler and Dr Wiedmann are not entitled to pension benefits from IKB or are only entitled to claim pension benefits from IKB in the event of permanent incapacity for work. The retired member of the Board of Managing Directors Dr Leimbach also has no entitlement to pension benefits. The retired member of the Board of Managing Directors Dr Bräunig has a retirement benefit commitment in the context of an employment contract with KfW which existed before he joined IKB. For this commitment, IKB paid KfW the additional amount of € 82 thousand incurred to continue the commitment from 1 April 2008 until his departure from the Company on 31 October 2008.

Former members of the Board of Managing Directors

The total remuneration for former members of the Board of Managing Directors and their surviving dependents amounted to € 3,097 thousand (previous year: € 3,882 thousand). In addition, in the financial year 2008/09, in addition to the compensation of € 1,120 thousand paid to Dr Leimbach, payments of € 1,313 thousand were made to two former members of the Board of Managing Directors in the context of settlement agreements. For one of these settlement payments, a provision of € 800 thousand was established in financial year 2007/08. Provisions of € 45,959 thousand were recognised for pension obligations to former members of the Board of Managing Directors and their surviving dependents (previous year: € 42,536 thousand).

The remuneration system of the Supervisory Board

The remuneration of the Supervisory Board is regulated by Article 11 of the Articles of Association of IKB AG. It takes into account – in accordance with the legal regulations and the provisions of the Corporate Governance Code – of the responsibility and the scope of the roles assigned to the members of the Board of Managing Directors as well as the financial position and success of the IKB Group. The members of the Board of Managing Directors receive two variable, performance-related remuneration components in addition to their fixed remuneration. The short-term component is dependent on the level of the dividend and the long-term component is in line with the average consolidated net profit per share for the last three years. Both components are only paid if a dividend of at least 4% of the share capital is distributed. The members of the Supervisory Board receive € 20,000 for each financial year as fixed remuneration in addition to compensation for their expenses, including income tax payable on their earnings. In addition, members of the Supervisory Board receive variable remuneration of € 200 for every € 0.01 of dividend in excess of € 0.30 per share distributed to shareholders for the previous financial year. A further variable remuneration of € 90 is also paid for every € 0.01 by which the average consolidated net profit per share for the last three years exceeds € 0.30.

The Chairman of the Supervisory Board receives double and each Deputy Chairman receives 1.5 times the remuneration of a member of the Supervisory Board. The remuneration also increases by a factor of 0.25 of the Supervisory Board member remuneration for every position held on a Supervisory Board committee and by a factor of an additional 0.25 for every chairmanship of a Supervisory Board committee. This does not include members of the Nomination Committee, who do not receive any additional remuneration for their duties in accordance with a resolution passed by the Supervisory Board on 5 February 2009. The additional remuneration for committee work may not exceed the remuneration of a member of the Supervisory Board. Members of the Supervisory Board who belong to the Supervisory Board or a committee for only part of the fiscal year receive pro rata remuneration for the month or part month in which their position was held.

The remuneration of the Supervisory Board depends on different key ratios from those applied to the remuneration of the Board of Managing Directors, which prevents any undesirable alignment of remuneration interests between the two executive bodies. The annual fixed remuneration of € 20,000 is designed primarily to account for the independence of the Supervisory Board, which is necessary to carry out its supervisory function. In addition, it aims to ensure an appropriate minimum remuneration that is not dependent on the financial success of the Company. The dividend-related remuneration element is designed to bring the remuneration interests of the Supervisory Board into line with the return expectations of the shareholders. Linking a further part of remuneration to the average consolidated net profit for last three years also ensures that the Supervisory Board remuneration has a component linked to the long-term success of the Company.

The remuneration of the Supervisory Board

For the financial year 2008/09, on the assumption that a dividend will not be distributed as a result of the Company's circumstances, the Supervisory Board members will not receive any variable remuneration.

The Supervisory Board members Mr Scherrer, Dr von Köller, Mr Brahin, Dr Nolting and Dr Tuczka have waived their fixed remuneration for the benefit of the Company.

In the reporting year, the Supervisory Board members did not receive any further remuneration or benefits for services rendered, particularly for consulting and broker services, in addition to their fixed remuneration.

Details on the remuneration of the Supervisory Board for the 2008/09 financial year can be found in the table below:

in € thousand	Total (fixed remuneration only; variable remuneration will not be paid because no dividend is to be distributed)
Bruno Scherrer (from 30 October 2008) (Chairman from 30 October 2008)	Waived
Dr Karsten von Köller (from 16 December 2008) (Deputy Chairman from 01/01/2009)	Waived
Werner Oerter (until 31 December 2008) (Chairman until 30 October 2008)	35
Detlef Leinberger (until 06 October 2008) (Deputy Chairman until 06 October 2008)	26
Dieter Pfundt (until 31 December 2008) (Deputy Chairman until 31 December 2008)	30
Dieter Ammer (until 30 November 2008)	13
Jörg Asmussen (until 27 May 2008)	3
Dr Jens Baganz (until 30 November 2008)	13
Stefan A. Baustert (from 25 March 2009)	2
Wolfgang Bouché	30
Olivier Brahin (from 22 January 2009)	Waived
Hermann Franzen (until 31 December 2008)	19
Dr Lutz-Christian Funke (from 22 January 2009)	5
Ulrich Grillo	20
Arndt G. Kirchhoff (from 25 March 2009)	2
Jürgen Metzger	20
Werner Möller (from 28 August 2008 until 18 November 2008) (Deputy Chairman from 8 October 2008 until 18 November 2008)	10
Dr Claus Nolting (from 22 January 2009)	Waived
Roland Oetker (until 30 November 2008)	17
Dr Christopher Pleister (from 28 August 2008 until 1 February 2009)	10
Dr-Ing. Eberhard Reuther	20
Randolf Rodenstock (until 3 December 2008)	15
Rita Röbel (until 30 November 2008)	13
Dr Michael Rogowski (until 28 August 2008)	8
Jochen Schametat (until 30 November 2008)	13
Dr Carola Steingräber	20
Dr Alfred Tacke (until 31 December 2008)	23
Dr Andreas Tuczka (from 22 January 2009)	Waived
Dr Martin Viessmann (until 25 March 2009)	20
Ulrich Wernecke	22
Andreas Wittmann	20
Sub-total	**429**
Compensation of Supervisory Board expenses (total)	69
Total	**498**

8. Other financial information

Disclosures in accordance with Section 315 (4) HGB

As at 31 March 2009, the share capital of the Company amounted to € 1,497,794,332.16, comprising 585,075,911 no-par value bearer shares. All shares convey the same rights. Each share conveys one vote and is the determinant for participation in the Company's profit.

On 27 March 2008, the Annual General Meeting of IKB AG resolved a cash capital increase with shareholders' subscription rights of up to € 1,486,765,992.96, from € 247,794,332.16 to up to € 1,734,560,325.12. KfW had agreed that as many new shares as necessary in IKB AG would be subscribed to or acquired as a result of the capital increase to allow IKB AG to generate an inflow of at least € 1.25 billion (before costs). The new shares were offered to the shareholders of the Company in the period from 29 July 2008 to 11 August 2008 at € 2.56 per new share. A total of 487,288,757 new shares were purchased by KfW and 992,493 new shares by other shareholders for € 2.56 each. The capital increase was entered into the commercial register on 24 October 2008. As a result of this measure, the Company's share capital increased by € 1,250,000,000.00 to € 1,497,794,332.16.

By way of resolution of the Annual General Meeting on 28 August 2008, the Board of Managing Directors was authorised, with the approval of the Supervisory Board, to increase the share capital of the Company by total of up to € 500,000,000.00 against cash or non-cash contributions by issuing up to 195,312,500 new shares until 27 August 2013. With the approval of the Supervisory Board, the statutory subscription rights of shareholders can be disapplied under this authorisation. This authorisation was not utilised in the 2008/09 financial year.

By a resolution of the Annual General Meeting on 28 August 2008, the Board of Managing Directors was also authorised to issue convertible and option bonds with a total nominal value of € 900,000,000.00 and a maximum duration of 20 years by 27 August 2013 and to grant the bearers of these bonds conversion or option rights to shares in the Company with a stake of up to € 123,749,998.08 in the share capital according to the relevant bond conditions. The residual authorisation to issue convertible and option bonds of up to € 245,700,000.00 and the associated contingent capital of up to € 13,667.84 were revoked by way of resolution of the Annual General Meeting on 28 August 2008.

Utilising the authorisation of 28 August 2008, the Board of Managing Directors of the Company resolved on 19 November 2008 to issue subordinated bonds with a total nominal amount of up to € 123,671,070.72 with a contingent conversion obligation and contingent conversion privilege to up to 48,309,012 shares of the Company from the contingent capital with the subscription rights of shareholders in place. The conditions for the existence of a conversion obligation and conversion privilege are that the recessionary action against the authorisation granted on 28 August 2008 is settled and the contingent capital associated with the authorisation is entered as final into the Company's commercial register. The convertible bonds were offered to shareholders of the Company in a non-public offer for subscription between 24 November 2008 and

8 December 2008. A subsidiary of the Lone Star group, LSF6 Rio S.á.r.l., Luxembourg, has undertaken to assume all bonds not subscribed to by other shareholders. Bonds totalling € 150,174.72 were subscribed to by other shareholders and the remaining amount of € 123,520,896.00 was acquired by Lone Star (LSF6 Rio S.á.r.l.). A bond of nominally €23.04 entitles the bearer to subscribe to nine new shares from contingent capital at a conversion price of € 2.56 per share. Since 1 July 2009, the conditions for the existence of a conversion obligation and a conversion privilege have been met. As a result, a conversion privilege has existed since this time. A conversion obligation shall exist not later than on 11 April 2012, or earlier the Company falls below certain regulatory financial ratios.

Since LSF6 Rio S.á.r.l. utilised its conversion right in full on 2 July 2009, the Company's share capital increased by € 123,520,896.00 to € 1,621,315,228.16 with the issue of the subscribed shares.

By a resolution of the Annual General Meeting on 28 August 2008, the Company was also authorised to acquire and sell treasury shares for the purpose of securities trading until 27 February 2010. The amount of shares acquired for this purpose cannot exceed 5% of the share capital at the end of any one day. Together with the treasury shares acquired for other reasons held by the Company or assigned to it in accordance with sections 71a ff. AktG, the treasury shares acquired on the basis of this authorisation cannot exceed 10% of the share capital at any time. This authorisation was not utilised in the 2008/09 financial year.

In the Annual General Meeting held on 28 August 2008, the Company was also authorised to acquire treasury shares of up to 10% of the share capital for purposes other than securities trading until 27 February 2010. The shares can be acquired on the stock exchange or by way of a public bid to all shareholders. The acquisition of shares may be carried out using put or call options. Such share acquisitions are limited to shares of a maximum volume of 5% of the share capital at the time of the resolution on this authorisation by the Annual General Meeting on 28 August 2008. Together with the treasury shares acquired for trading purposes and other reasons held by the Company or assigned to it in accordance with Sections 71a ff. AktG, the treasury shares acquired on the basis of these authorisations may not exceed 10% of the share capital of the Company at any time. In line with a decision by the Board of Managing Directors, the acquired shares can be sold on the stock exchange or in some other way or, in full or in part, called in. These authorisations were not used in the 2008/09 financial year.

By way of resolution of the Extraordinary General Meeting on 25 March 2009, the Board of Managing Directors was authorised, with the approval of the Supervisory Board, to increase the share capital of the Company by total of up to € 247,499,996.16 against cash or non-cash contributions by issuing up to 96,679,686 new shares until 24 March 2014. With the approval of the Supervisory Board, the statutory subscription rights of shareholders can be disapplied under this authorisation. Recessionary and revocation claims have been brought against this resolution on which a verdict has not yet been reached.

By a further resolution of the Extraordinary General Meeting held on 25 March 2009, the Board of Managing Directors was authorised to issue convertible and option certificates and convertible and/or option bonds with a total nominal value of € 900,000,000.00 by 24 March 2014 and to grant the bearers of these bonds conversion or option rights to shares in the Company with a share of up to € 618,749,990.40 in the share capital according to the relevant bond conditions. The residual authorisation to issue convertible and option bonds of up to € 776,328,929.28 was revoked by way of resolution of the Extraordinary General Meeting on 25 March 2009. Actions for annulment have been brought against this resolution that have not yet been resolved.

The Federal Republic of Germany has a stake of 80% in KfW Bankengruppe, Frankfurt am Main, which held 45.48% of the voting rights in IKB AG directly and indirectly through its 100% subsidiary KfW Beteiligungs-holding GmbH, Frankfurt am Main as at 24 October 2008. On 24 October 2008, the share of voting rights held directly and indirectly through KfW Beteiligungsholding GmbH in the KfW Bankengruppe increased to 90.81%. Since 29 October 2008, this 90.81% share of voting rights has been held directly by LSF6 Europe Financial Holdings, L.P. (Delaware), Dallas, USA, and indirectly by LSF6 Europe Partners, LLC (Delaware), Dallas, USA, Lone Star Europe Holdings, L.P. (Bermuda), Hamilton, Bermuda, Lone Star Europe Holdings, Ltd. (Bermuda) Hamilton, Bermuda, and Mr John P. Grayken, USA. As a result of the exercise of conversion rights from bonds in the Company by the subsidiary of the Lone Star group, LSF6 Rio S.à.r.l., Luxembourg, on 2 July 2009, the share of the voting rights held by the Lone Star group shall increase slightly with the issue of subscribed shares to 91.5%.

On 24 October 2008, the share of voting rights held by the Stiftung zur Förderung der Forschung für die gewerbliche Wirtschaft (Stiftung Industrieforschung), Cologne, fell short of the 10% threshold for obligatory disclosure.

The members of the Board of Managing Directors are appointed and dismissed by the Supervisory Board in accordance with Section 84 AktG and Article 6 of the Articles of Association. The Supervisory Board consists of at least two members. The number of members is determined by the Supervisory Board. Appointments are for a maximum term of five years. A repeated appointment or extended term of office, both for a maximum of five years, are permitted. The Supervisory Board may revoke the appointment of members of the Board of Managing Directors if an important reason for such exists. In accordance with Section 179 (1) AktG and Article 17 of the Articles of Association, the Articles of Association of the Company may only be changed by a resolution of the General Meeting. The resolution to change to the Articles of Association requires a two thirds majority of the share capital represented at the time of passing the resolution, unless a larger majority is prescribed by the Stock Corporation Act. Changes to the Articles of Association regarding only the editorial form may be decided by the Supervisory Board.

The agreements with two former members of the Board of Managing Directors for the event of change of control in the Company are presented in the remuneration report. Employees' employment contracts do not contain any provisions for a change of control.

Report of the Board of Managing Directors on the disclosures in accordance with Section 315 (4) HGB

In the Group management report for the Company, the Board of Managing Directors made disclosures in accordance with Section 315 (4) HGB, as explained below:

- The composition of the share capital is based on Article 5 of the Articles of Association. The Company has only issued ordinary shares. There are no preference shares or special rights for individual shareholders.

- With regard to the expiry of the two authorisations on 27 February 2010 for the acquisition and sale of treasury shares for the purpose of securities trading and for other purposes, the Board of Managing Directors intends to request the Annual General Meeting in 2009 to issue new authorisations of a similar type.

- With LSF6 Europe Financial Holdings L.P., a company of the Lone Star financial investor, IKB has a main shareholder that supports a continued focus on the medium and long-term financing of German small and medium-sized enterprises with an extended range of services offered to Corporate Clients.

- The appointment and dismissal of members of the Board of Managing Directors is in accordance with the provisions of the law and the Articles of Association. In accordance with the by-laws of the Supervisory Board, the Supervisory Board appoints the Chairman of the Board of Managing Directors from the members of the Board of Managing Directors. Changes to the Articles of Association are facilitated to legally permissible extent.

Düsseldorf, 13 July 2009

IKB Deutsche Industriebank AG
The Board of Managing Directors

Consolidated Financial Statements in accordance with International Financial Reporting Standards as of 31 March 2009

- Consolidated income statement
- Consolidated balance sheet
- Statement of recognised income and expense
- Cash flow statement
- Notes

Consolidated income statement of IKB Deutsche Industriebank AG for the period from 1 April 2008 to 31 March 2009

	Notes	1 April 2008– 31 March 2009 in € million	1 April 2007– 31 March 2008 in € million*	Change in %
Net interest income	(23)	**302.6**	**451.6**	**–33.0**
Interest income		2 560.7	3 315.6	–22.8
Interest expenses		2 258.1	2 864.0	–21.2
Provision for possible loan losses	(24)	**589.6**	**255.2**	**>100.0**
Net interest income (after provision for possible loan losses)		**–287.0**	**196.4**	
Net fee and commission income	(25)	**33.2**	**54.7**	**–39.3**
Fee and commission income		53.7	67.0	–19.9
Fee and commission expenses		20.5	12.3	66.7
Net income from financial instruments at fair value	(26)	**–162.1**	**–1 830.2**	**–91.1**
Income from investment securities	(27)	**–282.1**	**–979.9**	**–71.2**
Net income from investment accounted for using the equity method	(28)	**–8.4**	**1.7**	
Administrative expenses	(29)	**375.3**	**386.0**	**–2.8**
Staff costs		179.4	190.7	–5.9
Other administrative expenses		195.9	195.3	0.3
Other operating result	(30)	**131.3**	**666.3**	**–80.3**
Other operating income		491.3	866.3	–43.3
Other operating expenses		360.0	200.0	80.0
Income from risk transfer	(31)	**–**	**2 401.0**	**–100.0**
Restructuring expense	(32)	**51.8**	**–**	
Operating result		**–1 002.2**	**124.0**	
Income taxes	(33)	–426.5	128.8	
Other taxes		4.6	5.8	–20.7
Consolidated net loss		**–580.3**	**–10.6**	**>100.0**
Minority interests		0.3	–0.1	
Consolidated net loss after minority interests		**–580.0**	**–10.7**	**>100.0**
Appropriation of earnings		502.5	–	
Consolidated cumulative loss		**–77.5**	**–10.7**	**>100.0**

* Figures adjusted

Earnings per share

	1 April 2008– 31 March 2009	1 April 2007– 31 March 2008*	Change in %
Consolidated net loss after minority interests (€ million)	–580.0	–10.7	>100.0
Average number of shares outstanding (million)	308.2	90.0	>100.0
Earnings per share (€)	**–1.88**	**–0.12**	**>100.0**

* Figures adjusted

In the reporting period, the number of shares outstanding rose to 585,075,911 no-par value bearer shares as a result of the capital increase effective 24 October 2008. Thus, there were an average of 308,160,243 shares outstanding in the 2008/09 financial year.

On 11 December 2008, IKB issued a bond with a contingent conversion obligation. In accordance with IAS 33, as the prescribed condition (for mandatory conversion) was not satisfied on 31 March 2009, the shares that could be contingently issued were not included in basic or diluted earnings per share.

Consolidated balance sheet of IKB Deutsche Industriebank AG as of 31 March 2009

	Notes	31 March 2009 in € million	31 March 2008 in € million*	Change in %
Assets				
Cash reserve	(8, 34)	4.2	308.8	–98.6
Loans and advances to banks	(9, 35)	2 979.5	2 850.3	4.5
Loans and advances to customers	(9, 36)	27 927.9	28 843.6	–3.2
Provision for possible loan losses	(10, 37)	–997.7	–861.2	15.8
Assets held for trading	(11, 38)	3 732.8	3 637.7	2.6
Investment securities	(12, 39)	10 236.3	12 839.7	–20.3
of which as of 31 March 2009 € 631.4 million (31 March 2008: € 1,957.0 million) investment securities pledged as collateral, available for sale or reassignment by the protection purchaser				
Companies accounted for using the equity method	(13, 40)	7.5	14.7	–49.0
Intangible assets	(14, 41)	19.1	32.1	–40.5
Property, plant and equipment	(15, 42)	256.1	218.8	17.0
Current tax assets	(16, 43)	57.7	44.8	28.8
Deferred tax assets	(16, 44)	256.2	183.6	39.5
Other assets	(17, 45)	228.2	2 111.1	–89.2
Non-current assets held for sale	(46)	3.1	–	
Total		**44 710.9**	**50 224.0**	**–11.0**
Equity and liabilities				
Liabilities to banks	(9, 47)	15 318.7	17 449.3	–12.2
Liabilities to customers	(9, 48)	5 818.8	5 751.5	1.2
Securitised liabilities	(18, 49)	14 025.9	18 184.8	–22.9
Liabilities held for trading	(11, 50)	5 480.0	5 410.9	1.3
Provisions	(19, 20, 51, 52)	172.3	83.7	>100.0
Current tax liabilities	(16, 53)	94.8	88.1	7.6
Deferred tax liabilities	(16, 54)	139.6	149.2	–6.4
Other liabilities	(17, 55)	514.1	163.4	>100.0
Subordinated capital	(21, 56)	1 391.7	1 779.7	–21.8
Equity	(22, 57)	1 755.0	1 163.4	50.9
Issued capital		1 497.8	247.8	>100.0
Capital reserves		597.8	597.8	–
Retained earnings		–206.8	318.3	
Currency translation reserve		–20.5	7.0	
Revaluation surplus		–35.9	2.8	
Minority interests		0.1	0.4	–75.0
Consolidated cumulative loss		–77.5	–10.7	>100.0
Total		**44 710.9**	**50 224.0**	**–11.0**

* Figures adjusted

Statement of recognised income and expense (SORIE)

	2008/09 in € million	2007/08 in € million*	Change in %
Gains/losses on remeasurement of securities	–13.4	–53.9	–75.1
Unrealised gains/losses from investment securities available for sale	–59.5	–20.2	>100.0
Reclassifications to income statement due to investment securities available for sale	46.1	–33.7	
Changes in value from hedges recognised in profit or loss (IFRS 1 IG 60B)	–37.4	–74.8	–50.0
Unrealised gains/losses on derivatives hedging fluctuations in future cash flows: Unrealised gains/loss for the period, before taxes	–12.1	–	
Currency translation differences	–27.5	22.2	
Changes due to actuarial gains/losses (IAS 19)	–27.2	2.7	
Deferred taxes on changes recognised directly in equity	33.2	41.0	–19.0
Net income recognised in equity	**–72.3**	**–62.8**	**15.1**
Consolidated net loss	**–580.3**	**–10.6**	**>100.0**
Total recognised gains/losses	**–652.6**	**–73.4**	**>100.0**
Attributable to shareholders of IKB	–652.3	–73.2	>100.0
Attributable to minority interests	–0.3	–0.2	50.0

* Figures adjusted

Changes in equity are presented in note (57).

Cash flow statement for the period from 1 April 2008 to 31 March 2009

in € million	2008/09	2007/08*
Consolidated net loss	**–580.3**	**–10.6**
Non-cash items included in net income for the year and reconciliation of net income to cash flow from operating activities		
+/– Write-downs, impairment, reversals of write-downs on receivables and addition to provisions for possible loan losses	593.2	262.0
+/– Write-downs less reversals of write-downs on property, plant and equipment and investment securities	383.4	990.0
+/– Changes in other non-cash items (essentially changes in other provisions and certain liabilities and positive and negative fair values of derivative financial instruments)	438.5	–2 490.2
+/– Gain on the disposal of investment securities	426.4	99.7
+/– Gain/loss on the disposal of property, plant and equipment	–0.1	1.2
+/– Other adjustments (essentially the reclassification of interest including net income from leases and income taxes)	–338.0	–274.6
Sub-total	**923.1**	**–1 422.5**
Changes in assets and liabilities from operating activities after adjustment for non-cash components		
+/– Loans and advances to banks	–86.0	1 560.0
+/– Loans and advances to customers	683.7	953.2
+/– Assets held for trading	–567.0	–1 451.8
+/– Other assets from operating activities	1 119.2	286.2
+/– Liabilities to banks	–2 199.2	3 768.3
+/– Liabilities to customers	285.5	1 407.4
+/– Liabilities held for trading	–51.4	3 834.1
+/– Securitised liabilities	–3 858.6	–11 540.8
+/– Other liabilities from operating activities	83.0	–38.7
+/– Interest and dividends received	2 411.1	3 208.5
– Interest paid	–1 931.1	–2 332.9
+/– Income tax	–2.5	–18.4
Cash flow used in operating activities	**–3 190.2**	**–1 787.4**
Proceeds from the disposal of		
+ Investment securities	5 414.0	4 542.6
+ Property, plant and equipment	25.6	52.6
Payments for the acquisition of		
– Investment securities	–3 622.7	–2 974.5
– Property, plant and equipment	–97.5	–97.0
Effects of the changes in the scope of consolidation	8.0	628.5
Cash flow from investing activities	**1 727.4**	**2 152.2**
+ Capital increases	1 250.0	54.3
+/– Net change due to other financing activities (reserves, subordinated capital, etc.)	–91.8	–139.0
Cash flow from/used in investing activities	**1 158.2**	**–84.7**
Cash and cash equivalents at end of the previous period	**308.8**	**28.7**
+/– Cash flow used in operating activities	–3 190.2	–1 787.4
+/– Cash flow from investing activities	1 727.4	2 152.2
+/– Cash flow from/used in investing activities	1 158.2	–84.7
Cash and cash equivalents at end of the period	**4.2**	**308.8**

* Figures adjusted

Notes

Table of contents

Principles of Group accounting 127

Special matters 131

Changes in accordance with IAS 8 135

a. Adjustment of accounting policies 135
b. Changes in estimates 135
c. Correction of errors 136
d. Overview of IAS 8 changes 136

Accounting policies 139

(1) Accounting principles 139
(2) Estimates and management assessments 139
(3) Scope of consolidation 141
(4) Consolidation methods 143
(5) Currency translation 143
(6) Financial instruments: recognition and measurement 144
(7) Classification of financial instruments in accordance with IFRS 7 151
(8) Cash reserve 152
(9) Loans and advances to, and liabilities from banks/customers 152
(10) Provision for possible loan losses 153
(11) Assets and liabilities held for trading 153
(12) Investment securities 154
(13) Companies accounted for using the equity method 154
(14) Intangible assets 154
(15) Property, plant and equipment 155
(16) Tax assets and liabilities/deferred tax assets and liabilities 156
(17) Other assets/liabilities 156
(18) Securitised liabilities 156
(19) Provisions for pensions and similar obligations 157
(20) Other provisions 158
(21) Subordinated capital 159
(22) Equity 160

Notes on the income statement 161

(23) Net interest income 161
(24) Provision for possible loan losses 162
(25) Net fee and commission income 163
(26) Net income from financial instruments at fair value 163
(27) Net income from investment securities 165
(28) Net income from investments accounted for using the equity method 166
(29) Administrative expenses 166
(30) Other operating result 168
(31) Income from risk transfer 169
(32) Restructuring expenses 169
(33) Taxes on income 169

Notes on the consolidated balance sheet (assets) 171

(34) Cash reserve 171
(35) Loans and advances to banks 171
(36) Loans and advances to customers 171
(37) Provision for possible loan losses 172
(38) Assets held for trading 174
(39) Investment securities 174
(40) Companies accounted for using the equity method 175
(41) Intangible assets 176
(42) Property, plant and equipment 176
(43) Current tax assets 176
(44) Deferred tax assets 177
(45) Other assets 178
(46) Non-current assets held for sale 178

Notes on the consolidated balance sheet (equity and liabilities) 179

(47) Liabilities to banks 179
(48) Liabilities to customers 179
(49) Securitised liabilities 180
(50) Liabilities held for trading 180
(51) Provisions for pensions and similar obligations 181
(52) Other provisions 184
(53) Current tax liabilities 185
(54) Deferred tax liabilities 185
(55) Other liabilities 186
(56) Subordinated capital 186
(57) Equity 189

Notes on the cash flow statement 194

Notes on segment reporting 195

(58) Segment reporting 195

Notes on financial instruments 198

(59) Income according to holding category and reconciliation to the income statement 198
(60) Classification of financial instruments in accordance with IFRS 7 200
(61) Fair value of financial assets and liabilities 201
(62) Derivatives 204
(63) Credit risks disclosures 207

Other disclosures 212

(64) Contingent assets/liabilities and other commitments 212
(65) Other financial obligations 213
(66) Leases 213
(67) Disclosures on collateral 215
(68) Securities repurchase agreements 216
(69) Statement of changes in non-current assets 217
(70) Maturity structure 218
(71) Contractual remaining terms of financial liabilities 219
(72) Average number of employees in the financial year 220
(73) Related party disclosures 220
(74) Remuneration and loans to executive bodies 223
(75) The Corporate Governance Code 223
(76) Events after 31 March 2009 223
(77) Executive bodies 224
(78) List of consolidated entities as of 31 March 2009 230

Principles of Group accounting

The consolidated financial statements were prepared by the Board of Managing Directors on 13 July 2009 and thereby approved for publication as defined by IAS 10.17 sentence 1. It is possible that the Supervisory Board will not approve the consolidated financial statements without changes.

The consolidated financial statements of IKB Deutsche Industriebank AG (IKB AG) as of 31 March 2009 have been prepared in accordance with the International Financial Reporting Standards (IFRS) applicable at the reporting date on the basis of Regulation No. 1606/2002 of the European Parliament and of the Council of 19 July 2002 and the related subsequent regulations. This includes the interpretations issued by the Standing Interpretations Committee (SIC) and the International Financial Reporting Interpretation Committee (IFRIC). The national provisions of section 315a (1) of the *Handelsgesetzbuch* (HGB – German Commercial Code) were also applied.

The consolidated financial statements include the balance sheet, the income statement, the statement of recognised income and expense, the cash flow statement and the notes to the consolidated financial statements. The segment reporting can be found in the notes.

Unless otherwise indicated, all amounts are stated in millions of euro (€ million). Amounts in millions and percentages are generally rounded to one decimal place in accordance with standard commercial principles. Some totals and percentages may contain discrepancies due to rounding differences.

Accounting provisions adopted for the first time

These consolidated financial statements are based on standards and interpretations that are mandatory within the European Union for the financial year. The interpretation that has been applicable since 2008, IFRIC 14 "IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction" does not apply to the IFRS consolidated balance sheet and consolidated income statement of IKB as of 31 March 2009.

In October 2008, the IASB passed amendments to IAS 39 and IFRS 7, permitting the reclassification of financial instruments under certain conditions with supplementary disclosures in the notes. While it was previously generally prohibited to reclassify financial instruments from the "at fair value through profit or loss" category, this ban has been partially lifted by the amendment to IAS 39.50.

The amendments were endorsed by the European Union with immediate effect in October 2008. The amendments to the standards did not affect IKB as it did not take advantage of the reclassification option.

New accounting provisions

The standards and interpretations published by the IASB before the balance sheet date of IKB are described below. The amendments to IFRS 2 "Share-based Payment", the consequential changes to IFRS 1 "First-time Adoption of International Financial Reporting Standards" in conjunction with IAS 27 "Consolidated and Separate Financial Statements", the original amendment to IFRS 1 "First-time Adoption of International Financial Reporting Standards", IFRIC 12 "Service Concession Arrangements" and IFRIC 13 "Customer Loyalty Programmes" have not been presented owing to a lack of relevance to IKB.

IKB will not be applying the standards and interpretations that are not yet mandatory early or voluntarily in these consolidated financial statements.

In November 2006, the IASB published IFRS 8 "Operating Segments". The new standard was endorsed in EU law in November 2007 and will replace IAS 14 "Segment Reporting" in future. The main differences as against the previous provisions of IAS 14 lie in the definition of operating segments and their standards of measurement with the introduction of the management approach as opposed to the previous risk and reward approach. In future, segment information will be presented in line with the same internal measurement standards as are used for regular internal management information. IFRS 8 applies to financial years beginning from 1 January 2009 onwards. The new regulations are not expected to have any significant effect for IKB.

The revised IAS 1 "Presentation of Financial Statements" was published in September 2007 and applies to financial years beginning on or after 1 January 2009. The amendments affect both terminology and extended comparative disclosures. This results in disclosure requirements as of three balance sheet dates in the year of transition in accounting policies or in the event of corrections in errors. On the one hand, the new standard requires a reorganisation of the content of the income statement. This new statement can either be shown in one table as a statement of comprehensive income (single-statement approach) or in two statements (two-statement approach), the income statement in its previous form and a supplementary statement. On the other hand, the revised version of IAS 1 entails a different presentation of equity. In future, statement of changes in equity, a condensed version of which is an independent component of the consolidated financial statements, shall only include changes in equity resulting from transactions with shareholders. Transactions not relating to shareholders are reported in the statement of other comprehensive income. In addition, the corresponding income tax must be shown for each individual component of other comprehensive income. Also, the company must disclose all reclassification adjustments in profit or loss that were taken directly to equity in previous years under other comprehensive income. Thus, the adoption of IAS 1 only affects the presentation of the various reporting elements (balance sheet, statement of comprehensive income, statement of changes in equity and the notes).

On 29 March 2007, the IASB published a revised version of IAS 23 "Borrowing Costs", applicable to financial years beginning on or after 1 January 2009. IAS 23 previously contained the option either to recognise borrowing costs relating directly to the acquisition, construction or manufacture of a qualified asset as an expense in the income statement or to capitalise them. Under the amended IAS 23, borrowing costs relating to qualifying assets must be capitalised. The adoption of this amendment will not have any significant effect for IKB.

In February 2008, the IASB published amendments to the standard IAS 32 “Financial Instruments: Presentation”, applicable to financial years from 1 January 2009 onwards. The basis structure of the definition of capital under IFRS has not been changed. However, the amendment to IAS 32 has granted two exceptions to this definition of capital. As a result, certain obligations shall in future be reported as equity in IFRS financial statements rather than as financial liabilities. This affects puttable instruments and financial instruments that result in a payment obligation for the company in the event of liquidation if these also represent the most subordinate class of capital. In this context, there were also amendments to IAS 1 concerning the disclosures on such instruments as of the time the above changes came into effect. The amendment does not have any effect on IKB.

As part of the ongoing IFRS annual improvement project, the IASB published an amendment standard for the first time in May 2008. In connection with the annual IFRS improvement project, a number of changes to existing standards were implemented, generally remedying inconsistencies within or between existing standards or to clarify the wording of standards. Most of these changes take effect for financial years beginning on or after 1 January 2009. The changes relevant to IKB will affect future accounting though no significant changes are expected.

The following standards and interpretations were published by the IASB but had not been endorsed in EU law as of the balance sheet date:

In January 2008, the IASB published a revised version of IFRS 3 “Business Combinations” and an amended version of IAS 27 “Consolidated and Separate Financial Statements”. Both amendments apply to financial years beginning on or after 1 July 2009. While the application of the purchase method to business combinations was developed further in IFRS 3, IAS 27 contains amended provisions for calculating minority interests and accounting for the loss of control over a subsidiary. Under the new provisions, changes to a parent’s interest in a subsidiary as a result of the acquisition of minority interests or the disposal of shares to minorities without losing control are recognised as equity transactions. Any difference between the purchase price or the proceeds from the sale and the pro rata carrying amount are offset in equity under retained earnings. However, sales of shares resulting in a loss of control are recognised in profit and loss.

In July 2008, the IASB published an amendment to IAS 39 “Financial Instruments: Recognition and Measurement” regarding qualifying hedged items. First-time adoption is required for financial years beginning on or after 1 July 2009. The amendment relates to the hedging of inflation risks with hedged items in specific cases and the designation of options at their intrinsic or fair value.

IFRIC 15 “Agreements for the Construction of Real Estate” was published in July 2008. The interpretation must be adopted for the first time for financial years beginning on or after 1 January 2009. The basic question behind IFRIC 15 is whether a contract is designed in such a way that is falls within the scope of IAS 11 “Construction Contracts” or if it has more features requiring the adoption of IAS 18 “Revenue”. This includes clarification of whether revenue can only be recognised on completion of the real estate (IAS 18) or whether it is reported in line with the progress of construction (IAS 11).

July 2008 also saw the publication of IFRIC 16 "Hedges of a Net Investment in a Foreign Operation". The interpretation must be adopted for the first time for financial years beginning on or after 1 October 2008. IFRIC 16 contains more precise specifications on the qualification of hedges on net investments in a foreign operation.

IFRIC 17 "Distributions of Non-cash Assets to Owners" was published in November 2008. The interpretation must be adopted for the first time for financial years beginning on or after 1 July 2009. The interpretation provides guidelines on when a dividend must be recognised and how it is measured. IFRIC 17 also regulates how differences arising from carrying amount of distributed assets compared to the obligation are handled.

In March 2009, IASB published amendments to IFRS 7 "Financial Instruments: Disclosures". The amendments relate to disclosures on the calculation of fair values and the liquidity risk. Information on the calculation of the fair value was specified such that a breakdown for each class of financial instrument is being introduced on the basis of a three-level fair value hierarchy. The extent of disclosure requirements is also being increased. The interpretation also clarified the disclosures on liquidity risk and other disclosures. Firstly, the maturity analysis will focus more strongly on how a company manages its liquidity risk in future. Secondly, more extensive qualitative information on liquidity risk management will be required. In this context, the maturities and amount of the cash flows shown must be explained. The amendments apply to financial years beginning on or after 1 January 2009. Early adoption is not required by law.

Also in March 2009. the IASB published amendments to IFRIC 9 "Reassessment of Embedded Derivatives" and IAS 39 "Financial Instruments: Recognition and Measurement". These amendments apply to financial years beginning on or after 1 January 2009. They clarify that when reclassifying specific financial instruments from at fair value through profit or loss, the embedded derivatives must be tested for separation requirements and possible recognised separately in the financial statements. However, if an estimate of the fair value of the separable derivative is not possible, the entire hybrid financial instrument must remain in the fair value through profit or loss category.

Special matters

Formation of special-purpose entities

a) Bacchus 2008-1, Bacchus 2008-2, REPV-DS and Sigismund

Primarily for the purpose of liquidity procurement, loans and advances to customers and securities were transferred to newly formed special-purpose entities – Bacchus 2008-1 Plc, Dublin, Bacchus 2008-2 Plc, Dublin, REPV-DS Finance 2008-1 GmbH, Frankfurt, and Sigismund CBO 2008-1 S.A., Luxembourg. In return, either all the debt instruments of the respective companies or the debt instruments that primarily bear the economic risk (junior loans) were acquired.

The purpose of these special-purpose entities is limited to the acquisition, holding and exploitation of precisely defined assets, the issue of debt instruments for refinancing and the performance of all transactions required to perform the above activities. The purpose of this company is geared towards the requirements of IKB. Decisions are either predetermined in the contract documents or made by IKB and the majority of risks and rewards lie with IKB. These special-purpose entities are therefore included in consolidation in accordance with IAS 27 in conjunction with SIC 12. The debt instruments acquired by third parties are assigned to the "other financial liabilities" category and measured at amortised cost.

b) Rio Debt Holdings (Ireland) Limited

In December 2008, IKB simultaneously transferred portfolio investments to the special-purpose entity Rio Debt Holdings (Ireland) Limited, Dublin, and granted it a loan that primarily bears the economic risks of the transferred portfolio investments. By way of this transaction, IKB limited the risks associated with these portfolio investments to the amount of the acquired junior loan. The rest of the special-purpose entity's refinancing is provided by third parties. The purpose of this company is geared towards the requirements of IKB. Decisions are either predetermined in the contract documents or jointly made by IKB and the majority of risks and rewards lie with IKB. This special-purpose entity is therefore included in consolidation in accordance with IAS 27 in conjunction with SIC 12. In accordance with IAS 39.11A in conjunction with IAS 39.10 and IAS 39.11, the refinancing capital provided by third parties is assigned to the category of financial liabilities at fair value through profit or loss as it contains embedded derivatives on account of the contractual agreements that the cash flows from the liability shall not change only insignificantly or it is not clear without (considerable) analysis that the separation of the embedded derivate or derivates is not permitted.

c) Weinberg 2 Funding Ltd.

As part of an ABS transaction, the leasing companies sold receivables from leasing business or hire purchase contracts to the special-purpose entity Weinberg 2 Funding Ltd., Dublin. As the recognition of the receivables in the financial statements is unchanged as there has been no real sale of receivables, the negative effect on the net assets and results of operations is only immaterial. For this reason the company was not included in consolidation.

Sonderfonds Finanzmarktstabilisierung (SoFFin – Special Fund for the Stabilisation of the Financial Market)

In December 2008, the Financial Market Stabilisation Fund (SoFFin) granted IKB guarantees for new bonds of up to € 5 billion. The guarantees can be used to secure issues. The IKB Board of Managing Directors had applied for guarantees because the situation on the money and capital markets since the insolvency of the Lehman Brothers investment bank in September 2008 deteriorated in such a radical fashion that trading in bank debt instruments had virtually ground to a halt, rendering it almost impossible to obtain adequate refinancing.

With the liquidity situation at IKB remaining difficult, there were two issues of fixed-income bearer bonds with a volume of € 2.0 billion each utilising the SoFFin guarantees in January and March 2009. The SoFFin guarantee was then fully utilised for an issue of € 1 billion in April 2009.

The fixed-interest risk associated with the bonds was eliminated using interest rate swaps, whereby the bonds were assigned to the fair value through profit and loss category. In line with this, subsequent measurement (through profit and loss) is at fair value. There are observable market prices for these issues.

The SoFFin guarantee is a financial guarantee contract as defined by IAS 39.9 that is not recognised separately in line with IAS 39 and instead influences the fair value of the bond classified as at fair value through profit or loss.

Sale of the KfW IKB shares to Lone Star

The interest of 90.8% held by KfW in IKB AG was transferred to LSF6 Europe Financial Holdings L.P (Delaware), Dallas, by way of a purchase agreement on 29 October 2008. Further information on this can be found in the Group management report.

Issue of mandatory convertible bonds

On account of the authorisation of the Annual General Meeting of IKB on 28 August 2008, the Board of Managing Directors of IKB resolved to issue subordinated bonds of € 123.7 million with a contingent conversion obligation and contingent conversion privilege in denominations of € 23.04. The conditions giving rise to the conversion privilege and the conversion obligation are the discharge of certain investor lawsuits and the entry of the resolution on the contingent capital increase in the commercial register. As these conversion conditions were met on 1 July 2009, the conversion obligation shall arise no later than on 12 April 2012 or earlier if IKB exceeds specific regulatory ratios. On 2 July 2009, LSF6 Rio S.a.r.l. exercised its conversion right in the amount of € 123.5 million.

Shareholders were offered the chance to subscribe to these bonds in a non-public offer in the ratio of 109 shares to one bond. One bond entitles the bearer to subscribe to nine new shares at a conversion price of € 2.56 per share.

The bond represents a financial liability and is therefore reported under subordinated liabilities. The bond is assigned to the category of other financial liabilities while the separable embedded derivatives are recognised at fair value through profit and loss and reported separately under assets and liabilities held for trading.

Registered bonds

On 24 November and 16 December 2008, IKB issued subordinated registered bonds ranking equally with all the issuer's other subordinated liabilities. They will be repaid either on maturity in 2018 or early by way of redemption by the issuer from 2013 and on every subsequent interest payment date.

The basic contract is assigned to the category of other financial liabilities and reported at fair value on addition (IAS 39.43) and at amortised cost subsequently (IAS 39.47).

The redemption right represents a separable embedded derivative and is reported under assets held for trading on addition and measured at fair value.

By way of an agreement dated 5 June 2009 entailing a debt waiver and compensation from future profits between LSF6 Europe Financial Holdings L.P. and IKB AG, LSF6 Europe Financial Holdings L.P. – as the bearer of subordinated bonds of IKB AG with a total nominal amount of € 101.5 million – waived its claims to repayment and future interest payments from these bonds against IKB AG, suspensively conditional on the occurrence of future profits.

Dissolution of risk shielding

On 24 July 2008, an agreement was concluded between IKB and KfW Bankengruppe (KfW) on the early dissolution of the remaining risk shielding for the portfolio investments of the IKB Group. As a result, the related credit default swap and the guarantee were settled and dissolved in full. As a result, receivables from KfW Bankengruppe previously contained in other assets in the amount of € 358 million were repaid. In return, IKB paid KfW a residual fee of € 1 million and US$ 5 million, which is included in other operating expenses.

As part of the settlement agreement KfW and IKB of 28 October 2008, remaining amounts from the assumption of liability (risk shielding for Havenrock companies) were transferred by KfW to IKB. These included liabilities on account of Havenrock I Ltd. of US$ 856.3 million and on account of Havenrock II Ltd. in of US$ 332.6 million.

Recognition of restructuring measures

Restructuring activities were shown in the consolidated financial statements by impairment on the assets affected by restructuring, the recognition of provisions for restructuring measures and the classification of assets as "non-current assets held for sale".

If there were indications that the carrying amount was less than the recoverable amount, assets were written down to the recoverable amount. The recoverable amount is the lower of fair value net of selling costs and the value in use of an asset.

Provisions for restructuring measures are recognised by IKB when there is a detailed, formal plan for restructuring measures as of the balance sheet date and the implementation of this plan has already begun or the key details of the restructuring have been announced. The detailed plan includes the divisions concerned, the approximate number of employees requiring compensation in the event of redundancy, the costs entailed and the period over which the restructuring measures are to be implemented. The detailed plan must be communicated in such a way that the persons affected can expect it to be implemented. The provisions recognised include obligations from employee redundancies, the dissolution of contractual relationships and the other costs of restructuring. Provisions are carried at the amount required to meet these obligations as of the balance sheet date on the basis of a best possible estimate. Provisions that are not to be utilised within twelve months of the balance sheet date are discounted.

The restructuring expenses item in the income statement contains other expenses in connection with the restructuring that necessarily arise as part of the restructuring and do not relate to the enterprise's ongoing activities but are not included in the restructuring provisions.

Assets intended for sale as part of the restructuring are classified as non-current assets held for sale if the carrying amount will be recovered principally through a sale transaction rather than through continuing use. This is the case if the asset is available for immediate sale in its present condition and disposal is highly probable within twelve months of classification as a non-current asset held for sale.

Changes in accordance with IAS 8

These financial statements contain various changes as against the previous year. To ensure comparability between the different sets of financial statements, the adjustments described below were made to last year's consolidated financial statements prepared on 8 July 2008:

a. Adjustment of accounting policies

Income and expenses from operating leases have been reclassified from net interest income to other operating result. As of 31 March 2008, this resulted in a reduction of interest income by € 116.8 million and a reduction of interest expenses of € 112.7 million, an increase in other operating income of € 116.8 million and an increase in other operating expenses of € 112.7 million.

Planned income from contractual trust arrangements (CTA) is no longer reported under staff costs and is now reported under interest income. This resulted in an increase in interest income and a decrease in staff costs of € 9.5 million each.

b. Changes in estimates

In determining the portfolio allowances for the reporting year, the parameters for estimating the probability of default were adjusted in line with the default definition under Basel II. In addition, the probabilities of default derived on the basis of historical data were increased in the model by using macroeconomic parameters to reflect economic expectations.

Risk management previously used a mathematical model based on a historical database to calculate probabilities of default. The forecast for default probabilities for the 2009/10 financial year is subject to considerable uncertainty in light of the unprecedented economic environment. To reflect this situation the forecast produced by the above mathematical model was increased by an additional premium based on expert opinions. These expert estimates are based on macroeconomic models that derive a connection between the expected probabilities of default and overall economic developments. To estimate the losses incurred but not yet identified as of the measurement date, a premium of 40% was added to the historical probabilities of default.

The loss given default (LGD) estimate was changed from the general recognition of empirical rates of default to a calculation for each individual loan, taking into account the collateral in place per individual exposure. The Bank feels that the higher expected loss ratios produced by this are in line with the risks involved, in light of the worse realisation prospects due to the economic conditions.

Compared to the calculation parameters used at the start of the financial year, this resulted in a total increase of € 97.8 million. This breaks down among the individual changes in estimates as follows:

- Basel II definition of default: € 36.5 million
- increased probabilities of default: € 33.8 million
- calculation of LGD per individual credit: € 27.5 million

The change in estimates was included prospectively in line with IAS 8.

c. Correction of errors

In consolidating an impairment on intercompany financial instruments at equity in the consolidated financial statements as of 31 March 2008, the relevant deferred tax assets were inadvertently adjusted through profit and loss and not at equity. As a result an excessive figure of € 27.1 million was posted for both income taxes and the revaluation surplus.

The commitment fees paid in connection with granting loans were not expensed to date and were recognised in income as interest income over the term of the underlying loan. The correction of the treatment of commitment fees resulted in a reduction of € 25.3 million in the comparative prior-year figure for loans and advances to customers, of € 21.6 million for revenue reserves and € 3.7 million for interest income. This also resulted in a reduction in income tax expenses of € 1.2 million, an increase in deferred tax assets of € 8.0 million and an increase in revenue reserves of € 6.8 million.

On account of measurement parameters not previously recognised, individual financial assets carried at fair value had to be revalued. The carrying amount of financial assets and the net income from financial instruments at fair value were each reduced by € 4.8 million as of 31 March 2008 on account of the revaluation. This resulted in a reduction of income tax expenses of € 1.5 million and an increase in deferred tax assets of € 1.5 million.

d. Overview of IAS 8 changes

The effects of the changes described on the consolidated balance sheet and the consolidated income statement for the comparative year are summarised in the following tables:

in € million	IAS 8 section	1 April 2007– 31 March 2008 before changes	Changes in line with IAS 8	1 April 2007– 31 March 2008 after changes
Net interest income		**449.9**	**1.7**	**451.6**
Interest income	a, c	3 426.6	–111.0	3 315.6
Interest expenses	a	2 976.7	–112.7	2 864.0
Provision for possible loan losses		**255.2**	**–**	**255.2**
Net interest income after provision for possible loan losses		**194.7**	**1.7**	**196.4**
Net fee and commission income		**54.7**	**–**	**54.7**
Fee and commission income		67.0	–	67.0
Fee and commission expenses		12.3	–	12.3
Net income from financial instruments at fair value	c	**–1 825.4**	**–4.8**	**–1 830.2**
Income from investment securities		**–979.9**	**–**	**–979.9**
Net income from investments accounted for using the equity method		**1.7**	**–**	**1.7**
Administrative expenses		**376.5**	**9.5**	**386.0**
Staff costs	a	181.2	9.5	190.7
Other administrative expenses		195.3	–	195.3
Other operating income		**662.2**	**4.1**	**666.3**
Other operating income	a	749.5	116.8	866.3
Other operating expenses	a	87.3	112.7	200.0
Income from risk transfer		**2 401.0**	**–**	**2 401.0**
Restructuring expense		**–**	**–**	**–**
Operating result		**132.5**	**–8.5**	**124.0**
Income taxes	c	158.6	–29.8	128.8
Other taxes		5.8	–	5.8
Consolidated net loss		**–31.9**	**21.3**	**–10.6**
Minority interest		–0.1	–	–0.1
Consolidated net loss after minority interests		**–32.0**	**21.3**	**–10.7**
Appropriation of earnings		–	–	–
Consolidated cumulative loss		**–32.0**	**21.3**	**–10.7**

in € million	IAS 8 section	31 March 2008 before changes	Changes in line with IAS 8	31 March 2008 after changes
Assets				
Cash reserve		308.8	–	308.8
Loans and advances to banks		2 850.3	–	2 850.3
Loans and advances to customers	c	28 868.9	–25.3	28 843.6
Provision for possible loan losses		–861.2	–	–861.2
Assets held for trading		3 637.7	–	3 637.7
Investment securities	c	12 844.5	–4.8	12 839.7
Companies accounted for using the equity method		14.7	–	14.7
Intangible assets		32.1	–	32.1
Property, plant and equipment		218.8	–	218.8
Current tax assets		44.8	–	44.8
Deferred tax assets	c	174.1	9.5	183.6
Other assets		2 111.1	–	2 111.1
Assets held for sale		–	–	–
Total		**50 244.6**	**–20.6**	**50 224.0**
Equity and liabilities				
Liabilities to banks		17 449.3	–	17 449.3
Liabilities to customers		5 751.5	–	5 751.5
Securitised liabilities		18 184.8	–	18 184.8
Liabilities held for trading		5 410.9	–	5 410.9
Provisions		83.7	–	83.7
Current tax liabilities		88.1	–	88.1
Deferred tax liabilities		149.2	–	149.2
Other liabilities		163.4	–	163.4
Subordinated capital		1 779.7	–	1 779.7
Equity	c	1 184.0	–20.6	1 163.4
Issued capital		247.8	–	247.8
Capital reserves		597.8	–	597.8
Retained earnings	c	333.1	–14.8	318.3
Currency translation reserve		7.0	–	7.0
Revaluation surplus	c	29.9	–27.1	2.8
Minority interests		0.4	–	0.4
Consolidated cumulative loss	c	–32.0	21.3	–10.7
Total		**50 244.6**	**–20.6**	**50 224.0**

Changes are shown in earnings per share, the statement of recognised income and expense, the cash flow statement, the statement of changes in equity (note 57) and in segment reporting (note 58).

Accounting policies

(1) Accounting principles

In accordance with IAS 27, the accounting policies were applied consistently throughout the Group and the consolidated financial statements were prepared on a going concern basis.

Generally, the financial statements of the consolidated subsidiaries are prepared as of the reporting date of the parent company. The financial statements prepared as of 31 December 2008 are shown in the scope of consolidation. Adjustments for significant effects in the transition period from 31 December 2008 to 31 March 2009 were recognised if material.

(2) Estimates and management assessments

The financial information provided is based partially on judgments and assumptions by the management on future developments and on past experience and influences the reporting of assets and liabilities and the expenses and income included in the income statement. All assumptions, estimates and judgments were made in line with the respective standards and take into account circumstances as of the respective balance sheet date. If assumptions relate to future developments, carrying amounts in the balance sheet are based on management estimates as of the balance sheet date. If more extensive additional estimates and assumptions were required, additional information is provided in the notes to the individual items.

In particular, this affects the following positions:

- Determination of the fair value of specific financial assets and liabilities. In assessing the measurement of financial instruments carried at fair value, it is of significance whether the fair value is based on a market price from an active market. A financial instrument is regarded as quoted in an active market if quoted prices are available from an exchange, dealer, broker, industry group or pricing service easily and regularly accessible to a regulatory agency. The prices must also represent actual and regularly occurring market transactions on an arm's length basis. If there are no prices quoted in active markets the Group uses appropriate measurement procedures for each financial instrument to determine its fair value. The parameters of the measurement models are derived from similar financial instruments traded in active markets. Assumptions and estimates, such as those for expected market risks, model risks and credit risks, are made in implementing the models to show any uncertainty reflected in fair values. It is the responsibility of the management to assess the appropriateness of the parameters used in the models.

  For fair values calculated on the basis of measurement techniques where the value would change significantly if one or more model assumptions were adjusted, IKB advises readers of this face and explains their effects.

- Calculation of impairment. Loans and advances to customers and other banks and assets reported under financial assets as “available for sale” and “loans and receivables” are regularly assessed to determine the extent to which there are objective indications of impairment and the amount of impairment required.

  For assets reported under loans and advances to customers and other banks as “loans and receivables” the objective indications of possible impairment considered include the increased probability of the debtor initiating insolvency proceedings, payments being in arrears by more than 90 days, restructuring measures or negative developments. An economy factor is used to estimate the expected losses of portfolio allowances taking into account the economic developments of the next twelve months. The economy factor is determined quarterly on the basis of the current average credit rating, migration expectations and other economic forecasts.

- Calculation of deferred tax receivables. Deferred tax assets and liabilities result from the difference between the IFRS carrying amounts and the tax carrying amounts of assets, liabilities and loss carryforwards and the resulting expected future income tax expenses or relief. Deferred tax assets are recognised and adjusted in line with management assessments of the items’ value and the estimate of the consolidated results to be generated in future. The estimates made by the management are based on historical data and planning forecasts.

- Calculating provisions for pensions and other obligations. A provision is recognised when an enterprise has a present legal or constructive obligation as a result of a past event, an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. In line with IAS 37, provisions are recognised in the amount of the present value of expected utilisation. The amount recognised for the provision is the best possible estimate by management of the spending required to fulfil the obligation at the balance sheet date.

  Retirement benefits for active and former employees are based on defined benefit plans. Provisions are recognised for these in line with IAS 19.54 that reflect the present value of the defined benefit obligation in line with the projected unit credit method. The calculation of the present value includes estimates of biometric data, expected increases in salaries and pensions, pension obligations and obligations for partial and early retirement and anniversaries.

  Also, the development of plan assets is shown using simulation models on the basis of parameter variations.

(3) Scope of consolidation

In addition to the parent company, a total of 27 German companies (31 March 2008: 29) and 17 foreign companies (31 March 2008: 16) are included in the consolidated financial statements of IKB in accordance with IAS 27 as of 31 March 2009. IKB directly or indirectly holds the majority of the voting rights in these companies.

In line with SIC 12, the consolidated financial statements also include one (31 March 2008: zero) German and six (31 March 2008: four) foreign special-purpose entities. The consolidated companies are listed in note (78).

The change in the scope of consolidation during the financial year relates to the following companies:

The following companies were included in the consolidated financial statements for the first time in the 2008/09 financial year: IKB Leasing-Gruppe formed a further subsidiary, IKB Leasing Finance IFN SA, Bucharest, to provide its business partners in Romania with finance leases in addition to operating leases. The main activities of the new company relate to finance leases.

The purpose of the German special-purpose entity REPV-DS Finance 2008-1 GmbH, Frankfurt am Main, formed on 12 September 2008, and the foreign special-purpose entity Sigismund CBO 2008-1 S.A., Luxembourg, formed on 18 July 2008, the foreign special-purpose entity Bacchus 2008-1 Plc, Dublin, formed on 8 August 2008, the foreign special-purpose entity Bacchus 2008-2 Plc, Dublin, formed on 14 August 2008, is the acquisition and securitisation of receivables.

The purpose of the foreign special-purpose entity Rio Debt Holdings (Ireland) Limited, Dublin, is the acquisition of a portfolio of structured credit products of IKB AG and IKB International S.A. and the simultaneous refinancing of this portfolio by issuing promissory note loans.

The following companies were no longer included in the consolidated financial statements in the 2008/09 financial year: AIVG Allgemeine Verwaltungsgesellschaft mbH, Düsseldorf, was sold by way of notarised agreement dated 23 December 2008. The disposal led to a gain on deconsolidation of € 2.6 million.

Following its restructuring as a *Kommanditgesellschaft* (limited partnership under German law) and the subsequent resignation of all other shareholders, IKB Credit Asset Management GmbH, Düsseldorf, was integrated into IKB AG effective 1 April 2008. As part of this integration (dissolution without settlement) all of the assets and liabilities of IKB Credit Asset Management GmbH were transferred to IKB AG. IKB Credit Asset Management GmbH was thereby dissolved.

Following the disposal of the financial instruments it held (31 July 2008) and the subsequent partial repayment of the commercial papers it had issued, Rhinebridge plc, Dublin, which had been in receivership since October 2007, was deconsolidated for reasons of materiality as of 30 September 2008. There was no deconsolidation result. Following the disposal of its investments by auction, Rhinebridge only has cash and cash equivalents used to settle the cost incurred prior to the final liquidation of the company. If any assets remain after the settlement of these costs, they will be distributed to the commercial paper investors. Liquidation will occur within the next six years. Any further charges for the IKB Group are excluded.

A note of the issue company ELAN Ltd. was sold in March 2009. This led to a reduction in the cells of ELAN Ltd. consolidated by IKB. The deconsolidation of the cell had no significant effect on the income statement.

The transaction with the special-purpose entity Sigismund CBO 2008-1 S.A., Luxembourg, was ended in February 2009. Following the reversal of the transaction, the company has no significant assets or liabilities, resulting in its deconsolidation for reasons of materiality. The deconsolidation had no significant effect on the income statement.

By way of agreement dated 22/23 September 2008, IKB Beteiligungen GmbH acquired IVG Kavernen GmbH at a purchase price of € 213 million subject to a suspensive condition. The suspensive condition was satisfied in November 2008. IVG Kavernen GmbH was merged with IKB Beteiligungen GmbH by way of notarised agreement dated 17 December 2008. The company thereby ceased to exist and was removed from the scope of consolidated companies. At the time of first-time consolidation, goodwill of € 186 million was created by way of the acquisition. As a result of the write-down of goodwill and the release of an assumed tax provision of € 373 million, income of € 187 million was realised on this transaction. This was not disclosed in accordance with IFRS 3.70 on account of the addition and disposal between two reporting periods within the financial year. There was no other effect on profit or loss as all operating activities were hived off prior to the first-time consolidation of IVG Kavernen GmbH.

While the companies ProPart Funding Limited Partnership (ProPart), Jersey, Capital Raising GmbH, Norderfriedrichskoog, and Hybrid Raising GmbH, Norderfriedrichskoog, meet the requirements of SIC 12 for consolidated special-purpose entities, their inclusion in consolidation had no significant effect on the overall consolidated financial statements as they are intermediary vehicles. They were therefore not included in consolidation for reasons of materiality.

The Weinberg companies were not included in consolidation due to materiality reasons, the lack of a genuine sale of receivables and the unchanged recognition of the receivables in the financial statements.

In addition to the companies included and not included in consolidation above, IKB has interests in various companies in different functions. However, taking into account the overall economic circumstances, none of these meets the conditions for consolidation under IAS 27 or SIC 12. For example, the Bacchus special-purpose entities formed before 2008 for securitisation as part of a collateralised debt obligation programme, were not included in the IFRS scope of consolidation. In these securitisation transactions, the Bacchus special-purpose entities acquire loans that are refinanced by issuing notes and unrated subordinated notes. Some of the rated notes and the unrated subordinated notes are components of combination notes, some of which were acquired by IKB. IKB also assumes a share of the first loss piece by way of the direct acquisition of subordinated notes. Proposals for the acquisition of special-purpose entities are made by IKB; decisions on the acceptance or rejection of proposals are made by a body independent of IKB. Taking into account the overall economic circumstances, there is no obligation to include the Bacchus companies in line with the consolidation criteria of IAS 27 and SIC 12 as decision-making power is essentially exercised by the executive body of the Bacchus companies and IKB does not bear the majority of the risks and rewards in spite of its holdings in the combination and subordinated notes.

(4) Consolidation methods

Companies are consolidated using the purchase method, according to which all assets and liabilities of the relevant subsidiary are measured at fair value as at the time of acquisition. Under IFRS, new equity is calculated and the carrying amount of the investment is offset against this new equity. Any remaining positive difference is reported under intangible assets as goodwill. Any negative difference is recognised through profit and loss after the remeasurement of these assets and liabilities.

Inter-company receivables and liabilities, gains and losses and income and expenses from inter-company transactions, are eliminated in accordance with IAS 27.

Associated companies are measured at equity and shown separately in the balance sheet as companies carried at equity. The carrying amounts of these investments and any goodwill are calculated as of the time of first inclusion in the consolidated financial statements. The same rules are applied as for subsidiaries.

The measurement at equity option is used to show interests in joint ventures.

In line with IAS 28 in conjunction with IAS 39, direct investments of IKB Private Equity GmbH, IKB Capital Fund I GmbH & Co. KG, IKB Erste Equity Suporta GmbH and IKB Dritte Equity Suporta GmbH are carried at fair value and reported under investment securities.

Subsidiaries acquired or sold during the course of the year are included in the consolidated income statement from the date of acquisition or until the date of disposal.

(5) Currency translation

Monetary assets and liabilities arising from foreign currency transactions are translated at the closing rate as of the balance sheet date in line with IAS 21. The closing rate is the reference rate of the European Central Bank on the balance sheet date. Foreign currency effects are reported in net income from financial instruments at fair value.

Non-monetary items measured at cost are translated at the historical rate. Non-monetary items measured at fair value in equity (or through profit and loss) are translated at the closing rate and translation differences are taken to equity (profit and loss).

The foreign-currency annual financial statements of foreign subsidiaries are translated in line with the modified closing rate method. With the exception of the revaluation surplus, equity is translated at the historical rate and all other balance sheet items are translated at the reference rate of the European Central Bank on the balance sheet date. All expenses and income are translated at the average rate. Any resulting foreign exchange gains and losses are recognised directly in equity. Foreign exchange gains or losses resulting from consolidation are also reported separately in equity.

(6) Financial instruments: recognition and measurement

Accounting for financial instruments is regulated in IAS 39 “Financial Instruments: Recognition and Measurement”. This states that all financial instruments are recognised at fair value at the time of addition. The date of addition for derivatives is always the trade date. Financial instruments that are settled within a generally accepted settlement period are recognised or de-recognised by IKB at the settlement date. If financial instruments are not settled within this standard market period, they are carried at fair value as forward transactions. Under IAS 39, the fair value of a financial asset or a financial liability is the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm’s length transaction.

All financial assets and liabilities must also be assigned to a measurement category. The classification of a financial instrument determines how it is measured in the balance sheet (at fair value, amortised cost) and the extent to which changes in measurement are shown in the income statement of the revaluation surplus. The IKB Group implements the regulations of IAS 39 as follows:

Financial assets

- Financial assets at fair value through profit or loss. Financial instruments in this category are measured at fair value both on addition and at subsequent balance sheet dates. Any net gain or loss on remeasurement is recognised in the income statement under net income from financial instruments at fair value. This category consists of the following:

  – Held for trading. Financial instruments acquired with the intention of generating a profit in the near future are classified as *financial assets held for trading*. Derivative financial assets are always classified as *held for trading* unless they are for hedging and are used effectively. In this case, the hedge derivatives are reported separately under *positive fair value of derivative hedging instruments* in assets held for trading.

  – Fair value option. Under specific conditions, the fair value option of IAS 39 allows for financial assets not held for trading to be irrevocably classified as financial instruments subsequently measured at fair value through profit or loss on first-time recognition. This does not include equity instruments for which there are no listed market prices on active markets and whose fair values cannot be reliably measured.

  This voluntary allocation is only permitted if

  – o accounting mismatches are avoided or substantially reduced or

  – o the financial instrument contains one or more embedded derivatives or

  – o the management and performance measurement of a portfolio of financial instruments is based on its fair value.

  Financial instruments for which the fair value option has been exercised are reported in their respective, product-specific balance sheet item. Changes in value are recognised in the income statement under net income from financial instruments at fair value.

- Loans and receivables. All non-derivative financial assets with fixed or determinable payments that are not traded in an active market are assigned to the loans and receivables category.

  Financial instruments in this category are carried at fair value plus transaction costs on addition. Subsequent measurement is at amortised cost. Premiums and discounts are recognised in profit and loss in net interest income over their remaining term in line with the effective interest method.

- Held to maturity. IKB does not currently allocate any financial instruments to this category.

- Available for sale. All non-derivative financial assets that are not allocated to any of the above categories are assigned to this category.

  Initial and subsequent measurement in this category are at fair value. In cases where the fair value of equity instruments cannot be reliably measured, subsequent measurement is at cost.

  The difference between the fair value and the amortised cost is reported separately in equity (revaluation surplus) until the asset is disposed of or impaired as defined by IAS 39.67. In the event of impairment, any change in value recognised in the revaluation surplus prior to this time is reclassified to the income statement (net income from investment securities). A distinction must be made between debt and equity instruments in the event of reversals of impairment. Reversals of impairment losses for equity instruments are recognised in equity in the revaluation surplus. Reversals of impairment losses for debt instruments are recognised in the income statement.

  Premiums and discounts are recognised in profit and loss in net interest income over their term in line with the effective interest method.

Financial liabilities

- Financial liabilities at fair value through profit or loss. As on the assets side of the balance sheet, there are two sub-categories for financial liabilities in this category:

  - Held for trading. This category includes financial liabilities entered into with the intention of generating a profit in the near future. Derivative financial liabilities are always classified as held for trading unless they are for hedging and are used effectively. In this case, the hedge derivatives are reported separately under negative fair value of derivative hedging instruments in liabilities held for trading.

  - Fair value option. The fair value option applies to financial liabilities under the same conditions as on the assets side of the balance sheet.

    The accounting policies for financial obligations in this category are the same as those for the assets side of the balance sheet. It should be noted that the fair value of a financial liability is dependent on the credit rating of the Bank. An improvement (deterioration) in the credit rating of the Bank leads to an increase (reduction) in the fair value. The gains and losses relating to changes in the credit rating are explained in the notes.

- Other financial liabilities (IAS 39.47). The financial instruments held under “Other financial liabilities” are all the financial liabilities not recognised at fair value through profit or loss.

They are measured at amortised cost. Premiums and discounts are recognised in profit and loss in net interest income over their term in line with the effective interest method. Measurement at amortised cost using the effective interest method implies for liabilities in which, for example, interest deferral or loss participation can arise in particular that these liabilities are recognised at present value in line with IAS 39 AG 8. These transactions are recognised at present value at each balance sheet date, which is calculated by reassessing the underlying interest and repayment cash flows, discounted with the instrument’s original yield (effective interest rate on the issue date). Possible changes in carrying amount resulting from this are reported in profit and loss under other operating income. Accordingly, any loss participation or deferred interest is taken into account in the present value.

This method applies to other financial liabilities:

- loans with debt waivers and compensation from future profits that are reported under liabilities to customers

- subordinated capital (subordinated liabilities, profit participation rights, silent partnerships/preferred shares)

Derecognition of financial instruments

The derecognition of financial assets must be examined on the joint basis of IAS 27 and SIC 12.

Financial assets are derecognised when the contractually cash flow claims from the financial asset expire or are transferred. If transferred, it must be determined whether the Group has assumed the obligation to forward these cash flows to one or more recipients in the event of certain criteria without drawing any further benefit. A financial asset is fully derecognised if essentially all the risks and rewards incidental to ownership of the asset are transferred. However, derecognition does not occur if essentially all the risks and rewards are retained.

In the event of transactions in which essentially all the risks and rewards incidental to ownership of the asset are neither retained nor transferred, the transferred assets are only derecognised if control of this asset is surrendered. The rights and obligations retained under the transfer are recognised separately as assets and liabilities.

If not all the risks and rewards are transferred and control is retained, these assets are reported further in line with the extent of the continuing exposure.

A financial liability is derecognised when it has bee repaid, i.e. when the obligations incidental to it have been discharged, cancelled or expire.

Measurement of portfolio investments

If a listed price is available for a security, this is the fair value. In light of market developments, IKB has extended the measurement procedures it uses for calculating the fair value of certain securities and the value of embedded credit derivatives, taking into account the IDW position paper on accounting issues in connection with the subprime crisis dated 10 December 2007. The following procedure is used to derive the fair value:

Measurement of asset-backed securities (ABS). If there is a price from an external data provider for the securities after validation this is used to calculate the fair value. A present value is determined for the remaining securities on the basis of contractually agreed cash flows with spreads for securities with similar risk profiles.

Measurement of CDOs referencing ABS securities with subprime shares in particular. A present value is calculated for these securities on the basis of forecast cash flows. To do so, cash flows are that are influenced in particular by expected defaults, expected losses given default and the option of early loan repayments are estimated for the underlying reference portfolios. Both empirical historical summaries and published estimates by market participants are used. This takes into account the current negative market conditions. It was assumed for the expected payments assigned to a specific CDO tranche that repayments of the ABS securities will be assigned to the highest-ranking tranche. In a subsequent step, the individual CDOs are consolidated to calculate a total cash flow. Simplified assumptions regarding the rankings in the CDO contract ("waterfall") are taken into consideration. In determining the present values of this total cash flow, additional discounts are also recognised for the lack of market liquidity in these securities.

Measurement of other CDOs predominantly referencing securities with business risks. These CDOs were measured using methods commonly used by market participants for CDOs. If CDOs reference other CDOs (CDO2) these are initially combined into a single CDO. Any special features are taken into account when determining the lower and upper limits of the loss participation of the single CDO. The key measurement parameters – CDS spreads and correlations for the underlying business risks – were available on the market or were derived from market data and adjusted to any special features of the portfolio structure.

For financial assets at fair value through profit or loss, the values calculated using the above procedures were used as the fair values. Based on these values, grounds for impairment were examined for securities assigned to the loans and receivables category and impairment losses were recognised as appropriate. Adjusting events were taken into consideration until the preparation date of the consolidated financial statements if the loss events had demonstrably already occurred as of the reporting date.

The fair values of the derivative financial instruments concluded by the Havenrock companies were determined using the following method for reasons of simplification: Present values were first determined using a discounted cash flow model and on the basis of spreads for securities with similar risk profiles. Secondly, the fair value losses in the underlying reference securities resulting from remeasurement were distributed among the Havenrock hedging instruments in line with the waterfall principle.

Recognition of hedges

IKB uses derivatives as hedging instruments to reduce market price risks (e.g. interest rate and currency risks). As IAS 39 permits the use of different valuations for underlyings (e.g. loan receivables and obligations) and hedging transactions (derivatives), it also allows a special type of accounting, known as hedge accounting, to ensure accounting in line with the accrual principle.

A series of restrictive conditions must be met in order to be able to map hedge accounting. In addition to the formal documentation of the hedge, evidence must also be provided that the hedge offers effective risk compensation at the inception of the hedge and on subsequent balance sheet dates (prospective effectiveness). Documentation must also prove that the hedge satisfies the effectiveness criteria for the duration of the hedge (retrospective effectiveness). A distinction must be made between fair value hedge accounting and cash flow hedge accounting.

Fair value hedge accounting. A fair value hedge secures a recognised asset or liability or a firm commitment against changes in fair value attributable to certain risk factors (IAS 39.86). This hedge can be on the basis of a 1:1 relationship (micro hedges) or a portfolio with similar assets or liabilities being grouped together. Macro hedge accounting is only permitted when hedging fixed interest assets and liabilities against interest-induced changes in fair value; in this case the portfolio consists of assets and liabilities with counter exposure (IAS 39.81A).

In fair value hedge accounting changes in the fair value of the hedging derivatives and risk-related changes in the value of the underlying are offset in the result for the period. As a result, the carrying amounts of the designated underlyings are adjusted through profit or loss by the cumulative gains or losses on measurement due to a change in the hedged risk factors since the time the hedge was designated. In micro hedge relationships, these changes in carrying amount (hedge adjustments) are reported in the respective transactions. IAS 39.89A allows interest-induced changes in the value of the underlyings to be reported in a separate line item exclusively for macro hedge accounting for interest rate risks.

IKB uses macro hedge accounting for interest rate risks. Interest-induced changes in the value of the asset (liability) underlyings are reported in the respective item of the underlying. Changes in the value of the underlying included in the hedge relationship are also reported in the fair value result along with fair value changes in the hedge derivative.

Due to the restrictive conditions of hedge accounting, it is impossible to apply hedge accounting to all hedges. For this reason, IKB applies the fair value option permitted in IAS 39.9 to financial instruments which are in a financial hedge and for which risk compensation is expected. Financial instruments that are subject to full fair value measurement as part of this are primarily fixed-interest financial instruments in a financial micro hedge.

Cashflow Hedge Accounting. IAS 39 permits the use of cash flow hedge accounting for derivatives used to hedge future variable cash flows. Risks exist regarding the amount of future cash flows, particularly for variable interest loans, securities and liabilities as well as forecast transactions (e.g. expected lending or investing). In addition, IAS 39 provides for the application of cash flow hedge accounting when hedging future cash flows from onerous contracts.

Derivatives that are hedging instruments in an effective cash flow hedge are carried at fair value and reported under positive/negative fair values of derivative hedging instruments in assets/liabilities held for trading. The gain or loss on remeasurement must be divided into an effective and an ineffective portion. The effective portion is the portion of the gain or loss on remeasurement that represents an effective hedge against the cash flow risk. This is recognised separately in equity under the revaluation surplus in the cash flow hedge reserve. The ineffective portion of the gain or loss on remeasurement is recognised in the income statement under the result from hedging relationships.

The general accounting policies described above do not change for the underlyings of the hedged cash flows.

In addition to the above requirements, the application of hedge accounting is dependent on a number of additional conditions. In particular, these relate to the documentation requirements for the hedge relationship and its effectiveness described above.

Financial instruments with embedded derivatives

Accounting for financial instruments with embedded derivatives depends on whether or not the derivatives have to be reported separately from the host contract. Embedded derivatives must be accounted for separately if the financial characteristics of the host contract and embedded derivative are not closely related.

If there is a close financial association, i.e. both instruments are subject to the same risk factors, the instruments cannot be separated. The instrument is then recognised using the same method as the host contract. If the host contract and the derivative are subject to different risk factors, the two instruments must be separated; the derivative is measured at fair value through profit or loss unless the instrument is reported at fair value through profit or loss. Securities with embedded derivatives are not reported separately at IKB. Instead, the fair value option is applied to report an instrument in the financial instruments at fair value through profit or loss category. Embedded derivatives that have to be disclosed separately are only recognised separately in exceptional cases. In this case the corresponding derivatives are recognised separately from the host contract in assets and liabilities held for trading at fair value. The host contract is reported according to its holding category.

Financial guarantees

In accordance with IAS 39 a financial guarantee is a contract that obligates the guarantor to make certain payments. These payments are compensation for a loss incurred by the holder because a debtor fails to make payment when due in accordance with the terms of a debt instrument.

The value of a financial guarantee at inception is zero as the premium for market conditions is identical to the value of the consideration. Subsequent measurements must review whether or not an obligation must be recognised.

A financial guarantee is recognised when the guarantee offer is accepted.

Securities repurchase agreements

Securities repurchase agreements are combinations of securities spots and futures (sale or repurchase) with the same counterparty (repos). In repos, the securities reported in the repurchase agreement (spot sale) continue to be reported in the balance sheet. The inflow of liquidity from the transactions is reported in the balance sheet as an amount due to banks or customers depending on the counterparty. Reverse repos (spot buy of securities) are recognised as loans and advances to banks or customers. Securities accepted under repurchase agreements are not reported in the balance sheet. The repo rate received or paid is recognised in net interest income pro rata temporis.

(7) Classification of financial instruments in accordance with IFRS 7

IKB implements the classification of financial instruments required by IFRS 7.6 as follows:

Assets	
Fair value through profit or loss	Held for trading
	Assets held for trading
	Fair value option
	Loans and advances to banks
	Loans and advances to customers
	Investment securities
	KfW Bankengruppe receivables
	Other assets
Hedging derivatives	Assets held for trading
Fair value in equity	Available for sale
	Investment securities
Amortised cost	Loans and receivables
	Loans and advances to banks
	Loans and advances to customers (including hedge fair value adjustments)
	Investment securities
Finance lease receivables	Loans and advances to customers
Other financial instruments not within the scope of IFRS 7	Investments accounted for using the equity method
Equity and liabilities	
Fair value through profit or loss	Held for trading
	Liabilities held for trading
	Fair value option
	Liabilities to banks
	Liabilities to customers
	Securitised liabilities
	Subordinated capital
Hedging derivatives	Liabilities held for trading
Amortised cost	Other financial liabilities
	Liabilities to banks
	Liabilities to customers
	Securitised liabilities (including hedge fair value adjustments)
	Subordinated capital
Off-balance sheet transactions	Contingent liabilities
	Other obligations

Reporting classes are grouped together in accordance with the holding categories for corresponding balance sheet items in IAS 39. Derivatives in hedge relationships and receivables from finance leases are reported in separate reporting classes as these cannot be allocated to any of the holding categories under IAS 39. Off-balance sheet transactions are also covered by IFRS 7 and are therefore reported in a separate class. Financial instruments that are carried at equity in accordance with IAS 28 and IAS 31 do not fall within the scope of IFRS 7 and are therefore posted in a separate reporting class.

(8) Cash reserve

The cash reserve comprises cash-in-hand and balances at central banks. It is reported at nominal value.

(9) Loans and advances to, and liabilities from banks/customers

At IKB, loans and advances to and liabilities from banks and customers not held for trading and not traded in an active market are measured at amortised cost. Premiums and discounts are reported under the corresponding balance sheet item. They are amortised through profit or loss over their expected life using the effective interest method and recognised under net interest income. Further information on impairment can be found in the section *Provisions for possible loan losses*.

Separable embedded derivatives are recognised separately and at fair value under assets or liabilities held for trading.

Finance leases

IAS 17 classifies a lease as a finance lease if it transfers substantially all the risks and rewards incident to ownership to the lessee. In finance leases the Bank, as the lessor, reports lease receivables at their net investment value within the balance sheet item loans and advances to customers.

Finance leases are generally part amortisation agreements under which the residual value is defined contractually with the lessee. During the non-cancellable lease term, the costs are only amortised in part. Amortisation is carried out on the basis of the implicit interest rates. A residual value is calculated at the end of the agreement. The residual value is based on the expected fair value of the leased item at the end of the agreement. Part amortisation agreements differ between agreements with a put option for IKB and agreements without a put option in respect of the lessee. Agreements without out options can also include hedges in the form of repurchase agreements with third parties. In foreign companies customers are sometimes offered call options under this type of agreement. Agreements without put options or with repurchase agreements can also be reported in the balance sheet as an operating lease depending on the calculated residual value. For example, correspondingly high residual values occur in machinery leasing.

In addition, there are also full amortisation agreements, puttable agreements and hire purchase agreements that are reported on the balance sheet as finance leases. For full amortisation agreements, the full cost is amortised over the non-cancellable lease term. These agreements are used for leased items that are not expected to have any significant fair value at the end of the term. Puttable agreements have a non-cancellable lease term after an automatic extension provided that the agreement is not cancelled by the customer. In the event of cancellation, the customer must make a final payment. This results in full amortisation. In hire purchase agreements legal ownership passes to the customer on payment of the final instalment.

The finance lease ends once the contracting parties have fulfilled all their obligations in accordance with the agreement.

(10) Provision for possible loan losses

To assess whether a loss event has arisen at an individual level, all the Bank's significant credit relationships are checked for objective indications of impairment each quarter. Issuers and obligors are examined for any financial difficulties.

Risk provisions are reported on the assets side of the balance sheet with a minus sign. The item includes impairment requirements on loans and advances to banks and customers. Financial assets are always reported net of impairment. Irrecoverable debts are written off directly; recoveries on loans previously written off are recognised through profit and loss. If the basis for a direct write-down no longer applies, the write-down is reversed to not more than the amortised cost.

Impairment on individual assets is recognised in the amount of the potential default as soon as the probability of the interest and repayment receivables defaulting is sufficiently large on the basis of uniform Group measurement criteria. A loan is tested for impairment if one of the following criteria is met: existing impairment, insolvency, being in arrears by 90 days or restructuring measures. The potential default is calculated as the differences of the current carrying amount and the present value of the cash flows still expected. The discount factor is equal to the original effective interest rate of the receivable.

Portfolio provisions are recognised for credit risks on the basis of empirical default/loss rates; these provide risk cover for acute default risks that exist but have not yet become apparent. The delay before an event is identified or becomes known is taken into account by portfolio-oriented parameters (loss identification period factor).

For impaired financial instruments, the interest income is calculated by unwinding future forecast cash flows using the original effective interest rate. Thus, the present value as of the next reporting date (unwinding) is recognised rather than the contractually agreed interest income.

The procedure for determining provisions for off-balance sheet obligations for possible loan losses resembles the method used for loans. Impairment losses are recognised in the balance sheet as provisions for possible loan losses under other provisions and recognised in the income statement as an element of the provision for possible loan losses.

(11) Assets and liabilities held for trading

All derivatives are allocated to assets and liabilities held for trading in accordance with IAS 39. These are carried at fair value. In addition, financial instruments held for trading, which essentially comprise holdings in equities, promissory loan notes and bonds that the Bank intends to place in the market are allocated to these items.

Please see note 6 for information on the calculation of fair value. The net gain or loss on remeasurement and realised gains and losses are reported under net income from financial instruments at fair value. Interest income and interest expenses are reported in net interest income.

(12) Investment securities

Financial assets include all bonds and other fixed-income securities, equities and other non-fixed income securities and other investments not held for trading.

Holdings that are not traded in an active market are measured at amortised cost unless the fair value option has been exercised. Any premiums or discounts are allocated directly to the corresponding financial instruments and distributed over the remaining term using the effective interest method and reported under net interest income.

All other holdings reported under investment securities are measured at fair value on addition and on each subsequent reporting date. If the fair value of shares in unconsolidated subsidiaries and other investments cannot be reliably determined, these items are recognised at amortised cost. Investments recognised at amortised cost include shares in limited liability companies (GmbH) and shares in partnerships for which there is a significant degree of fluctuation in the reasonable estimates of the fair value and for which the probability of the various estimates cannot be reasonably assessed.

The gains and losses on the measurement of holdings in the “financial assets *available for sale*” category are reported in the revaluation surplus under equity. Write-downs are recognised for permanent or significant impairment.

The net gain or loss on remeasurement of holdings for which the fair value option was exercised are taken directly to the income statement under net income from financial instruments at fair value.

(13) Companies accounted for using the equity method

All investments in associated companies and joint ventures that are accounted for using the equity method are reported under this item.

Gains and losses are reported separately in the consolidated income statement under net income from investments accounted for using the equity method.

(14) Intangible assets

In addition to internally generated intangible assets, which mainly result from the directly attributable development costs of internally generated software, IKB also reports purchased software that is not an integral part of hardware under intangible assets. They are measured at cost less cumulative amortisation.

Amortisation is recognised on a straight-line basis over a useful life of five years. Write-downs are recognised if there are indications of impairment. Assets are tested for impairment and the appropriateness of their useful lives at least every balance sheet date. Write-downs are reported in the income statement under administrative expenses.

(15) Property, plant and equipment

All land, buildings and operating and office equipment are reported under property, plant and equipment. Property, plant and equipment are measured at depreciated cost.

Depreciation on buildings is recognised on a straight-line basis over a useful life of between 33 and 50 years; depreciation on operating and office equipment is recognised over a useful life of between three and 20 years. This is reported under administrative expenses.

Write-downs are recognised if there are indications of impairment due to technical or commercial obsolescence or a decline in market prices.

Gains on disposal are reported under other operating income, losses on disposal under other operating expenses.

Operating leases

IAS 17 classifies a lease as an operating lease if it does not transfer substantially all the risks and rewards incident to ownership to the lessee. Leased items that IKB recognises under operating leases are reported under property, plant and equipment.

Leased items are recognised at cost less depreciation over the contractual useful life in line with the remaining term of the contract or permanent impairment.

Operating leases can result from part amortisation agreements and puttable agreements where a residual value is taken into account. In part amortisation agreements both the term and the residual value are contractually agreed. The residual value is amortised at the end of the agreement from the sale or sub-leasing of the leased item. IKB generally has a put option in respect of the residual value in line with the terms of the agreement. In vehicle part amortisation agreements, the lessee can also participate in additional proceeds under the terms of the agreement if the proceeds from realisation exceed the residual value. Puttable agreements are concluded for indefinite periods. The calculated term, the termination rights and the corresponding compensatory payments are agreed on a case-by-case basis.

(16) Tax assets and liabilities/deferred tax assets and liabilities

Taxes are calculated for the individual Group companies in accordance with the tax laws in each country Current tax expenses and income and expenses from changes in deferred tax assets or liabilities are reported in the income statement as taxes on income.

Current and deferred tax assets and liabilities are reported separately in the balance sheet as asset and liability items. Taxes are reported under the items current tax assets and liabilities in the amount of reimbursements by or payments to the tax authorities. Deferred tax assets and liabilities are reported under the items deferred tax assets and liabilities.

In line with IAS 12, deferred tax assets and liabilities are calculated on the basis of the balance sheet method. They arise from the differences between the carrying amount of assets/liabilities in the consolidated financial statements and their tax carrying amounts if they are expected to result in tax expenses or relief in the future (temporary differences). The temporary differences are measured in line with the country-specific tax rates that are expected to apply at the time that the differences reverse.

Deferred tax assets on an entity’s unused tax loss carryforwards are recognised when it is probable that the entity will generate sufficient tax income in the next five years to use the loss carryforward.

Deferred taxes are not discounted. Changes in tax rates are taken into account when calculating deferred tax assets and liabilities if it is certain that they will be in effect as of the balance sheet date.

Depending on the matter at hand, deferred tax assets are recognised and reversed either in the income statement as taxes on income or in equity.

Other taxes not relating to income are reported separately in the income statement.

(17) Other assets/liabilities

Other assets/liabilities essentially include lease receivables, trade receivables and prepaid expenses and deferred income.

(18) Securitised liabilities

Securitised liabilities include issued bonds and money market securities (e.g. certificates of deposit, euro notes, commercial papers). These financial instruments are carried at either amortised cost (*other financial liabilities*) or fair value if the fair value option has been exercised.

(19) Provisions for pensions and similar obligations

Provisions are recognised for pension commitments to employees of IKB AG and the subsidiaries IKB Leasing GmbH, IKB Leasing Berlin GmbH, IKB Immobilien Management GmbH, IKB Private Equity GmbH, IKB Equity Finance GmbH, IKB Data GmbH and IKB International S.A. The pension schemes are based on defined benefit plans.

In particular, IKB uses the provisions for pensions and similar obligations to cover payments under its company pension scheme on the basis of its indirect pension commitments. Under these schemes, pensions are paid from the start of retirement due to reaching pension age or early retirement on account of disability or to surviving dependents in the event of death. The amount of provisions for defined benefit pensions is dependent on the applicable pension fund plan (VO) regulations. While the pension fund plan for 1979 is essentially based on factors such as the eligible service period and eligible earnings, the plan for 1994 features a so-called benchmark model and a pension module system. Under plan 94, the amount of obligations recognised as liabilities for income components below the upper income limit (in line with the applicable German calculation parameters for statutory pension insurance) is based on final salary and the benchmark value and, for income components above the upper income limit, on the amount of the pension module earned on an annual basis.

With the introduction of the 2006 pension scheme, IKB followed the trend emerging on the market of basing pensions more strongly on the development of the corresponding investments. The 06 pension plan is a cash balance plan, which is performance-based but includes a minimum interest rate and additional benefits for incapacity or death. The 06 pension plan applies to employees hired at IKB AG, IKB Data GmbH, IKB Leasing GmbH and IKB Private Equity GmbH from the 2006/07 financial year.

All pension obligations are calculated using the projected unit credit method in line with IAS 19. The carrying amounts of future obligations are based on actuarial opinions prepared by independent actuaries. These calculations take into account not only the pensions known and benefits acquired on the balance sheet date but also expected future increases in eligible salaries and pensions and rates of fluctuation. The current market interest rate for long-term investments is used to calculate the present value.

The expense of direct commitments recognised through profit and loss is divided into the main components of interest and service costs. The former is reported under net interest income, the service cost under staff costs. Actuarial gains and losses can arise from changes in the actuarial parameters on which the original pension opinions were based, accounting policies and changes in holdings. These increases or decreases in obligations, namely the difference from the originally estimated obligation, are recognised in full in retained earnings in the year in which they arise.

Similar obligations also include provisions for early retirement schemes and deferred compensation obligations, calculated on the basis of actuarial principles.

Provisions for anniversary bonuses, which are also determined on the basis of actuarial opinions, are reported under other provisions under IFRS.

In addition, IKB introduced a deferred income accounts scheme in 2006, which is also reported under similar obligations. Based on the *Gesetz zur sozialrechtlichen Absicherung flexibler Arbeitszeitregelungen* (FlexiGesetz – German Act on Social Protection for Flexible Working Times), employees can waive immediate salary components not relating to their regular monthly salary and instead invest these funds in fixed-income or equity funds under this scheme. With the future receipt of these investments with a guaranteed interest rate of 2.25%, this model supplements IKB's existing pension regulations and thereby offers a further option for deferred compensation and an instrument allowing a flexible transition into retirement. The deferred income accounts scheme is available to employees of IKB AG and its subsidiaries IKB Leasing GmbH, IKB Leasing Berlin GmbH, IKB Immobilien Management GmbH, IKB Private Equity GmbH and IKB Data GmbH.

In the past two financial years, the pension obligations from pension fund plans 79 and 94, the assets hedging deferred compensation obligations and the deferred income accounts scheme assets were spun off. The assets for pension fund plan 06 were similarly spun off at the start of the 2008/09 financial year. As part of contractual trust arrangements (CTA), IKB AG and the subsidiaries involved separated the assets necessary to meet pension claims from its other company assets and transferred these to a trustee.

The assets contributed by IKB to the CTAs constitute plan assets as defined by IAS 19 and are therefore netted against the corresponding obligations. Plan assets are measured at fair value. Differences between the plan income recognised in the income statement and current income are recognised in equity as actuarial gains and losses in retained earnings. The expected return on plan assets – together with the expense of unwinding obligations – is reported in net interest income.

(20) Other provisions

Other provisions are recognised for current legal or constructive obligations for which the date and/or the amount of the obligation are uncertain, and for which an outflow of resources required to settle the obligation is probable. The amount recognised for the provision is the best possible estimate of the amount required to meet the obligation on the balance sheet date, taking into account the risks and uncertainties of the obligations. They are measured in the amount of expected utilisation. Provisions are carried at present value where the effect of the time value of money is material. This is reported in net interest income.

(21) Subordinated capital

Subordinated liabilities

Subordinated liabilities include liabilities that can only be repaid after all non-subordinated creditors in the event of insolvency or liquidation. Subordinated liabilities are own funds as defined by the *Kreditwesengesetz* (KWG – German Banking Act) and count as liable equity under certain conditions. If the liabilities have a remaining term of less than two years, they are only partially allocated to eligible capital. No provision is made for a participation in operating losses; interest is due and paid irrespective of the Bank's net profit or loss for the year.

Profit participation capital

Profit participation certificates fully participate in the loss of the Company. Interest payments are only made if there is net income for the year. The claims of profit participation certificate bearers to capital repayment are subordinate to the claims of other creditors. Profit participation capital is used to strengthen liable capital in accordance with the provisions of the German Banking Act. If IKB AG posts a net loss for the year or net accumulated losses (under the German Commercial Code (HGB)), the profit participation certificates participate in this fully by reducing their repayments amounts in proportion to their carrying amount for the equity reported in the annual financial statements of IKB AG (including profit participation certificates but not any other subordinated liabilities).

Silent partnership contributions/preferred shares

Silent partnership contributions include issues in the form of capital contributions made by silent partners. In addition, IKB also reports preferred shares of two US subsidiaries under this item.

These liabilities are carried at either amortised cost (*other financial liabilities*) or fair value if the fair value option has been exercised.

Silent partnership contributions participate in the net accumulated losses of IKB AG (HGB) in proportion to the silent partnership contributions at the total carrying amount value of the Bank's liable equity participating in the loss.

The silent participation certificates issued by IKB International S.A. participate in the losses of IKB International S.A. pro rata if these losses exceed the distributable reserves.

If IKB AG posts net accumulated losses, the preferred shares only participate in the subsequent financial year if payment is not made.

(22) Equity

Issued capital

This item includes IKB AG's share capital, less treasury shares held for price management purposes.

Capital reserves

The capital reserve includes the amount of the proceeds from the issuance of shares which exceeds the nominal value. Gains or losses from transactions with treasury shares are also offset directly in equity against capital reserves.

Retained earnings

Retained earnings are composed of legal reserves and other reserves. In accordance with IAS 19, the retained earnings reserve also includes actuarial gains or losses resulting from changes in calculation parameters and variations with regard to risk factors (i.e. disability or mortality figures) observable as of the balance sheet date compared to expectations.

Currency translation reserve

The currency translation reserve includes foreign exchange gains, or losses resulting from the translation of subsidiaries' equity denominated in a foreign currency.

Revaluation surplus

The revaluation reserve contains the net gains or losses from remeasurement of financial assets available for sale; the measurement effects of cash flow hedges are also shown here. Deferred taxes are calculated for each of the items listed and also included in the revaluation surplus.

Minority interests

Minority interests in the equity of subsidiaries are reported in a separate item within equity.

Notes on the income statement

(23) Net interest income

Net interest income includes interest income and interest expenses, dividends from securities, current income from shares in unconsolidated affiliated companies and investments as well as income and expenses from finance leases. Interest income and interest expenses are recognised on an accrual basis using the effective interest method. Interest income from finance leases is allocated over the basic lease term based on a pattern reflecting a constant periodic rate of return on the net investment.

	2008/09 in € million	2007/08 in € million*	Change in %
Interest income from derivatives	257.8	315.6	–18.3
Interest income from fair value option financial instruments	195.7	340.6	–42.5
Interest income from securities held for trading	31.2	47.5	–34.3
Total interest income from financial assets measured at fair value through profit or loss	**484.7**	**703.7**	**–31.1**
Interest income from lending and money market transactions	1 542.5	1 654.6	–6.8
Interest income from fixed and floating-rate securities	311.0	718.6	–56.7
Amortisation from discontinued hedges IFRS 1 IG 60B	37.4	74.8	–50.0
Income from leasing transactions	171.1	156.1	9.6
Income from equity investments	13.6	6.7	>100.0
Dividends	0.4	1.1	–63.6
Total interest income from other categories	**2 076.0**	**2 611.9**	**–20.5**
Total interest income	**2 560.7**	**3 315.6**	**–22.8**
Interest expenses for derivatives	280.9	316.5	–11.2
Amortisation from discontinued hedges IFRS 1 IG 60A	86.0	168.1	–48.8
Interest expenses for fair value option financial liabilities	237.9	346.1	–31.3
Total interest expenses from financial liabilities measured at fair value through profit or loss	**604.8**	**830.7**	**–27.2**
Interest expenses for securitised liabilities	548.3	1 090.1	–49.7
Interest expenses for other liabilities	933.3	774.6	20.5
Interest expenses for subordinated capital	56.5	59.6	–5.2
Similar expenses to interest expenses including interest expenses for pension obligations	75.3	68.2	10.4
Expenses for leasing transactions	39.9	40.8	–2.2
Total interest expenses from other categories	**1 653.3**	**2 033.3**	**–18.7**
Total interest expenses	**2 258.1**	**2 864.0**	**–21.2**
Net interest income	**302.6**	**451.6**	**–33.0**

* Figures adjusted

No current interest income is recognised for impaired loans and advances. Instead, the increase in the present value of future payments as a result of the passage of time is recognised as interest income (unwinding). The interest income resulting from the unwinding effect amounts to € 40.7 million (previous year: € 32.1 million).

The adjustment from fair value hedges as part of initial recognition under IFRS and the amounts from the cash flow hedges are amortised according to the residual term of the underlying, taking into account early repayments through net interest income.

(24) Provision for possible loan losses

	Amortised cost			Fair value in equity	Receivables from finance leases	Provisions for off-balance sheet transactions	Total
2008/09 in € million	Loans and advances to banks	Loans and advances to customers	Investment securities	Investment securities	Loans and advances to customers		
Additions to specific valuation allowances/provisions	–	493.3	–	–	8.0	47.7	549.0
Direct write-downs	–	11.9	–	–	–	–	11.9
Recoveries on loans previously written off	–	7.9	–	–	–	–	7.9
Additions to/reversals of portfolio allowances	–	97.8	–	–	2.0	–	99.8
Reversal of specific valuation allowances/provisions	–	49.8	–	–	2.7	10.7	63.2
Reclassification	–	–	–	–	–	–	–
Provision for possible loan losses	**–**	**545.3**	**–**	**–**	**7.3**	**37.0**	**589.6**
Additions to/reversal of impairment on investment securities (net income from investment securities)	–	–	294.0	32.6	–	–	326.6
Total	**–**	**545.3**	**294.0**	**32.6**	**7.3**	**37.0**	**916.2**

2007/08 in € million	Amortised cost			Fair value in equity	Receivables from finance leases	Provisions for off-balance sheet transactions	Total
	Loans and advances to banks	Loans and advances to customers	Investment securities	Investment securities	Loans and advances to customers		
Additions to specific valuation allowances/provisions	–	355.2	–	–	3.6	32.8	391.6
Direct write-downs	–	11.5	–	–	–	–	11.5
Recoveries on loans previously written off	–	6.8	–	–	–	–	6.8
Additions to/reversals of portfolio allowances	–	–19.7	–	–	–	–	–19.7
Reversal of specific valuation allowances/provisions	–	86.7	–	–	2.3	32.4	121.4
Reclassification	–	–	–	–	–	–	–
Provision for possible loan losses	**–**	**253.5**	**–**	**–**	**1.3**	**0.4**	**255.2**
Additions to/reversal of impairment on investment securities (net income from investment securities)	–	–	966.7	–	–	–	966.7
Total	**–**	**253.5**	**966.7**	**–**	**1.3**	**0.4**	**1 221.9**

(25) Net fee and commission income

	2008/09 in € million	2007/08 in € million	Change in %
Net fee and commission income from lending business	33.0	43.6	–24.3
Net fee and commission income from securitisation	–0.2	6.1	
Other	0.4	5.0	–92.0
Total	**33.2**	**54.7**	**–39.3**

(26) Net income from financial instruments at fair value

	2008/09 in € million	2007/08* in € million	Change in %
Net trading result	–291.0	–666.4	–56.3
Net result from fair value option	123.1	–905.3	
Result from Rhinebridge	12.5	–244.3	
Hedging result	–6.7	–14.2	–52.8
Total	**–162.1**	**–1 830.2**	**–91.1**

* Figures adjusted

The negative effects in net trading income primarily relate to the derivative result of € –209.8 million (previous year: € –640.4 million), the securities trading result of € –30.9 million (previous year: € 2.2 million) and the currency result of € –44.0 million (previous year: € –24.9 million).

The use of the fair value option relates to some of the investments in international credit portfolios and financial instruments containing separable embedded derivatives. IKB also uses this category in risk-mitigating hedging strategies in accordance with IAS 39. The changes in the fair value of hedging swaps are recognised in this item, as are the changes in the fair value of the hedged items.

The result of the adoption of the fair value option is due partly to losses in the fair value of the above financial instruments. Around € –380 million of this relates to fair value losses on non-current investments, a net total of € 19 million to portfolio investments and € –23 million to impairment on direct investments of the IKB Private Equity Group. € –76 million relates to changes in the fair value of hedging swaps reported together with changes in the value of the hedged items.

Furthermore, IKB's own issues are traded on the capital market at a credit rating-related discount as of 31 March 2009. A valuation curve is used to measure the high quality issues of IKB which is calculated for remaining terms up to three years from the so-called buy-back spread (buy-back of own issues), for remaining terms upwards of five years from the IKB CDS spreads for senior unsecured issues and for intermediate maturities using straight-line interpolation. A valuation curve is created for subordinated issued on the basis of subordinated IKB CDS spreads. Issues of hybrid own funds are measured on the basis of observed market prices.

As the fair value option was exercised for some of these issues, this led to rating-driven income within net income from financial instruments at fair value of € 583.5 million (previous year: € 1,734.8 million). Until the planned repayment of these financial instruments, these effects can continue to partially reduce the net income from financial instruments at fair value in future periods. The rating-driven changes in the fair value of own issues break down among the following balance sheet items:

	Cumulative change in fair values due to changes in default risks		Change in fair value in the period due to changes in default risks	
in € million	31 March 2009	31 March 2008*	2008/09	2007/08*
Liabilities to banks	63.5	109.4	32.3	109.4
Liabilities to customers	846.6	736.3	170.2	735.7
Securitised liabilities	130.9	34.8	75.9	34.8
Subordinated capital	1 093.5	854.9	305.1	854.9
Total	**2 134.5**	**1 735.4**	**583.5**	**1 734.8**

* Figures adjusted

In the consolidated financial statements as of 31 March 2008, the allocation of the effects was inadvertently reversed between liabilities to customers and securitised liabilities. The items have now been corrected.

However, the Group's credit risk is not taken into account if financial obligations are issued by special-purpose entities whose credit risk is dependent on collateral provided to the legally independent special-purpose entity. The change in the fair value of the credit risk of the special-purpose entity is therefore dependent on the credit risk of IKB.

As of the balance sheet date, there were zero (previous year: one) loans and advances to banks measured using the fair value option in the portfolio. The result of the use of the fair value option therefore contains zero effect (previous year: € –74.5 million) from rating-driven changes in fair value.

The result from Rhinebridge resulted primarily from the sale of the investments in the context of auction proceedings implemented at the end of July 2008. Subsequently Rhinebridge no longer holds any further investments. No further earnings contributions from investments are expected. For reasons of materiality, Rhinebridge was deconsolidated as of 30 September 2008.

The result from fair value hedges is composed of the result from hedged items of € 259.0 million (previous year: € 51.4 million) and from hedging derivatives of € –265.7 million (€ –65.6 million). The cash flow hedge result does not include any result amounts.

(27) Net income from investment securities

	2008/09 in € million	2007/08 in € million	Change in %
Net loss from securities	–280.6	–975.7	–71.2
Net loss from investments and shares in affiliated companies	–1.5	–4.2	–64.3
Total	**–282.1**	**–979.9**	**–71.2**

The net income from securities includes net remeasurement losses of € 294.0 million (previous year: € 966.7 million) on securities in the IAS 39 *loans and receivables* category and of € 32.6 million (previous year: € 0.0 million) on securities in the IAS 39 available for sale category. The remeasurement losses are largely offset by gains on the sale of securities totalling € 46.1 million (previous year: € –9.1 million).

Impairment of € 1.5 million (previous year: € 7.0 million) was recognised in profit and loss for investments.

(28) Net income from investments accounted for using the equity method

As of 31 March 2009, the net loss from the companies accounted for using the equity method, Movesta Lease and Finance GmbH (Movesta) and Linde Leasing GmbH (Linde Leasing), amounted to € –8.4 million (previous year: € 1.7 million).

€ –1.8 million of the negative result (previous year: € 0.4 million) relates to Linde Leasing and € –6.6 million (previous year: € 1.3 million) to Movesta.

(29) Administrative expenses

	2008/09 in € million	2007/08 in € million*	Change in %
Staff costs	179.4	190.7	–5.9
Other administrative expenses	174.9	168.4	3.9
Write-downs on operating and office equipment, real estate and intangible assets	21.0	26.9	–21.9
Total	**375.3**	**386.0**	**–2.8**

* Figures adjusted

The individual expense categories break down as follows:

Staff costs

	2008/09 in € million	2007/08 in € million*	Change in %
Wages and salaries	156.2	160.5	–2.7
Social security contributions	19.2	20.7	–7.2
Expenses for pensions and other benefits	4.0	9.5	–57.9
Total	**179.4**	**190.7**	**–5.9**

* Figures adjusted

The decline is essentially due to the lower number of employees and the planned headcount reduction.

The statutory pension premiums amounted to € 10.8 million (previous year: € 11.2 million).

The expenses for pensions and other benefits include the current service cost and insolvency protection contributions to PSVaG.

Other administrative expenses

	2008/09 in € million	2007/08 in € million	Change in %
IT costs	31.5	44.4	–29.1
Advisory fees	45.3	48.2	–6.0
Mandatory contributions, miscellaneous administrative expenses and company law expenses	17.6	6.9	>100.0
Occupancy expenses	20.2	20.5	–1.5
Travel expenses and vehicle costs	9.6	11.9	–19.3
Workstation costs	16.1	13.7	17.5
Advertising, marketing and representation costs	3.7	5.7	–35.1
Other administrative expenses (incl. audit expenses)	30.9	17.1	80.7
Total other administrative expenses	**174.9**	**168.4**	**3.9**

Other administrative expenses include expenses for consulting and other services for managing the crisis of € 57.3 million (previous year: € 36.8 million).

Of the audit expenses included in the other administrative expenses, the following expenses relate to German auditors:

	2008/09 in € million	2007/08 in € million	Change in %
Audit of financial statements	5.6	3.7	51.4
of which to the former auditor	–	1.3	–100.0
Other assurance or valuation services*	2.6	8.0	–67.5
of which to the former auditor	–	0.3	–100.0
Tax advisory services	0.1	0.1	0.0
of which to the former auditor	–	0.1	–100.0
Other services	0.4	0.6	–33.3
of which to the former auditor	–	0.1	–100.0
Total	**8.7**	**12.4**	**–29.8**

* Amount in 2007/08 includes fee for special audit

The rise in audit costs is essentially due to additional charges for previous years (around € 1.7 million).

The administrative expenses also include write-downs on operating and office equipment, real estate and intangible assets:

	2008/09 in € million	2007/08 in € million	Change in %
Operating and office equipment	8.4	7.9	6.3
Real estate used for bank operations	1.3	1.6	–18.8
Intangible assets	11.3	17.4	–35.1
Total	**21.0**	**26.9**	**–21.9**

(30) Other operating result

	2008/09 in € million	2007/08 in € million*	Change in %
Other operating income	**491.3**	**866.3**	**–43.3**
Income from the remeasurement of compensation from future profits and hybrid financial instruments	254.6	648.7	–60.8
Income from operating leases	121.2	116.8	3.8
Income from the recognition of negative differences	–	50.2	–100.0
Repurchase of own issues	72.0	17.5	>100.0
Cost allocations	8.3	9.9	–16.2
Reversals of provisions/write-downs on other receivables	12.5	7.7	62.3
Income for buildings not used for banking purposes	2.8	3.1	–9.7
Income from the sale of non-financial assets	3.6	0.2	>100.0
Other operating income	16.3	12.2	33.6
Other operating expenses	**360.0**	**200.0**	**80.0**
Expenses for operating leases	112.1	112.7	–0.5
Write-down of goodwill	186.2	–	
Expenses for buildings not used for banking purposes (including depreciation)	5.7	5.0	14.0
Additions to provisions/write-downs on other receivables	19.4	35.4	–45.2
Voluntary social benefits (including donations)	1.9	3.0	–36.7
Expenses from the sale of non-financial assets	0.4	1.3	–69.2
Other operating expenses	34.3	42.6	–19.5
Total	**131.3**	**666.3**	**–80.3**

* Figures adjusted

The income from the remeasurement of hybrid financial instruments (IAS 39 AG8) is explained in note 48 Liabilities to customers and in note 56 Subordinated capital.

The write-down of goodwill of € 186.2 million relates to the reversal of the tax provision as part of the merger of IVG Kavernen GmbH with IKB Beteiligungen (see note 3).

(31) Income from risk transfer

	2008/09 in € million	2007/08 in € million	Change in %
Result from risk coverage for IKB Portfolio Investments	–	942.0	–100.0
Result from risk coverage of Havenrock	–	911.8	–100.0
Effects of Rhineland Funding deconsolidation	–	547.2	–100.0
Total	**–**	**2 401.0**	**–100.0**

See Principles of Group accounting, Special matters, Dissolution of risk shielding.

(32) Restructuring expenses

	2008/09 in € million	2007/08 in € million	Change in %
Restructuring expense for job changes	41.5	–	
Restructuring expense for continuing obligations	9.0	–	
Other restructuring expenses	1.3	–	
Total	**51.8**	**–**	

See Principles of Group accounting, Special matters, Recognition of restructuring measures.

(33) Taxes on income

	2008/09 in € million	2007/08 in € million*	Change in %
Current income taxes	–375.8	–13.5	>100.0
for the current year	–5.8	11.1	
from prior years	–370.0	–24.6	>100.0
Deferred taxes	–50.7	142.3	
Total	**–426.5**	**128.8**	

* Figures adjusted

Taxes on income for earlier years relates to the acquisition of shares in IVG Kavernen GmbH (note 3).

Based on the Group's operating result for 2008/09 – taking trade tax into account – tax income of € 315.4 million (previous year: tax expense of € 37.1 million) would have been expected applying the rate of corporation tax in Germany including the solidarity surcharge. The following table shows a reconciliation of the expected tax expense to the reported tax expense:

	2008/09 in € million	2007/08 in € million*	Change in %
Profit/loss before taxes	–1 006.8	118.2	
Applicable tax rate (%)	**31.4**	**31.4**	**0.0**
Expected income taxes	–315.4	37.1	
Tax effects			
from prior years	–330.0	–22.9	>100.0
from tax rate changes	0.7	34.3	–98.0
from differences between tax rates in Germany and abroad	–54.2	86.9	
from tax-free income	–555.8	–116.4	>100.0
from non-deductible expenses	413.8	140.6	>100.0
from unrecognised deferred taxes	–81.2	514.7	
from changes in permanent effects of an accounting nature	520.4	–515.3	
from other differences	–24.8	–30.2	–17.9
Income taxes	**–426.5**	**128.8**	

* Figures adjusted

The income tax rate used as the basis for the reconciliation is composed of the corporate income tax rate of 15.0% applicable in Germany as of 2008 (previous year: 15.0%), plus a solidarity surcharge of 5.5% (previous year: 5.5%) on corporate income tax and an average trade tax rate of 15.5% (previous year: 15.6%). In total this is equivalent to an income tax rate of 31.3% (previous year: 31.4%).

Income tax effects due to differences in tax rates result from differences between domestic income tax rates and foreign income tax rates applicable to foreign Group companies and entities, which still range from 12.5% to 46.2%, and different trade tax assessment rates in Germany.

To the extent permitted under IAS 12, deferred taxes have been recognised for temporary differences resulting from investments in subsidiaries, foreign branches and associates as well as interests in joint ventures.

The significant tax effect in previous years related to the reversal of the tax provisions of IVG Kavernen GmbH. The non-deductible expenses are also essentially due to the merger with IVG Kavernen GmbH (note 3).

The tax-free income results from the settlement of risk shielding with KfW. For the most part, these payments by KfW are treated as a partnership contribution for tax purposes.

The tax effect of € 81.2 million for unrecognised deferred taxes essentially relates to the subsequently recognised deferred tax assets for loss carryforwards of the Luxembourg tax group.

The tax effects of changes in permanent effects of an accounting nature mainly result from issues relating to investments in corporations, the settled risk shielding and the effects of loans with debt waivers.

Notes on the consolidated balance sheet (assets)

(34) Cash reserve

	31 March 2009 in € million	31 March 2008 in € million	Change in %
Cash in hand	0.0	0.1	–100.0
Balances with central banks	4.0	308.5	–98.7
Other	0.2	0.2	0.0
Total	**4.2**	**308.8**	**–98.6**

As of the balance sheet date, € 3.6 million (previous year: € 308.3 million) of balances at central banks relates to balances at Deutsche Bundesbank.

(35) Loans and advances to banks

	Total			Germany		Outside Germany	
	31 Mar 2009 in € million	31 Mar 2008 in € million	Change in %	31 Mar 2009 in € million	31 Mar 2008 in € million	31 Mar 2009 in € million	31 Mar 2008 in € million
Loans and advances to banks payable on demand	2 186.5	1 462.0	49.6	585.3	332.0	1 601.2	1 130.0
Loans and advances to banks (initial maturity < four years)	698.6	1 126.3	–38.0	50.0	87.3	648.6	1 038.9
Loans and advances to banks (initial maturity >= four years)	94.4	262.0	–64.0	0.0	3.6	94.4	258.4
Total	**2 979.5**	**2 850.3**	**4.5**	**635.3**	**422.9**	**2 344.2**	**2 427.3**

(36) Loans and advances to customers

	Total			Germany		Outside Germany	
	31 Mar 2009 in € million	31 Mar 2008 in € million*	Change in %	31 Mar 2009 in € million	31 Mar 2008 in € million*	31 Mar 2009 in € million	31 Mar 2008 in € million
Loans and advances to customers (initial maturity < four years)	3 684.2	4 747.8	–22.4	2 695.1	3 092.8	989.1	1 655.0
Loans and advances to customers (initial maturity ≥ four years)	22 292.5	22 255.2	0.2	16 259.2	17 503.4	6 033.3	4 751.8
Finance lease receivables	1 951.2	1 840.6	6.0	1 477.6	1 532.2	473.6	308.4
Total	**27 927.9**	**28 843.6**	**–3.2**	**20 431.9**	**22 128.4**	**7 496.0**	**6 715.2**

* Figures adjusted

Loans and advances to customers include reversals of impairment losses not yet amortised relating to hedges in line with IFRS 1 of € 111.0 million (previous year: € 197.0 million).

Loans and advances to customers includes changes in value of € 187.6 million (previous year: € –11.1 million) on hedged items.

(37) Provision for possible loan losses

Special provisions for possible loan losses are recognised in order to hedge against identifiable risks in the Bank's lending business.

in € million	Impairment – Amortised cost – Loans and advances to banks	Impairment – Amortised cost – Loans and advances to customers	Impairment – Receivables from finance leases – Loans and advances to customers	Portfolio impairment	Provisions for off-balance-sheet transactions	Total
Opening balance (1 April 2008)	0.0	775.9	2.3	83.0	23.3	884.5
Utilisation	0.0	397.9	0.0	0.0	2.0	399.9
Reversal	0.0	49.8	2.7	0.4	10.7	63.6
Unwinding	0.0	21.0	0.0	0.0	0.1	21.1
Addition	0.0	493.3	8.0	100.2	47.7	649.2
Reclassification	0.0	0.0	–0.8	0.0	0.0	–0.8
Effects of exchange rate changes	0.0	5.9	–0.1	1.8	0.0	7.6
Closing balance (31 March 2009)	**0.0**	**806.4**	**6.7**	**184.6**	**58.2**	**1 055.9**
less provisions	–	–	–	–	58.2	58.2
Provision for possible loan losses reported in the balance sheet as of 31 March 2009	**0.0**	**806.4**	**6.7**	**184.6**	**–**	**997.7**

in € million	Impairment – Amortised cost – Loans and advances to banks	Impairment – Amortised cost – Loans and advances to customers	Impairment – Receivables from finance leases – Loans and advances to customers	Portfolio impairment	Provisions for off-balance-sheet transactions	Total
Opening balance (1 April 2007)	0.0	989.3	1.8	103.6	28.2	1 122.9
Utilisation	0.0	448.9	0.0	0.0	4.5	453.4
Reversal	0.0	86.7	2.3	23.2	32.4	144.6
Unwinding	0.0	32.1	0.0	0.0	0.8	32.9
Addition	0.0	355.2	3.6	3.5	32.8	395.1
Reclassification	0.0	0.0	–0.8	0.0	0.0	–0.8
Effects of exchange rate changes	0.0	–0.9	0.0	–0.9	0.0	–1.8
Closing balance (31 March 2008)	**0.0**	**775.9**	**2.3**	**83.0**	**23.3**	**884.5**
less provisions	–	–	–	–	23.3	23.3
Provision for possible loan losses reported in the balance sheet as of 31 March 2008	**0.0**	**775.9**	**2.3**	**83.0**	**–**	**861.2**

Provisions for possible loan losses in the form of individual write-downs and provisions amounted to € 871.3 million (previous year: € 801.5 million).

In addition, any further risks which cannot be clearly identified and which have not been covered by individual write-downs are accounted for by way of portfolio write-downs. Portfolio write-downs as of 31 March 2009 amounted to € 184.6 million (previous year: € 83.0 million).

Risk provisions for credit risks by customer group are as follows:

	Impairment, provisions (loans and receivables) and portfolio impairment		Utilisation of impairment and provisions		Provision for possible loan losses (income statement)	
in € million	2008/09	2007/08	2008/09	2007/08	2008/09	2007/08
German customers	622.0	755.1	376.9	424.2	267.4	233.8
Production	231.1	203.0	109.7	121.5	153.8	80.2
Trade	22.2	32.2	18.0	43.2	9.8	12.3
Services	346.1	480.1	224.0	244.6	93.2	135.2
Transport	13.5	24.9	13.3	5.0	2.4	9.2
Other	9.1	14.9	11.9	9.8	8.2	–3.1
Foreign customers	249.3	46.5	23.0	29.2	222.4	41.1
Production	167.6	26.2	12.5	15.0	150.0	22.8
Trade	15.4	6.5	2.3	0.0	11.4	8.2
Services	50.1	8.6	7.4	12.4	48.5	8.8
Transport	5.7	4.0	0.7	1.3	1.7	1.2
Other	10.6	1.1	0.1	0.5	10.8	0.1
Portfolio Investments segments					0.0	0.0
Portfolio impairment	184.6	83.0			99.8	–19.7
Total	**1 055.9**	**884.5**	**399.9**	**453.4**	**589.6**	**255.2**

Key figures for the provision for possible loan losses:

	2008/09 in %	2007/08 in %	Change absolute
Addition	1.8	0.7	1.1
Utilisation	1.2	1.2	0.0
Balance	3.2	2.3	0.8

The key figures for the provision for possible loan losses are defined as follows:

- Addition = net valuation allowances and provisions in relation to total credit volume
- Utilisation = defaults in relation to total credit volume
- Total = valuation allowances and provisions in relation to total credit volume

(38) Assets held for trading

	31 March 2009 in € million	31 March 2008 in € million	Change in %
Bonds and other fixed-income securities	5.6	33.2	–83.1
Equities and other non-fixed-income securities	–	0.1	–100.0
Promissory notes carried as trading assets	54.1	67.8	–20.2
Positive fair values of derivative financial instruments	3 646.1	3 502.9	4.1
Positive fair values of hedging derivatives	27.0	33.7	–19.9
Total	**3 732.8**	**3 637.7**	**2.6**

The securities carried under assets held for trading are fully marketable and listed.

(39) Investment securities

Investment securities include the following items:

	31 March 2009 in € million	31 March 2008 in € million*	Change in %
Bonds and other fixed-income securities	10 063.6	12 581.0	–20.0
Equities and other non-fixed-income securities	0.3	11.5	–97.4
Investments	172.2	247.1	–30.3
of which in banks	5.6	44.1	–87.3
Shares in affiliated companies	0.2	0.1	100.0
Total	**10 236.3**	**12 839.7**	**–20.3**

* Figures adjusted

The change in bonds and other fixed-income securities resulted primarily from maturities, sales and losses on remeasurement.

The investment securities can be broken down into the holding categories defined in IAS 39:

	31 March 2009 in € million	31 March 2008 in € million*	Change in %
Fair value option investment securities	3 137.8	4 709.8	–33.4
Bonds and other fixed-income securities	3 002.6	4 543.1	–33.9
Investments	135.2	166.7	–18.9
Financial assets available for sale	1 901.1	1 709.1	11.2
Bonds and other fixed-income securities	1 863.6	1 617.1	15.2
Equities and other non-fixed-income securities	0.3	11.5	–97.4
Shares in affiliated companies	0.2	0.1	100.0
Investments	37.0	80.4	–54.0
of which carried at amortised cost	31.4	36.3	–13.5
Loans and receivables	5 197.4	6 420.8	–19.1
Bonds and other fixed-income securities	5 197.4	6 420.8	–19.1
Total	**10 263.3**	**12 839.7**	**–20.3**

* Figures adjusted

The carrying amount of all negotiable securities reported under investment securities breaks down as follows:

31 March 2009 in € million	Total negotiable	Listed	Not listed
Bonds and other fixed-income securities	9 690.9	9 464.2	226.7
Investments	64.4	8.6	55.8

As of 31 March 2009, the Company did not hold any marketable shares in unconsolidated subsidiaries.

(40) Companies accounted for using the equity method

The item companies accounted for using the equity method amounts to € 7.5 million (previous year: € 14.7 million).

As of 31 March 2009, there were no marketable investments in companies accounted for using the equity method.

(41) Intangible assets

Intangible assets do not include any goodwill.

Intangible assets include internally generated software of € 5.0 million (previous year: € 6.3 million).

(42) Property, plant and equipment

	31 March 2009 in € million	31 March 2008 in € million	Change in %
Operating lease assets	149.6	112.2	33.3
Land and buildings including advance payments and assets under construction	86.3	83.3	3.6
Operating and office equipment	20.2	23.3	–13.3
Total	**256.1**	**218.8**	**17.0**

(43) Current tax assets

Current tax assets break down as follows:

	31 March 2009 in € million	31 March 2008 in € million	Change in %
Germany	48.8	36.8	32.6
Outside Germany	8.9	8.0	11.3
Total	**57.7**	**44.8**	**28.8**

(44) Deferred tax assets

The deferred tax assets relate to the following:

	31 March 2009 in € million	31 March 2008 in € million*	Change in %
Loans and advances to customers/provision for possible loan losses	119.5	78.4	52.4
Assets held for trading	9.8	22.9	–57.2
Investment securities	345.2	405.0	–14.8
Property, plant and equipment	4.2	6.6	–36.4
Loss carryforwards	129.0	27.0	>100.0
Liabilities to banks	34.6	40.3	–14.1
Liabilities held for trading	889.4	443.2	>100.0
Pension provisions	13.8	10.0	38.0
Subordinated capital	12.3	1.0	>100.0
Other balance sheet items	56.6	73.1	–22.6
Sub-total	**1 614.4**	**1 107.5**	**45.8**
Netting against deferred tax liabilities	–1 358.2	–923.9	47.0
Total	**256.2**	**183.6**	**39.5**

* Figures adjusted

Deferred tax assets and liabilities were offset in accordance with IAS 12 within tax groups and companies in line with maturities.

The strong rise in deferred tax assets in liabilities held for trading essentially results from the negative fair values of derivative financial instruments in Germany.

On account of the transfer of the majority shareholding in October 2008, the German tax loss carryforward was lost in accordance with section 8c of the *Körperschaftsteuergesetz* (KStG – German Corporate Income Tax Act) and section 10a of the *Gewerbesteuergesetz* (GewStG – German Trade Tax Act). The deferred tax assets on German loss carryforwards of € 125 million were already written down in full in the previous year. The domestic loss in the reporting year can also only be utilised pro rata temporis. The loss incurred prior to the transfer of the majority shareholding is expected to be lost. Deferred tax assets of € 7.9 million were recognised for usable losses in Germany.

Similarly, the existing loss carryforwards can largely (up to US$ 46.6 million) no longer be used in future at IKB Capital Corporation on account of the change in the majority shareholding, which led to substantial tax expenses from the reversal of the previous year's deferred tax assets (US$ 60 million). The tax losses incurred prior to the transfer of the majority shareholding are expected to be lost.

Deferred taxes recognised in Germany on the basis of planning amount to € 67.8 million, those abroad to € 92.6 million.

No deferred tax assets were recognised for temporary differences of € 77.2 million.

In total, € 669.5 million in corporation tax loss carryforwards and € 540.6 million of trade tax loss carryforwards were not recognised. The details of this can be found in the following table:

	31 March 2009 in € million	31 March 2008 in € million	Change in %
Corporate income tax – loss carryforwards unrecognised as of the reporting date	669.5	868.1	–22.9
of which expire in 2009/10	–	–	–100.0
of which expire in 2010/11	–	0.5	–100.0
of which expire in 2011/12	–	1.3	–100.0
of which expire in 2012/13	–	0.8	–100.0
of which expire in 2013/14	–	1.5	–100.0
of which expire after 2013/14	5.0	–	
of which may be carried forward for an unlimited period	664.5	738.9	–10.1
Trade tax – loss carryforwards unrecognised as of the reporting date	540.6	829.5	–34.8
of which may be carried forward for an unlimited period	540.6	704.5	–23.3

(45) Other assets

	31 March 2009 in € million	31 March 2008 in € million	Change in %
KfW Bankengruppe receivables	–	1 829.7	–100.0
Receivables from leasing transactions	115.0	119.4	–3.7
Trade receivables	41.5	74.8	–44.5
Prepaid expenses	41.0	35.4	15.8
Other receivables	30.7	51.8	–40.7
Total	**228.2**	**2 111.1**	**–89.2**

For information on the dissolution of receivables from the assumption of risks see Principles of Group accounting, Special matters, Dissolution of risk shielding

(46) Non-current assets held for sale

The item assets held for sale includes shares in Movesta in the amount of € 3.1 million (previous year: € 0.0 million) intended for sale within the second quarter of the 2009/10 financial year.

Movesta's income amounts to € 6.6 million and is included in the net income from investments accounted for using the equity method.

Notes on the consolidated balance sheet (equity and liabilities)

(47) Liabilities to banks

	Total			Germany		Outside Germany	
	31 Mar 2009 in € million	31 Mar 2008 in € million	Change in %	31 Mar 2009 in € million	31 Mar 2008 in € million	31 Mar 2009 in € million	31 Mar 2008 in € million
Liabilities to banks payable on demand	88.7	107.0	–17.1	32.7	46.3	56.0	60.7
Liabilities to banks (initial maturity < four years)	5 626.7	7 431.1	–24.3	4 833.1	5 308.9	793.6	2 122.2
Liabilities to banks (initial maturity >= four years)	9 603.3	9 911.2	–3.1	9 485.6	9 749.7	117.7	161.5
Total	**15 318.7**	**17 449.3**	**–12.2**	**14 351.4**	**15 104.9**	**967.3**	**2 344.4**

Fixed-rate liabilities are hedged against interest rate risks partly by using derivatives (interest rate swaps). In order to achieve appropriate recognition in the balance sheet and the income statement, corresponding fixed-rate liabilities are accounted for under the fair value option on initial recognition.

The loans with debt waiver and compensation from future profits provided by KfW were transferred as part of the sales transaction for the IKB AG shares held by KfW to LSF6 Europe Financial Holdings L.P. as of 29 October 2008 and then assigned to LSF6 Rio (Ireland) Limited, Dublin. Owing to the change in creditor, this is now reported under liabilities to customers.

(48) Liabilities to customers

	Total			Germany		Outside Germany	
	31 Mar 2009 in € million	31 Mar 2008 in € million	Change in %	31 Mar 2009 in € million	31 Mar 2008 in € million	31 Mar 2009 in € million	31 Mar 2008 in € million
Liabilities to customers payable on demand	605.4	24.7	>100.0	605.4	21.7	0.0	3.0
Liabilities to customers (initial maturity < four years)	1 651.9	2 710.6	–39.1	1 595.7	2 673.8	56.2	36.8
Liabilities to customers (initial maturity >= four years)	3 561.5	3 016.2	18.1	2 984.8	3 015.8	576.7	0.4
Total	**5 818.8**	**5 751.5**	**1.2**	**5 185.9**	**5 711.3**	**632.9**	**40.2**

The loans with debt waiver and compensation from future profits transferred from KfW to LSF6 Europe Financial Holdings L.P. and subsequently to LSF6 Rio (Ireland) Limited, Dublin, as of 29 October 2008 are measured and reported in the other financial liabilities category in the consolidated financial statements in line with IAS 39 AG8. These transactions are recognised at present value as of each balance sheet date. This is calculated by reassessing the underlying interest and

repayment cash flows, discounted with the instrument's original yield (effective interest rate on the issue date). The forecast of the future interest and repayment cash flows for these instruments is based on the planned operating results of IKB for the coming financial years. The income in the income statement of € 138.5 million (previous year: € 362.7 million) results from the unwinding expense of € 48.9 million (previous year: € 0.0 million) and other operating income of € 187.4 million (previous year: € 362.7 million). The carrying amount as of 31 March 2009 was therefore € 548.8 million (previous year: € 687.3 million).

(49) Securitised liabilities

	31 March 2009 in € million	31 March 2008 in € million	Change in %
Bonds issued (initial maturity < four years)	9 996.5	10 756.0	–7.1
less own bonds (initial maturity < four years)	–	893.5	–100.0
Subtotal (initial maturity < four years)	9 996.5	9 862.5	1.4
Bonds issued (initial maturity >= four years)	4 029.4	8 680.3	–53.6
less own bonds (initial maturity >= four years)	–	358.0	–100.0
Subtotal (initial maturity >= four years)	4 029.4	8 322.3	–51.6
Total	**14 025.9**	**18 184.8**	**–22.9**

The change in securitised liabilities is mainly due to repayments of € 8.6 billion, issues of € 4.0 billion of SoFFin-guaranteed bonds and € 0.5 million due to foreign currency and unwinding effects.

Securitised liabilities include changes in value of € 18.1 million (previous year: € –0.8 million) from hedged items.

(50) Liabilities held for trading

	31 March 2009 in € million	31 March 2008 in € million	Change in %
Derivatives with negative fair values	5 242.0	5 345.3	–1.9
Negative fair values of hedging derivatives	238.0	65.6	>100.0
Total	**5 480.0**	**5 410.9**	**1.3**

(51) Provisions for pensions and similar obligations

The type and the amount of pension payments to eligible employees are governed by the applicable pension rules (see also note 19).

The value of pension obligations is calculated annually by an independent actuary using the projected unit credit method. The difference in the items recognised in the balance sheet (pension provisions and capitalised excess assets) results from the fair value of the plan assets. Pension obligations and the plan assets for defined benefit pension plans developed as follows in previous years:

in € million	31 March 2009	31 March 2008	31 March 2007	31 March 2006
Pension obligations (defined benefit obligation)	223.4	204.9	218.6	227.4
– fair value of plan assets	206.8	206.5	215.9	
= Excess (+)/deficit (–)	–16.6	1.6	–2.7	–227.4
recognised as an asset	0.1	5.1	0.0	
recognised as a liability	16.7	3.5	2.7	227.4

The defined benefit obligation for pension obligations as of 31 March 2009 amounted to € 223.4 million (previous year: € 204.9 million). € 221.8 million of this (previous year: € 202.7 million) related to obligations covered by funds and € 1.6 million (previous year: € 2.2 million) to obligations not covered by funds.

On the balance sheet date, the covered obligations are currently no longer covered by the assets in the CTAs. Among other things, this deficit is due to the general development on the financial markets. In line with IAS 19, the amount reported for pension provisions is reduced to the amount of pension obligations not covered by corresponding assets; these amounted to € 16.7 million as of 31 March 2009.

Pension obligations developed as follows in the last two financial years:

in € million	2008/09	2007/08
Opening balance of pension obligations as of 1 April	**204.9**	**218.6**
Pension payments	9.9	9.9
Employee contributions	0.7	0.8
Additions	17.3	19.6
of which current service cost	5.8	9.5
of which interest cost	11.5	10.1
–/+ actuarial gains and losses	14.4	–24.2
Cost of restructuring measures (curtailment)	4.0	0.0
Closing balance of pension obligations as of 31 March	**223.4**	**204.9**
Plan assets under IAS 19	206.8	206.5
Net balance sheet position as of 31 March	**–16.6**	**1.6**

The measures explained under Principles of Group accounting, Special matters, Recognition of restructuring measures also influenced pension obligations, reducing them by € 4.0 million as of 31 March 2009; this amount was offset in administrative expenses with the service cost for the period.

The total pension expense consists of the following components:

in € million	2008/09	2007/08
Current service cost	5.8	9.5
Interest expense	11.5	10.1
Plan income	–10.9	–11.0
Curtailment due to restructuring programme	–4.0	0.0
Pension expenses	**2.4**	**8.6**

As of 31 March 2009, pension obligations have a total value of € 223.4 million (previous year: € 204.9 million). The rise in pension obligations as against the previous year is essentially due to actuarial losses of € 14.4 million (previous year: actuarial gains of € –24.2 million), € 5.3 million of which (previous year: € 7.4 million) relate to changes in holdings. The main factor causing the actuarial losses in obligations was the rise in expected pension increases.

As of the balance sheet date, the total actuarial losses arising in the financial year (including losses on plan assets) amounted to € 27.2 million.

The development of actuarial gains/losses taken to equity in past financial year is as follows:

in € million	Pension obligations	Plan assets	Total
Cumulative gains/losses recognised in SORIE as of 31 March 2005	**16.6**	**0.0**	**16.6**
–/+ actuarial gains and losses	19.0	0.0	19.0
changes to actuarial parameters and calculation bases	14.0	0.0	14.0
adjustments due to inventory changes	5.0	0.0	5.0
Cumulative gains/losses recognised in SORIE as of 31 March 2006	**35.6**	**0.0**	**35.6**
–/+ actuarial gains and losses	–20.3	0.0	–20.3
changes to actuarial parameters and calculation bases	–21.9	0.0	–21.9
adjustments due to inventory changes	1.6	0.0	1.6
Cumulative gains/losses recognised in SORIE as of 31 March 2007	**15.3**	**0.0**	**15.3**
–/+ actuarial gains and losses	–24.2	21.5	–2.7
changes to actuarial parameters and calculation bases	–31.6	0.0	–31.6
adjustments due to inventory changes	7.4	0.0	7.4
Cumulative gains/losses recognised in SORIE as of 31 March 2008	**–8.9**	**21.5**	**12.6**
–/+ actuarial gains and losses	14.4	12.8	27.2
changes to actuarial parameters and calculation bases	9.1	0.0	9.1
adjustments due to inventory changes	5.3	0.0	5.3
Cumulative gains/losses recognised in SORIE as of 31 March 2009	**5.5**	**34.3**	**39.8**

The plan assets offsetting the obligations developed as follows in the last two financial years:

in € million	2008/09	2007/08
Opening balance of plan assets as of 1 April	**206.5**	**215.9**
Expected return on plan assets	10.9	11.0
+/– actuarial gains and losses	–12.8	–21.5
IKB contribution additions	1.5	0.3
Employee contributions	0.7	0.8
Pension payments	0.0	0.0
Closing balance of plan assets as of 31 March	**206.8**	**206.5**

The plan assets resulted in a loss of € 1.9 million in the 2008/09 financial year. Plan assets broke down as follows on the current and last reporting date:

in %	31 March 2009	31 March 2008
Cash and cash equivalents	19.5	8.7
Equities	7.1	21.9
Fixed-income securities	68.5	66.6
Real estate	4.8	2.4
Other	0.1	0.4

Calculations were based on the following actuarial assumptions:

	31 March 2009	31 March 2008
Discount rate	6.00	5.75
Forecast increase in pensionable remuneration	3.00	3.00
Forecast rate of pension increases (including inflation)	2.25	1.50
Employee turnover (by age groups)	1.00-6.50	1.00-6.50
Expected return on plan assets for 79+94 plans, deferred compensation and early retirement	5.25	5.25
Expected return on plan assets for 2006 plan and deferred income accounts scheme	5.00	5.00

The expected return on plan assets for the coming financial year is based on the target allocation and the long-term expected return on assets per asset class. The performance assumptions are not a historical analysis, they are a forecast based on a capital market model in which a number of asset classes are extrapolated in the future using simulation models.

The expected contributions to plan assets are based on the future change in the defined benefit obligation of pension obligations. The Company is (still) aiming to cover its obligations in full with the plan assets.

No appropriations to plan assets are forecast for the 2009/10 financial year. The expected pension payments amount to € 9.7 million.

In the context of the capital market crisis, the interest rate for discounting obligations also rose sharply as the credit spread between risk-free government bonds and the AA corporate bonds used to calculate the discount rate rose from a relatively stable 50 basis points in the past to current 150 basis points and more.

The following table shows the sensitivity of the pension obligation as of 31 March 2009. With all other assumptions remaining constant, a change in the interest rate of 25 basis points would have had the following effect on obligations:

in € million	
Increase in defined benefit obligation (DBO) in event of 25 bp change in interest rate	8.2

(52) Other provisions

in € million	Opening balance as of 31 March 2008	Utilisation	Reversal	Addition	Closing balance as of 31 March 2009
Risks for possible loan losses	23.3	2.0	10.8	47.7	58.2
Provisions for interest on taxes	12.1	–	10.0	7.7	9.8
Provisions for anniversary bonuses	4.3	0.6	0.1	0.9	4.5
Tax provisions not including income tax	3.1	2.7	0.1	1.4	1.7
Litigation and recourse claims	18.1	1.0	1.2	–	15.9
Restructuring	–	–	–	48.7	48.7
Other	19.3	2.8	10.9	11.2	16.8
Total	**80.2**	**9.1**	**33.1**	**117.6**	**155.6**

Provisions for anniversary bonuses were calculated in the same way as pension obligations using actuarial opinions from independent actuaries and an interest rate as stated in note 51.

The risks for possible loan losses include the provision for risks of off-balance sheet items such as guarantees.

At the time of the preparation of the financial statements, there was no information indicating an accumulation of utilisation over time.

For information on restructuring please see Special matters, Recognition of restructuring measures.

(53) Current tax liabilities

Current tax liabilities break down as follows:

	31 March 2009 in € million	31 March 2008 in € million	Change in %
Germany	93.3	87.3	6.9
Outside Germany	1.5	0.8	87.5
Total	**94.8**	**88.1**	**7.6**

(54) Deferred tax liabilities

The deferred tax liabilities relate to the following:

	31 March 2009 in € million	31 March 2008 in € million	Change in %
Loans and advances to customers/provision for possible loan losses	455.3	185.2	>100.0
Assets held for trading	326.9	118.0	>100.0
Investment securities	65.3	51.6	26.6
Property, plant and equipment	9.9	2.7	>100.0
Liabilities	313.3	326.8	–4.1
Liabilities held for trading	5.5	22.8	–75.9
Pension provisions	0.1	6.5	–98.5
Other liabilities	79.1	10.9	>100.0
Subordinated capital	208.7	199.8	4.5
Other balance sheet items	33.7	148.8	–77.4
Subtotal	**1 497.8**	**1 073.1**	**39.6**
Netting against deferred tax assets	–1 358.2	–923.9	47.0
Total	**139.6**	**149.2**	**–6.4**

Deferred tax assets and liabilities were offset in accordance with IAS 12 within tax groups and companies in line with maturities.

The sharp rise in deferred tax liabilities in loans and receivables to customers/provision for possible loan losses essentially relates to write-downs on receivables and in assets held for trading to positive fair values of derivative financial instruments in Germany.

(55) Other liabilities

	31 March 2009 in € million	31 March 2008 in € million	Change in %
Trade payables	139.0	123.1	12.9
Deferred income	18.8	13.9	35.3
Restructuring liabilities	2.2	–	
Other liabilities	354.1	26.4	>100.0
Total	**514.1**	**163.4**	**>100.0**

The rise in other liabilities resulted from an ABS transaction in which leasing receivables were sold to a non-consolidated special-purpose entity. On account of the disposal of lease receivables not shown on the balance sheet, IKB has a liability to the acquirer of € 255.1 million.

(56) Subordinated capital

	31 March 2009 in € million	31 March 2008 in € million	Change in %
Subordinated liabilities	1 171.8	1 228.5	–4.6
Profit participation capital	113.1	187.5	–39.7
Silent partnership contributions/preferred shares	106.8	363.7	–70.6
Total	**1 391.7**	**1779.7**	**–21.8**

In addition to subordinated liabilities, subordinated capital includes profit participation rights, silent partnerships and preferred shares in the other financial liabilities category to which IAS 39 AG8 applies. These transactions are recognised at present value as of each balance sheet date. This is calculated by reassessing the underlying interest and repayment cash flows, discounted with the instrument's original yield (effective interest rate on the issue date). The forecast of the future interest and repayment cash flows for these instruments is based on the planned net income for the year of IKB AG and IKB International S.A. for the coming years. The net changes in carrying amount resulting from IAS 39 AG8 amounted to € 57.4 million (previous year: € 286 million). Any loss participation or deferred interest is therefore taken into account in the present value. The net reported gain in carrying amounts results from unwinding expenses of € 11.9 million (previous year: € 0.0 million) included in the net interest income and changes in interest and repayment cash flows of € 67.2 million (previous year: € 286.0 million) reported in other operating income.

Subordinated liabilities

€ 8.4 million (previous year: € 235.0 million) of subordinated liabilities mature in less than two years. Tier III capital as defined in Section 10 KWG amounts to € 35.0 million (previous year: € 45.0 million).

As of 31 March 2009, there were the following significant subordinated liabilities of an amount of more than € 100.0 million:

Start of term	Original nominal amount in € million	Currency	Interest rate in %	Maturity
2003/2004	310.0	EUR	4.50	9 July 2013
2006/2007	128.6	EUR	2.56	23 Jan 2017
2008/2009	101.3	EUR	12.00	27 Nov 2018
2008/2009	104.7	EUR	9.50	11 April 2014

In the 2008/09 financial year, interest expenses for subordinated liabilities amounted to € 68.5 million (previous year: € 74.6 million), including unwinding expenses of € 2.1 million (previous year: € 0.0 million).

Profit participation capital

	31 March 2009 in € million	31 March 2008 in € million	Change in %
Total	**113.1**	**187.5**	**–39.7**
of which: section 10 KWG requirements	73.9	140.9	–47.6
of which: within two years	39.2	45.4	–13.7

The profit participation capital breaks down as follows:

Year of issue	Original nominal amount in € million	Currency	Interest rate in %	Maturity
1997/1998	102.3	DM	7.05	31 March 2009
1999/2000	20.0	EUR	7.23	31 March 2010
2001/2002	100.0	EUR	6.50	31 March 2012
2001/2002	74.5	EUR	6.55	31 March 2012
2004/2005	30.0	EUR	4.50	31 March 2015
2005/2006	150.0	EUR	3.86	31 March 2015
2006/2007	50.0	EUR	4.70	31 March 2017
2007/2008	70.0	EUR	5.63	31 March 2017

The interest expense on the profit participation certificates of € 5.2 million (previous year: € 2.3 million) resulted from unwinding in 2008/09 financial year.

Revaluation (IAS 39 AG8) resulted in income of € 35.2 million (previous year: € 131.9 million), which is reported under other operating income (note 30).

Silent partnership contributions/preferred shares

The carrying amount of silent partnership contributions as of 31 March 2009 was € 106.8 million (previous year: € 363.7 million). This includes preferred shares with a carrying amount after loss participation of € 47.7 million (previous year: € 208.5 million) that were issued by two US subsidiaries formed for this purpose, and silent partnership contributions with a carrying amount of € 59.1 million (previous year: € 155.2 million).

In line with section 10 KWG, silent partnership contributions are allocated to regulatory capital. IFRS classifies them as financial liabilities.

The interest expense for silent partnership contributions/preferred shares in the Group amounted to € 4.6 million (previous year: € 40.9 million) and resulted from unwinding in the 2008/09 financial year. See note 6 (Financial liabilities) for information on the loss participation.

Revaluation (IAS 39 AG8) resulted in income of € 32.0 million (previous year: € 154.1 million), which is reported under other operating income (note 30).

(57) Equity

	31 March 2009 in € million	31 March 2008 in € million*	Change in %
Issued capital	1 497.8	247.8	>100.0
Capital reserves	597.8	597.8	–
Retained earnings	–206.8	318.3	
Legal reserve	10.2	2.4	>100.0
Other retained earnings	–217.0	315.9	
Currency translation reserve	–20.5	7.0	
Revaluation surplus	–35.9	2.8	
Minority interests	0.1	0.4	–75.0
Consolidated cumulative loss	–77.5	–10.7	>100.0
Total	**1 755.0**	**1 163.4**	**50.9**

* Figures adjusted

Issued capital

On 27 March 2008, the Annual General Meeting of IKB AG resolved a capital increase against cash contributions by up to € 1,486,765,992.96 from € 247,794,332.16 to up to € 1,734,560,325.12, granting subscriptions rights to shareholders. The new shares were offered to the shareholders of the Company in the period from 29 July 2008 to 11 August 2008 at € 2.56 per new share. KfW Bankengruppe subscribed to a total of 487,288,757 new shares while other shareholders subscribed to 992,493 new shares at € 2.56 per share. Therefore, the number of new shares issued was 488,281,250.

The resolved and implemented capital increase was entered in the commercial register on 24 October 2008. As a result, the subscribed capital (share capital) increased by € 1,250,000,000.00 from € 247,794,332.16 to € 1,497,794,332.16 in the 2008/09 financial year. The subscribed capital (share capital) is divided into 585,075,911 (previously: 96,794,661) bearer shares.

By way of resolution of the Annual General Meeting on 28 August 2008, the Board of Managing Directors was authorised, with the approval of the Supervisory Board, to increase the share capital of the Company by total of up to € 500,000,000.00 against cash or non-cash contributions by issuing up to 195,312,500 new shares until 27 August 2013. With the approval of the Supervisory Board, the statutory subscription rights of shareholders can be disapplied under this authorisation. This authorisation was not utilised in the 2008/09 financial year. The authorised capital was entered in the commercial register on 3 November 2008.

The resolution of the Annual General Meeting on 28 August 2008 authorised the Company to acquire and sell treasury shares for the purpose of securities trading up to 27 February 2010. The amount of shares acquired for this purpose cannot exceed 5% of the share capital at the end of any one day. Together with the treasury shares acquired for other reasons held by the Company or assigned to it in accordance with sections 71a ff. AktG, the treasury shares acquired on the basis of this authorisation cannot exceed 10% of the share capital at any time. This authorisation was not utilised in the 2008/09 financial year.

The Annual General Meeting on 28 August 2008 authorised the Company to acquire treasury shares of up to 10% of the share capital for purposes other than securities trading until 27 February 2010. They can be acquired on the stock exchange or by way of a public bid to all shareholders, including the limited use of put or call options. Together with the treasury shares acquired for trading purposes and other reasons held by the Company or assigned to it in accordance with sections 71a ff. AktG, the treasury shares acquired on the basis of this authorisation cannot exceed 10% of the share capital of the Company at any time. In line with a decision by the Board of Managing Directors, the acquired shares can be sold on the stock exchange or in some other way or, in full or in part, called in. This authorisation was not utilised in the 2008/09 financial year.

No treasury shares were held in the 2008/09 financial year, nor were there any additions or disposals of the same.

No employee shares were issued in the reporting year.

Statement of changes in equity

in € million	Issued capital	Capital reserves	Treasury shares	Retained earnings	Currency translation reserve	Revaluation surplus	Minority interests	Consolidated income/ cumulative loss	Total
Equity as of 1 April 2007	**225.3**	**568.2**	**–**	**330.6**	**–15.2**	**88.4**	**0.2**	**–**	**1 197.5**
Mandatory convertible bonds	22.5	31.8							54.3
Issue/redemption of shares		–2.2							–2.2
Dividends paid									0.0
Changes in the scope of consolidation/other				2.1					2.1
Consolidated net loss from 1 April 2007 to 31 March 2008								–32.0	–32.0
Currency translation differences					22.2				22.2
Change in value taken to equity				0.4		–58.5	0.2		–57.9
Equity as of 31 March 2008 before restatements	**247.8**	**597.8**	**–**	**333.1**	**7.0**	**29.9**	**0.4**	**–32.0**	**1 184.0**
Changes in line with IAS 8				–14.8		–27.1		21.3	–20.6
Equity as of 31 March 2008 after restatements	**247.8**	**597.8**	**–**	**318.3**	**7.0**	**2.8**	**0.4**	**–10.7**	**1 163.4**
Capital increase	1 250.0								1 250.0
Issue/redemption of shares									0.0
Dividends paid									0.0
Changes in the scope of consolidation/other				6.3					6.3
Netting of consolidated net loss 1 April 2007 to 31 March 2008				–10.7				10.7	0.0
Consolidated net loss from 1 April 2008 to 31 March 2009							–0.3	–580.0	–580.3
Withdrawal from retained earnings				–502.5				502.5	0.0
Currency translation differences					–27.5				–27.5
Change in value taken to equity				–18.2		–38.7			–56.9
Equity as of 31 March 2009	**1 497.8**	**597.8**	**–**	**–206.8**	**–20.5**	**–35.9**	**0.1**	**–77.5**	**1 755.0**

Revaluation surplus

	2008/09 in € million	2007/08 in € million*
Opening balance as of 1 April	2.8	88.4
Unrealised gains/losses from investment securities available for sale	–59.5	–20.2
Reclassifications to the income statement due to investment securities available for sale	46.1	–33.7
Changes in value in discontinued hedges recognised in profit or loss in line with IFRS 1	–37.4	–74.8
Unrealised gains/losses on derivatives hedging fluctuations in future cash flows: unrealised gains/loss for the period, before taxes	–12.1	–
Deferred taxes on changes recognised directly in equity	24.2	43.1
Closing balance as of 31 March	**–35.9**	**2.8**

* Figures adjusted

In line with IFRS 1, the revaluation surplus does not include a cash flow hedge reserve from the transition in accounting from HGB to IFRS (previous year: € 37.4 million).

As of 31 March 2009, the revaluation surplus included € –12.1 million from the revaluation of effective cash flow hedges (previous year: € 0.0 million).

Contingent capital/authorised capital

By way of resolution of the Annual General Meeting on 9 September 2004, the Board of Managing Directors was authorised, with the approval of the Supervisory Board to issue convertible and option bonds with a total nominal amount of up to € 300,000,000 and to grant the bearers of these bonds conversion and option rights to shares of IKB with a share of capital of up to € 22,528,000.00 until 8 September 2009. This authorisation and the associated contingent capital were utilised in the 2008/09 financial year.

By way of resolution of the Annual General Meeting on 28 August 2008, the Board of Managing Directors was also authorised to issue convertible and option bonds with a total nominal amount of up to € 900,000,000.00 with a term of not more than 20 years and to grant the bearers of these bonds conversion and option rights to shares of the Company with a share in the capital of up to € 123,749,998.08 in line with the respective terms and conditions of the bonds until 27 August 2013. The remaining authorisation to issue convertible and option bonds of up to € 245,700,000.00 and the associated contingent capital of up to € 13,667.84 were revoked by way of resolution of the Annual General Meeting on 28 August 2008.

Utilising the authorisation of 28 August 2008, on 19 November 2008 the Board of Managing Directors of the Company resolved to issue subordinated bonds with a total nominal amount of up to € 123,671,070.72 with a contingent conversion obligation and contingent conversion privilege to up to 48,339,843 shares of the Company from the contingent capital with the subscription rights of shareholders in place. The basic conditions for the conversion obligation and the conversion privilege to arise are that the action for annulment against the authorisation of 28 August 2008 and that the contingent capital relating to the authorisation is effectively entered in the commercial register of the Company. The convertible bonds were offered to the shareholders of the Company in a public subscription offering in the period from 24 November 2008 to 8 December 2008. A subsidiary of the Lone Star Group, LSF6 Rio S.a.r.l., Luxembourg, had undertaken to assume all bonds not subscribed to by other IKB AG shareholders. The shareholders of the Company subscribed to and assumed total bonds of € 150,174.72 and Lone Star subscribed to and assumed the remainder of € 123,520,896.00. A bond of nominally €23.04 entitles the bearer to subscribe to nine new shares from contingent capital at a conversion price of € 2.56 per share. The conditions for the conversion obligation and the conversion privilege to arise were met on 1 July 2009, with the result that the conversion privilege has been in effect since this time. A conversion obligation shall exist on no later than 11 April 2012 or earlier if IKB fails to achieve specific regulatory ratios.

By way of a further resolution by the Extraordinary General Meeting on 25 March 2009, the Board of Managing Directors was authorised to issue convertible and option certificates and convertible and option bonds with a total nominal amount of up to € 900,000,000.00 and to grant the bearers of profit participation certificates or bonds conversion or option rights to shares of the Company with a share of capital of up to € 618,749,990.40 in line with the respective terms and conditions of the bonds until 24 March 2014. This authorisation was not utilised in the 2008/09 financial year. The residual authorisation to issue convertible and option bonds of up to € 776,328,929.28 in line with the resolution of 28 August 2008 was revoked by way of resolution of the Extraordinary General Meeting on 25 March 2009.

Regulatory indicators

IKB's investment management approach is based on the regulations applicable to German banks and bank groups under sections 10 and 10a KWG. These state that sufficient regulatory equity must be held within the group. Specifically, risk-weighted assets must be backed with at least 8% equity (solvency ratio). Risk-weighted assets that are backed with Tier I capital are subject to a minimum ratio of 4% (Tier I capital ratio). A summary of the equity components of IKB Group can be found in the following table:

in € million	31 March 2009	31 March 2008
Capital charge for credit risk	24 718.0	30 269.0
Capital charge for market risk	613.0	795.0
Capital charge for operational risk	1 324.0	1 330.0
Total of positions for which capital charges are required	**26 655.0**	**32 394.0**
Tier I capital	2 276.0	1 941.0
Issued capital	2 807.0	1 265.0
Other reserves	2 719.0	3 433.0
Minority interests	0.0	0.0
Other	968.0	1 146.0
Deductible items	–4 218.0	–3 903.0
Tier II capital	1 245.0	1 191.0
Unrealised reserves in investment securities and real estate	0.0	0.0
Profit participation certificates	142.0	248.0
Other long-term subordinated liabilities, if eligible under BIZ	1 274.0	1 170.0
Other	–171.0	–227.0
Deductible items	–236.0	–18.0
Total liable equity	**3 285.0**	**3 114.0**
Tier III capital	35.0	45.0
Eligible own funds	**3 320.0**	**3 159.0**
Tier I capital ratio	8.1%	6.0%
Total capital ratio	12.5%	9.8%

Equity consists of liable capital, which in turns comprises Tier I and Tier II capital, and Tier III capital. The core capital (Tier I) mainly consists of subscribed capital and reserves (Core or True Tier I) and hybrid funds that are allowable as core capital (Hybrid Tier I). Additional capital (Tier II) includes profit participation rights (Upper Tier II) and long-term subordinated liabilities (Lower Tier II). Tier III capital includes short-term subordinated liabilities and subordinated liabilities that have been capped at 50% of the core capital based on the standard limit imposed.

IKB applied the transitional regulation in accordance with Section 339 (9) of the *Solvabilitätsverordnung* (SolvV – German Solvability Ordinance) and continued to calculate regulatory indicators in accordance with principle I (*Grundsatz* I) of the KWG until 31 December 2007. As of 1 January 2008 and the introduction of Basel II, new regulations apply under the SolvV. Risk-weighted assets are now determined according to the credit risk approach. The Bank has exercised its option under section 64h KWG in conjunction with section 10a (6) and (7) so that for the purposes of calculating regulatory equity the aggregation method will continue to apply on the basis of HGB calculation bases. IKB AG is a trading book institution and applies the basic indicator approach for operational risks.

Notes on the cash flow statement

In accordance with IAS 7, the cash flow statement analyses the changes in cash and cash equivalents classified by operating, investing and financing activities.

Cash flow from operating activities

This item includes payments related to loans and advances to banks and customers, as well as payments arising from securities of the trading portfolio and other assets attributable to operating activities. This item also includes changes in liabilities to banks and customers, securitised liabilities, and other liabilities attributable to operating activities as well as interest and dividend payments resulting from operating activities.

In addition, the cash flow from operating activities also reflects all other cash inflows and outflows which are not reported under cash flows from investing activities or cash flows from financing activities.

Cash flow from investing activities

The cash flow from investing activities includes cash payments or receipts for acquisitions and disposals of investments or securities as well as property, plant and equipment. In addition, this item includes effects due to changes in the scope of consolidation.

Cash flow from financing activities

The cash flow from financing activities includes cash inflows and outflows from capital increases, dividend distributions and subordinated liabilities, as well as changes in reserves and minority interests.

Cash and cash equivalents in the reporting period are mainly composed of balances at central banks.

Notes on segment reporting

(58) Segment reporting

Segment reporting is based on the internal divisional accounting system, which is focused on financial control and forms part of IKB's management information system. The presentation of the primary reporting format is based on the internal organisational structure and the relevant management responsibilities. Segment reporting is prepared in accordance with IAS 14.

In the primary reporting format, segment reporting is geared towards the Bank's divisions. Segment information is presented to show the divisions as independent enterprises responsible for their own earnings and costs, and with their own capital resources.

The operating divisions are:

- Corporate Clients
- Real Estate Clients
- Structured Finance and
- Portfolio Investments

In the Corporate Clients segment, IKB reports income and expenses resulting from activities with corporate customers. In addition to the traditional lending business with domestic corporate customers, this segment includes the activities in the areas of leasing moveable assets, private equity and capital market products for customers (ABS securitisation, promissory note loans and corporate bonds).

The Real Estate Clients segment comprises all components of the financing and service portfolio in the field of real estate, including all traditional real estate financing plus the activities of the subsidiaries IKB Immobilien Management GmbH and IKB Projektentwicklung GmbH & Co. KG.

IKB's activities in the area of acquisition and project financing for domestic and foreign customers are bundled in the Structured Finance segment, which also includes the subsidiary IKB Capital Corporation, New York.

The Portfolio Investments segment focuses on investments in securitisation products (including consolidated special-purpose entities). This includes the income and volume components of the special-purpose entities Rio Debt Holdings (Ireland) Limited, Havenrock, Rhinebridge and Rhineland Funding Capital Corporation (previous year).

In the column Head Office/Consolidation, IKB reports the portion of the results attributable to the Treasury's investment decisions within the scope of asset-liability management. This includes investments in bonds and promissory note loans that are not attributable to the responsibility of operating business units and ELAN transactions. In addition, this segment includes the results from credit exposures that are no longer part of the strategic portfolio and the consolidation figures resulting from the reconciliation of the results of the operating divisions to the earnings measures used in external financial reporting.

Income and costs are allocated to the divisions in accordance with their respective profit responsibility. Net interest income from lending business is calculated using the market interest method and is allocated to the divisions on a calculatory basis. The divisions are regarded as independent entities with their own capital resources. Capital is allocated to the divisions based on risk-weighted assets (in accordance with the standard Basel II approach) with an equity ratio of 6.5%, taking into account existing hybrid funds. In addition to the investment income from this economic capital, net interest income also comprises expenditure for hybrid and subordinated capital. The interest rate for equity investments corresponds to a risk-free interest rate on the long-term capital market. The figures for the previous year have been adjusted accordingly.

The reported carrying amount of the provision for possible loan losses in the segments and the head office corresponds to the difference between additions to and reversals of valuation allowances for credit defaults and the recoveries on loans and advances previously written off.

To the extent that such costs can be properly allocated, head office staff and operating expenses are allocated to the divisions. Project costs are allocated to the divisions if the projects were directly attributable to them. Administrative expenses for projects and corporate functions incurred for regulatory reasons are allocated to the Head Office/Consolidation segment.

Each segment's earnings are represented by the operating result of the individual divisions. In addition, IKB measures the results for the divisions using their return on equity and cost/income ratio. The return on equity is the ratio of the operating result to the average allocated equity. The cost/income ratio is the ratio of administrative expenses to income.

The IKB Group is refinanced centrally by its Treasury department. Thus, there is no direct allocation of liabilities to each division. In accordance with IAS 14.20, no mathematical distribution of liabilities is performed.

Primary segment reporting format:

in € million	Corporate Clients		Real Estate Clients		Structured Finance		Portfolio Investments		Head office/ consolidation		Total	
	2008/09	2007/08*	2008/09	2007/08	2008/09	2007/08	2008/09	2007/08*	2008/09	2007/08*	2008/09	2007/08*
Net interest income	203.3	228.4	60.3	62.0	119.4	124.9	–2.4	103.2	–78.0	–66.9	302.6	451.6
Provision for possible loan losses	126.3	66.0	68.0	23.0	324.1	63.4	0.0	0.0	71.2	102.8	589.6	255.2
Net interest income after provision for possible loan losses	**77.0**	**162.4**	**–7.7**	**39.0**	**–204.7**	**61.5**	**–2.4**	**103.2**	**–149.2**	**–169.7**	**–287.0**	**196.4**
Net fee and commission income	6.5	6.7	8.2	7.7	33.7	35.8	–3.5	5.9	–11.7	–1.4	33.2	54.7
Net income from financial instruments at fair value	–9.6	–8.1	3.9	3.5	–7.0	2.0	64.0	–3 246.0	–213.4	1 418.4	–162.1	–1 830.2
Result on investment securities	–30.5	–6.0	–0.9	0.8	–18.0	–33.7	–188.0	–904.1	–44.7	–36.9	–282.1	–979.9
Result of investments accounted for at equity	–1.9	0.5	–	–	–	–	–	–	–6.5	1.2	–8.4	1.7
Administrative expenses	151.8	140.7	39.9	41.9	70.3	69.2	25.2	43.2	88.1	91.0	375.3	386.0
Other operating income	16.0	6.4	0.0	1.8	0.0	0.4	–24.5	–0.3	139.8	658.0	131.3	666.3
Income from risk transfer	–	0.0	–	0.0	–	0.0	–	2 401.0	–	0.0	–	2 401.0
Restructuring expense	11.5	–	11.7	–	1.9	–	0.0	–	26.7	–	51.8	–
Operating result	**–105.8**	**21.2**	**–48.1**	**10.9**	**–268.2**	**–3.2**	**–179.6**	**–1 683.5**	**–400.5**	**1 778.6**	**–1 002.2**	**124.0**
Cost/income ratio in %	88.8	61.7	72.2	55.3	56.4	53.5	<0	<0	–	–	>100	50.4
Return on equity in %	–15.5	3.1	–24.7	5.1	–75.3	–0.9	–211.3	–910.0	–	–	–84.6	10.4
Average allocated equity	683	677	195	213	356	370	85	185	–135	–254	1 184	1 191
Credit volume	15 982	16 741	4 355	4 886	8 022	7 551	1 329	4 366	3 598	4 072	33 286	37 616
Volume of new business	3 515	4 630	586	1 412	1 821	3 804	0	283	0	1 664	5 922	11 793

* Figures adjusted

The secondary reporting format is prepared according to the regional distribution of the locations of branches or Group companies.

Secondary segment reporting format:

in € million	Germany		Rest of Europe		America		Head office/ consolidation		Total	
	2008/09	2007/08*	2008/09	2007/08	2008/09	2007/08	2008/09	2007/08*	2008/09	2007/08*
Net interest income	241.7	301.5	122.9	181.2	16.0	35.8	–78.0	–66.9	302.6	451.6
Provision for possible loan losses	301.4	97.7	126.2	49.6	90.8	5.1	71.2	102.8	589.6	255.2
Net interest income after provision for possible loan losses	**–59.7**	**203.8**	**–3.3**	**131.6**	**–74.8**	**30.7**	**–149.2**	**–169.7**	**–287.0**	**196.4**
Net fee and commission income	51.4	54.1	–8.5	18.7	2.0	–16.7	–11.7	–1.4	33.2	54.7
Net income from financial instruments at fair value	114.6	–1 444.7	–56.9	–1 189.7	–6.4	–614.2	–213.4	1 418.4	–162.1	–1 830.2
Result on investment securities	–124.1	–322.7	–96.2	–609.3	–17.1	–11.0	–44.7	–36.9	–282.1	–979.9
Result of investments accounted for at equity	–1.9	0.5	–	–	–	–	–6.5	1.2	–8.4	1.7
Administrative expenses	230.5	231.4	50.9	57.6	5.8	6.0	88.1	91.0	375.3	386.0
Other operating income	–37.0	5.4	28.5	3.9	0.0	–1.0	139.8	658.0	131.3	666.3
Income from risk transfer	–	619.9	–	1 233.9	–	547.2	–	0.0	–	2 401.0
Restructuring expense	9.8	–	15.3	–	0.0	–	26.7	–	51.8	–
Operating result	**–297.0**	**–1 115.1**	**–202.6**	**–468.5**	**–102.1**	**–71.0**	**–400.5**	**1 778.6**	**–1 002.2**	**124.0**
Cost/income ratio in %	94.2	<0	<0	<0	<0	<0	–	–	>100	50.4
Credit volume	22 085	23 046	6 673	9 585	930	913	3 598	4 072	33 286	37 616

* Figures adjusted

Notes on financial instruments

(59) Income according to holding category and reconciliation to the income statement

31 March 2009 in € million	IAS 39 category					Receivables from finance leases	Off-balance sheet transaction	Result from financial instruments in line with IFRS 7 Total	Result from other financial instruments not covered by IFRS 7	Total
	Loans and receivables	Available for sale	Held for trading	Fair value option	Other financial liabilities					
Net interest income	**1 775.0**	**90.3**	**–72.2**	**–85.1**	**–1 538.6**	**136.9**	**0.0**	**306.3**	**–3.7**	**302.6**
Interest income	1 775.0	90.3	243.7	249.7	–	140.7	0.0	2 499.4	61.3	2 560.7
Interest expenses	–	–	315.9	334.8	1 538.6	3.8	0.0	2 193.1	65.0	2 258.1
Net fee and commission income	**28.5**	**0.0**	**0.0**	**–0.5**	**–0.9**	**–2.1**	**0.0**	**25.0**	**8.2**	**33.2**
Fee and commission income	29.7	0.0	0.0	0.0	0.0	0.0	0.0	29.7	24.0	53.7
Fee and commission expenses	1.2	0.0	0.0	0.5	0.9	2.1	0.0	4.7	15.8	20.5
Net gains/losses	**–956.2**	**128.8**	**–333.5**	**171.4**	**333.6**	**–7.3**	**0.0**	**–663.5**	**–239.0**	**–902.5**
Net income from financial instruments at fair value	–	–	–333.5	171.4	–	–	–	–162.1	–	–162.1
Result on investment securities	–410.9	128.8	–	–	–	–	–	–282.1	–	–282.1
Provision for possible loan losses	545.3	–	–	–	–	7.3	0.0	552.6	37.0	589.6
Other operating income	–	–	–	–0.3	333.6	–	–	333.3	–202.0	131.3
Income from risk transfer	–	–	–	–	–	–	–	–	–	0.0
Total	**847.3**	**219.1**	**–405.7**	**85.8**	**–1 205.9**	**127.5**	**0.0**	**–332.2**	**–234.5**	**–566.7**

31 March 2008 in € million	IAS 39 category: Loans and receivables	Available for sale	Held for trading	Fair value option	Other financial liabilities	Receivables from finance leases	Off-balance sheet transaction	Result from financial instruments in line with IFRS 7 Total	Result from other financial instruments not covered by IFRS 7	Total
Net interest income	**2 363.0**	**83.3**	**46.6**	**–173.6**	**–1 997.1**	**120.2**	**0.0**	**442.4**	**9.2**	**451.6**
Interest income	2 363.0	83.3	363.1	340.6	–	156.1	0.0	3 306.1	9.5	3 315.6
Interest expenses	–	–	316.5	514.2	1 997.1	35.9	0.0	2 863.7	0.3	2 864.0
Net fee and commission income	**45.0**	**0.0**	**0.0**	**–1.0**	**0.0**	**–1.5**	**0.0**	**42.5**	**12.2**	**54.7**
Fee and commission income	54.8	0.0	0.0	0.0	0.0	0.0	0.0	54.8	12.2	67.0
Fee and commission expenses	9.8	0.0	0.0	1.0	0.0	1.5	0.0	12.3	0.0	12.3
Net gains/losses	**–1 277.5**	**44.1**	**–668.8**	**–1 161.4**	**666.2**	**–1.3**	**0.0**	**2.3**	**–0.3**	**2.0**
Net income from financial instruments at fair value	–	–	–668.8	–1 161.4	–	–	–	–1 830.2	–	–1 830.2
Result on investment securities	–1 024.0	44.1	–	–	–	–	–	–979.9	–	–979.9
Provision for possible loan losses	253.5	–	–	–	–	1.3	–	254.8	0.4	255.2
Other operating income	–	–	–	0.0	666.2	–	–	666.2	0.1	666.3
Income from risk transfer	–	–	–	–	–	–	–	2 401.0	–	2 401.0
Total	**1 130.5**	**127.4**	**–622.2**	**–1 336.0**	**–1 330.9**	**117.4**	**0.0**	**487.2**	**21.1**	**508.3**

* Figures adjusted

The reconciliation to the income statement includes income and expenditure that is not covered by the scope of IFRS 7.

The income from investment securities reported in the net profit and/or loss includes gains and losses from the disposal and valuation of investment securities. In addition to profit from sales and disposals, net income from financial instruments at fair value also includes interest income from hedged items and hedging transactions in the amount of € –18.6 million. Other operating income includes income and expenditure generated from the repurchase of own issues. With the exception of hedge accounting interest income, the interest and dividend income is not included in the net profit and/or loss, but instead is disclosed in the interest income for all IAS 39 holding categories.

The income retained for the year from the assumption of risk by KfW Bankengruppe is reported within net profit as a separate item.

(60) Classification of financial instruments in accordance with IFRS 7

The following table contains the carrying amounts of the Bank's financial instruments (before the deduction of risk provisions) in accordance with IFRS 7 reporting classes:

IFRS 7 reporting classes for financial instruments	31 March 2009 in € million	31 March 2008 in € million*
Assets		
Fair value through profit or loss		
Held for trading	**3 705.8**	**3 604.0**
Assets held for trading	3 705.8	3 604.0
Fair value option	**3 137.8**	**4 798.6**
Loans and advances to banks	0.0	88.8
Loans and advances to customers	0.0	0.0
Investment securities	3 137.8	4 709.8
KfW Bankengruppe receivables	**0.0**	**1 829.7**
Other assets	0.0	1 829.7
Hedging derivatives		
Assets held for trading	27.0	33.7
Fair value in equity		
Available for sale	**1 901.1**	**1 709.1**
Investment securities	1 901.1	1 709.1
Amortised cost		
Loans and receivables	**34 153.6**	**36 183.4**
Loans and advances to banks	2 979.5	2 761.5
Loans and advances to customers (including hedge fair value adjustments)	25 976.7	27 001.1
Investment securities	5 197.4	6 420.8
Finance lease receivables		
Loans and advances to customers	1 951.2	1 842.5
Other financial instruments not within the scope of IFRS 7		
Investments accounted for using the equity method	7.5	14.7
Total	**44 884.0**	**50 015.7**
Equity and liabilities		
Fair value through profit or loss		
Held for trading	**5 242.0**	**5 345.3**
Liabilities held for trading	5 242.0	5 345.3
Fair value option	**7 773.3**	**5 349.6**
Liabilities to banks	1 120.9	647.1
Liabilities to customers	1 303.0	1 222.9
Securitised liabilities	5 162.3	2 760.1
Subordinated capital	187.1	719.5
Hedging derivatives		
Liabilities held for trading	238.0	65.6
Amortised cost		
Other financial liabilities	**28 781.8**	**37 815.7**
Liabilities to banks	14 197.8	16 802.2
Liabilities to customers	4 515.8	4 528.6
Securitised liabilities (including hedge fair value adjustments)	8 863.6	15 424.7
Subordinated capital	1 204.6	1 060.2
Total	42 035.1	48 576.2
Off-balance sheet transactions		
Contingent liabilities	876.1	1 482.5
Other obligations	2 932.3	4 436.0
Total	**3 808.4**	**5 918.5**

* Figures adjusted

(61) Fair value of financial assets and liabilities

Under IAS 32, the fair value of a financial asset or a financial liability is the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction.

The fair value for financial instruments traded in an active market can be derived from the (quoted) market price as of the balance sheet date. If there are no prices available, the fair value is determined by comparison with similar market transactions. If there are no comparable market transactions available, suitable valuation models (such as the discounted cash flow method and option pricing model) can be used to determine the fair value. The model used includes assumptions and estimates by the management. The discounted cash flow method is based on the future cash flows and applicable discount rates. The valuation models take into account parameters such as yield curves, spread curves and volatility factors, which are derived from observable market data. The fair values include interest accrued in accordance with market practice.

The fair value of loans and advances to banks and customers reported at amortised cost is generally calculated on the basis of the discounted cash flow method. As part of this, a risk-adjusted credit spread is created for each loan. Discounting is carried out over the different terms of the swap rates with risk-adjusted credit spreads. The swap rate is based on the current market conditions on the valuation date. The credit spread for the loan fluctuates according to changes in the measured standard risk costs, which are determined by the customer rating, the security situation and the remaining term of the loan on the valuation date. Equity and funding costs also affect the credit spread. As such, any changes to the fair values compared to the carrying amounts can be triggered by funding, interest rates and credit ratings.

The fair value was not separately calculated for cash reserves, current loans and advances or liabilities where the carrying amount represents a reasonable approximation of fair value.

Investment securities and trading assets and liabilities are measured on the basis of recognised valuation models if there are no prices quoted in active markets. In order to take account of the bid mid range, a simplified approach is applied for all derivatives and securities that are reported at fair value, as long as the bid or ask prices on the individual transactions have not already been included. In this case, the average market listings for bid prices on active securities are used.

The valuation of the portfolio investment is shown in note 6.

The fair value of liabilities to banks and customers is calculated on the basis of the discounted cash flow method. Discounting is carried out using term-differentiated risk-free swap rates and market spreads. IKB's liabilities are factored in using models which use market spread as a significant influencing factor. Current senior liabilities are based on the spreads from reverse trading. Long-term senior liabilities and subordinated issues are based on CDS spreads. In the case of promissory note loans not held by banks, it is important to take into account the fact that the spreads are lower than for securitised liabilities, since the guarantee fund generally provides cover. Senior issues take into account additional individual spreads, which describe structural differences in the issues. The global loans are discounted using the same method.

Profit participation rights and Tier I issues in the fair value option are initially valued at market prices. Unlisted transactions are recognised with interpolated spreads. For profit participation rights and Tier I transactions at amortised cost, the forecast interest and redemption figures are discounted by the respective issue yields (for further details on accounting for these transactions in accordance with IAS 39 AG8 please see note 6 and note 47 Liabilities to banks and note 56 Subordinated capital).

The following table compares the fair values with their carrying amounts.

in € million	Fair value		Carrying amount		Difference	
	31 Mar 2009	31 Mar 2008*	31 Mar 2009	31 Mar 2008*	31 Mar 2009	31 Mar 2008*
Assets						
Loans and receivables	**31 842.6**	**34 401.2**	**33 347.2**	**35 407.5**	**–1 504.6**	**–1 006.3**
Loans and advances to banks	2 978.2	2 767.2	2 979.5	2 761.5	–1.3	5.7
Loans and advances to customers (including hedge fair value adjustments)**	23 886.3	25 423.4	25 170.3	26 225.2	–1 284.0	–801.8
Investment securities	4 978.1	6 210.6	5 197.4	6 420.8	–219.3	–210.2
Finance lease receivables	**1 944.3**	**1 839.0**	**1 944.5**	**1 840.2**	**–0.2**	**–1.2**
Loans and advances to customers**	1 944.3	1 839.0	1 944.5	1 840.2	–0.2	–1.2
Assets after provision for possible loan losses	**33 786.9**	**36 240.2**	**35 291.7**	**37 247.7**	**–1 504.8**	**–1 007.5**
Equity and liabilities						
Other financial liabilities	**27 444.5**	**36 392.6**	**28 781.8**	**37 815.7**	**–1 337.3**	**–1 423.1**
Liabilities to banks	14 291.1	16 593.8	14 197.8	16 802.2	93.3	–208.4
Liabilities to customers	4 334.1	4 192.0	4 515.8	4 528.6	–181.7	–336.6
Securitised liabilities (including hedge fair value adjustments)	8 149.2	14 778.2	8 863.6	15 424.7	–714.4	–646.5
Subordinated capital	670.1	828.6	1 204.6	1 060.2	–534.5	–231.6
Equity and liabilities	**27 444.5**	**36 392.6**	**28 781.8**	**37 815.7**	**–1 337.3**	**–1 423.1**

* Figures adjusted
** The carrying amount of loans and advances to customers is shown net of impairment in the amount of € 813.1 million (31 March 2008: € 778.2 million)

The portfolio includes transactions which are valued using parameters that are not classed as observable market data. These parameters generally relate to correlations between interest rates. These correlations can be estimated indirectly using empirical time series, which are also used as a basis for the sensitivity limits applied here.

The parameters used to value the portfolio investments are illustrated in note 6.

in € million	Fair value		Calculation of fair value on the basis of non-market parameters			
			Volume		Changes in fair value recognised in result for the period	
	31 Mar 2009	31 Mar 2008*	31 Mar 2009	31 Mar 2008*	31 Mar 2009	31 Mar 2008*
Assets						
Fair value through profit or loss						
Held for trading	**3 705.8**	**3 604.0**	**0.0**	**6.5**	**0.0**	**–3.0**
Assets held for trading	3 705.8	3 604.0	0.0	6.5	0.0	–3.0
Fair value option	**3 137.8**	**4 798.6**	**295.1**	**347.6**	**–95.3**	**–0.3**
Loans and advances to banks	0.0	88.8	0.0	0.0	0.0	0.0
Loans and advances to customers	0.0	0.0	0.0	0.0	0.0	0.0
Investment securities	3 137.8	4 709.8	295.1	347.6	–95.3	–0.3
KfW Bankengruppe receivables	**0.0**	**1 829.7**	**0.0**	**1 829.7**	**0.0**	**0.0**
Other assets	0.0	1 829.7	0.0	1 829.7	0.0	0.0
Hedging derivatives						
Assets held for trading	27.0	33.7	0.0	0.0	0.0	0.0
Fair value in equity						
Available for sale	**1 901.1**	**1 709.1**	**76.1**	**0.0**	**–0.4**	**0.0**
Investment securities	1 901.1	1 709.1	76.1	0.0	–0.4	0.0
Amortised cost						
Loans and receivables	**31 842.6**	**34 401.2**	**25 685.2**	**27 778.6**	**–**	**–**
Loans and advances to banks	2 978.2	2 767.2	2 135.2	2 290.3	–	–
Loans and advances to customers (including hedge fair value adjustments)	23 886.3	25 423.4	22 300.1	25 174.7	–	–
Investment securities	4 978.1	6 210.6	1 249.9	313.6	–	–
Finance lease receivables						
Loans and advances to customers	1 944.3	1 839.0	1 100.5	1 839.0	–	–
Equity and liabilities						
Fair value through profit or loss						
Held for trading	**5 242.0**	**5 345.3**	**0.0**	**0.0**	**0.0**	**0.0**
Liabilities held for trading	5 242.0	5 345.3	0.0	0.0	0.0	0.0
Fair value option	**7 773.3**	**5 349.6**	**883.0**	**0.0**	**223.4**	**0.0**
Liabilities to banks	1 120.9	647.1	564.2	0.0	124.2	0.0
Liabilities to customers	1 303.0	1 222.9	318.8	0.0	81.7	0.0
Securitised liabilities	5 162.3	2 760.1	0.0	0.0	0.0	0.0
Subordinated capital	187.1	719.5	0.0	0.0	17.5	0.0
Hedging derivatives						
Liabilities held for trading	238.0	65.6	12.1	0.0	0.0	0.0
Amortised cost						
Other financial liabilities	**27 444.5**	**36 392.6**	**17 601.2**	**7 806.1**	**–**	**–**
Liabilities to banks	14 291.1	16 593.8	8 807.2	7 731.5	–	–
Liabilities to customers	4 334.1	4 192.0	48.2	74.6	–	–
Securitised liabilities (including hedge fair value adjustments)	8 149.2	14 778.2	8 149.9	0.0	–	–
Subordinated capital	670.1	828.6	595.9	0.0	–	–

* Figures adjusted

Transactions reported at fair value on the basis of non-market parameters are undervalued by € 38.4 million (previous year: € 1.8 million) if the parameters fluctuate positively. If the variation is negative, the accumulated overestimate will amount to € 38.0 million (previous year: € 1.3 million).

There were no transactions that resulted in a difference between the transaction price and the fair value calculated on a model basis.

The difference between the carrying amount of financial liabilities at fair value and the redemption amount amounts to € –2,301.5 million (previous year: € –1,337.3 million) and results from the following balance sheet items:

	Carrying amount		Difference between carrying amount and repayment amount on maturity	
in € million	31 March 2009	31 March 2008	31 March 2009	31 March 2008
Liabilities to banks	1 120.9	647.1	–125.4	–34.9
Liabilities to customers	1 303.0	1 222.9	–868.8	–776.0
Securitised liabilities	5 162.3	2 760.1	–80.1	–99.6
Subordinated capital	187.1	719.5	–1 227.2	–426.8
Total	**7 773.3**	**5 349.6**	**–2 301.5**	**–1 337.3**

(62) Derivatives

IKB enters into forward transactions, which are mainly used to control and limit interest rate, credit and currency risks. Derivative instrument trading is only conducted to a limited extent.

The following table shows the IKB Group's transactions with derivative financial instruments as of the balance sheet date. The value of derivative financial instruments that allow for market and credit risks to be transferred between parties is derived from interest rates, indices, share prices and exchange rates. The key derivative products are swaps, interest and currency forwards, share options and credit derivatives. Derivatives can be traded as standardised contracts on the stock exchange or as OTC derivatives where the nominal amount, term and price can be individually negotiated between the Bank and a counterparty.

The nominal amount indicates the volume traded by the Bank and serves as a reference point for calculating the mutually agreed payments such as interest assets and or liabilities for interest rate swaps. In addition, the following table shows the positive and negative fair values of the derivatives concluded, which show the expenses the Bank or the counterparty would incur in replacing the originally concluded contracts with contracts of equal economic value. The positive fair value shows the Bank's maximum risk of counterparty default on the balance sheet date.

The fair values are determined, as far as possible, on the basis of quoted market prices. If quoted market prices are not available, the fair values are determined using the discounted cash flow method, on the basis of a comparison with similar market transactions or other valuation models (e.g. option pricing model). The discounted cash flow method is based on the estimated future cash flows and applicable discount rates. The valuation models take into account parameters such as yield curves, spread curves and volatility factors. In line with market practice, the fair values include deferred interest.

	Nominal amount			Fair value					
				Positive		Negative		Total	
	31 Mar 2009 in € million	31 Mar 2008 in € million	Change in %	31 Mar 2009 in € million	31 Mar 2008 in € million	31 Mar 2009 in € million	31 Mar 2008 in € million	31 Mar 2009 in € million	31 Mar 2008 in € million
Interest rate derivatives	**53 151.9**	**46 973.8**	**13.2**	**1 225.1**	**301.8**	**2 450.2**	**1 106.9**	**–1 225.1**	**–805.1**
Remaining term up to one year				175.5	42.5	259.5	118.7	–84.0	–76.2
Remaining term between one and five years				261.1	93.5	374.1	179.4	–113.0	–85.9
Remaining term more than five years				788.5	165.8	1 816.6	808.8	–1 028.1	–643.0
Credit derivatives	**6 711.6**	**9 323.8**	**–28.0**	**2 314.4**	**2 926.5**	**2 952.1**	**4 083.7**	**–637.7**	**–1 157.2**
Remaining term up to one year				71.5	1.1	74.9	5.4	–3.4	–4.3
Remaining term between one and five years				144.5	8.1	120.2	242.6	24.3	–234.5
Remaining term more than five years				2 098.4	2 917.3	2 757.0	3 835.7	–658.6	–918.4
Currency derivatives	**3 503.0**	**7 551.2**	**–53.6**	**133.5**	**307.8**	**77.7**	**220.3**	**55.8**	**87.5**
Remaining term up to one year				50.0	253.0	59.9	97.3	–9.9	155.7
Remaining term between one and five years				64.5	46.6	13.8	121.2	50.7	–74.6
Remaining term more than five years				19.0	8.2	4.0	1.8	15.0	6.4
Equity derivatives	**–**	**–**	**–**	**–**	**0.5**	**–**	**–**	**–**	**0.5**
Remaining term up to one year				–	–	–	–	–	–
Remaining term between one and five years				–	0.5	–	–	–	0.5
Remaining term more than five years				–	–	–	–	–	–
Total	**63 366.5**	**63 848.8**	**–0.8**	**3 673.0**	**3 536.6**	**5 480.0**	**5 410.9**	**–1 807.0**	**–1 874.3**

The following table shows the breakdown of derivatives by counterparties.

in € million	Fair values as of 31 March 2009		Fair values as of 31 March 2008	
	Positive	Negative	Positive	Negative
OECD banks	1 287.4	5 254.0	669.2	5 020.5
Other OECD companies and OECD private persons	2 385.6	214.8	2 867.3	381.4
Non-OECD	–	11.2	0.1	9.0
Total	**3 673.0**	**5 480.0**	**3 536.6**	**5 410.9**

The above table does not include the credit derivative arising from the risk transfer agreement with KfW Bankengruppe in the previous year.

(63) Credit risks disclosures

The following table shows the maximum credit risk amount in accordance with IFRS 7.36 (a). The maximum credit risk comprises balance sheet and off-balance sheet financial instruments. Financial instruments reported on the balance sheet are recognised at their carrying amount less risk provisions for possible loan losses; off-balance sheet transactions are included in the amount of maximum utilisation after deduction of provisions for possible loan losses. Guarantees and other credit enhancements are not taken into account. The maximum credit risk amount includes to a lesser extent equities and similar equity instruments for which there is no credit risk.

As of 31 March 2008, the maximum credit risk compared to the previous year was as follows:

	Maximum credit risk exposure		Credit risk exposure neither past due nor impaired		Renegotiated credit risk exposure		Credit risk exposure past due but not impaired		Impaired credit risk exposure	
in € million	31 Mar 2009	31 Mar 2008*	31 Mar 2009	31 Mar 2008*	31 Mar 2009	31 Mar 2008	31 Mar 2009	31 Mar 2008	31 Mar 2009	31 Mar 2008
Fair value through profit or loss										
Held for trading	**3 705.8**	**3 604.0**	**3 705.8**	**3 604.0**	**–**	**–**	**–**	**–**	**–**	**–**
Assets held for trading	3 705.8	3 604.0	3 705.8	3 604.0	–	–	–	–	–	–
Fair value option	**3 137.8**	**4 798.6**	**3 137.8**	**4 798.6**	–	–	–	–	–	**–**
Loans and advances to banks	0.0	88.8	0.0	88.8	–	–	–	–	–	–
Loans and advances to customers	–	–	–	–	–	–	–	–	–	–
Investment securities	3 137.8	4 709.8	3 137.8	4 709.8	–	–	–	–	–	–
KfW Bankengruppe receivables	**0.0**	**1 829.7**	**0.0**	**1 829.7**	**–**	**–**	**–**	**–**	**–**	**–**
Other assets	0.0	1 829.7	0.0	1 829.7	–	–	–	–	–	–
Hedging derivatives										
Held for trading	**27.0**	**33.7**	**27.0**	**33.7**	**–**	**–**	**–**	**–**	**–**	**–**
Assets held for trading	27.0	33.7	27.0	33.7	–	–	–	–	–	–
Fair value in equity										
Available for sale	**1 901.1**	**1 709.1**	**1 901.1**	**1 709.1**	**–**	**–**	**–**	**–**	**–**	**–**
Investment securities	1 901.1	1 709.1	1 901.1	1 709.1	–	–	–	–	–	–
Amortised cost										
Loans and receivables	**33 347.2**	**35 407.5**	**30 084.3**	**32 648.1**	**483.5**	**223.5**	**1 076.9**	**1 312.2**	**1 702.5**	**1 223.7**
Loans and advances to banks	2 979.5	2 761.5	2 979.5	2 761.5	–	–	–	–	–	–
Loans and advances to customers (including hedge fair value adjustments)	25 170.3	26 225.2	22 300.7	24 011.2	483.5	223.5	1 076.9	1 312.2	1 309.2	678.3
Investment securities	5 197.4	6 420.8	4 804.1	5 875.4	–	–	–	–	393.3	545.4
Finance lease receivables										
Loans and advances to customers	1 944.5	1 840.2	1 720.0	1 825.4	–	–	159.1	–	65.4	14.8
Less portfolio impairment	184.6	83.0	–	–	–	–	–	–	–	–
Off-balance sheet transactions										
Contingent liabilities	876.1	1 482.5	–	–	–	–	–	–	–	–
Other obligations	2 932.3	4 436.0	–	–	–	–	–	–	–	–
Total	**47 687.2**	**55 058.3**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**

* Figures adjusted

In the previous year, the maximum credit risk amount included the rescue package provided by KfW. The two risk cover components were reported together under other assets and were recognised separately as “Receivables from KfW Bankengruppe” in the maximum credit risk amount.

IKB hedged against credit risks by obtaining collateral from borrowers that can be utilised or realised in the event of default. Collateral is generally accepted in the form of mortgages, transfers of ownership and guarantees after appropriate checks have been carried out. By type, collateral currently breaks downs as 33.6% guarantees (previous year: 36.3%), 36.2% mortgages (previous year: 30.1%), 3.9% transfers of ownership (previous year: 1.9%) and 26.3% other collateral (previous year: 31.7%). In addition to these collateral types, credit derivatives and similar instruments also contribute to reducing the credit risk. Information on credit derivatives and similar instruments that are related to liabilities for which the fair value option has been exercised are shown in the following table:

	Maximum exposure to credit risk		Amount by which any related credit derivatives mitigate the maximum exposure to credit risk		Cumulative change in fair values of any related credit derivatives or similar instruments		Change in fair values within the period of credit derivatives or similar instruments	
in € million	31 Mar 2009	31 Mar 2008	31 Mar 2009	31 Mar 2008	31 Mar 2009	31 Mar 2008	31 Mar 2009	31 Mar 2008
Loans and advances to banks	0.0	88.8	0.0	150.0	0.0	74.5	0.0	74.5
Loans and advances to customers	–	–	–	–	–	–	–	–
Total	**0.0**	**88.8**	**0.0**	**150.0**	**0.0**	**74.5**	**0.0**	**74.5**

The risk relief provided by collateral is dependent on the collateral type. At IKB individual parameters and standardised processes are used to value accepted collateral. In addition to the value on recognition, the sustainable value of collateral is also plays a crucial role. Long-term risk mitigation can only be ensured by collateral, depending on its type, if the collateral is monitored constantly, including periodic valuations and updates.

	Credit quality of credit risk exposure neither past due nor impaired													
	Rating class 1 to 1.5		Rating class 2 to 2.5		Rating class 3 to 3.5		Rating class 4 to 4.5		Rating class 5 and worse		No rating		Total	
in € million	31 Mar 2009	31 Mar 2008*	31 Mar 2009	31 Mar 2008*	31 Mar 2009	31 Mar 2008	31 Mar 2009	31 Mar 2008	31 Mar 2009	31 Mar 2008	31 Mar 2009	31 Mar 2008	31 Mar 2009	31 Mar 2008*
Fair value through profit or loss														
Held for trading	**3 413.9**	**3 320.1**	**176.0**	**171.2**	**71.5**	**69.6**	**18.1**	**17.6**	**26.1**	**25.4**	**0.1**	**0.1**	**3 705.8**	**3 604.0**
Assets held for trading	3 413.9	3 320.1	176.0	171.2	71.5	69.6	18.1	17.6	26.1	25.4	0.1	0.1	3 705.8	3 604.0
Fair value option	**1 450.1**	**3 637.6**	**691.8**	**833.7**	**137.9**	**166.4**	**89.8**	**0.6**	**768.2**	**15.0**	**0.0**	**145.4**	**3 137.8**	**4 798.6**
Loans and advances to banks	–	66.0	–	–	–	–	–	–	–	–	–	22.8	0.0	88.8
Loans and advances to customers	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Investment securities	1 450.1	3 571.6	691.8	833.7	137.9	166.4	89.8	0.6	768.2	15.0	0.0	122.6	3 137.8	4 709.8
KfW Bankengruppe receivables	**0.0**	**1 829.7**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**1 829.7**
Other assets	–	1 829.7	–	–	–	–	–	–	–	–	–	–	0.0	1 829.7
Hedging derivatives														
Held for trading	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**27.0**	**33.7**	**27.0**	**33.7**
Assets held for trading	–	–	–	–	–	–	–	–	–	–	27.0	33.7	27.0	33.7
Fair value in equity														
Available for sale	**1 576.4**	**1 417.2**	**180.9**	**162.7**	**57.8**	**51.9**	**18.5**	**16.7**	**0.0**	**0.0**	**67.5**	**60.7**	**1 901.1**	**1 709.1**
Investment securities	1 576.4	1 417.2	180.9	162.7	57.8	51.9	18.5	16.7	–	0.0	67.5	60.7	1 901.1	1 709.1
Amortised cost														
Loans and receivables	**12 190.8**	**14 033.2**	**9 972.7**	**10 479.6**	**5 448.1**	**5 612.7**	**1 824.7**	**1 762.9**	**249.9**	**470.7**	**398.0**	**289.0**	**30 084.3**	**32 648.1**
Loans and advances to banks	2 877.7	2 667.1	15.8	14.6	–	–	–	–	–	–	86.0	79.7	2 979.5	2 761.5
Loans and advances to customers (including hedge fair value adjustments)	4 737.0	5 769.6	9 827.8	10 307.1	5 376.4	5 524.9	1 824.7	1 762.9	232.6	449.6	302.0	197.1	22 300.7	24 011.2
Investment securities	4 576.0	5 596.5	129.1	157.9	71.7	87.7	–	–	17.3	21.1	10.0	12.2	4 804.1	5 875.4
Receivables from finance leases														
Loans and advances to customers	246.5	261.6	658.3	698.6	397.6	422.0	299.7	318.1	90.1	95.6	27.8	29.5	1 720.0	1 825.4

* Figures adjusted

The rating methods and procedures used by IKB are explained in the notes.

All financial instruments are subject to an ongoing review and reporting process. IKB has defined the so-called credit volume for reporting. The credit volume is based on the IKB business model and is a suitable means of illustrating the credit risk. Financial instruments that are not included in the credit volume primarily consist of current loans and advances to banks and mortgages. These mainly relate to counterparties, such as OECD banks and credit insurers with an investment grade rating. This item excludes a derivative in trading assets against the credit insurer FGIC Financial Guaranty Insurance Company (BB; Standard & Poor's) in the amount of € 0.0 million (previous year: € 1,127.2 million). The credit quality is illustrated for the markets segments of IKB, structured securities portfolios and portfolio investments in the Group management report.

The loans with negotiated conditions shown in the table at the maximum credit risk amount are not overdue and are not subject to long-term impairment because of a confirmed debt service ratio or sufficient security. A more detailed review is necessary, however, as the agreements with the borrowers for these loans were subsequently changed. This usually occurs as part of restructuring measures. In general the interest and redemption structure is modified to ensure that the borrower is able to meet its obligations. Individual write-downs do not have to be recognised for the renegotiated credits or those in arrears shown below. However, these credits are taken into account in calculating portfolio write-downs. Please see the Group management report for more information on the calculation of portfolio write-downs.

As of the balance sheet date 31 March 2009, the following financial assets were in arrears:

	Financial assets past due but not impaired						Total	Fair value of corresponding collateral
31 March 2009 in € million	Between one and five days	Between five and 30 days	Between 30 and 90 days	Between 90 and 180 days	Between 180 and 360 days	More than 360 days		
Amortised cost								
Loans and receivables	**878.5**	**66.7**	**32.2**	**50.5**	**13.8**	**35.1**	**1 076.9**	**573.2**
Loans and advances to banks	–	–	–	–	–	–	–	–
Loans and advances to customers (including hedge fair value adjustments)	878.5	66.7	32.2	50.5	13.8	35.1	1 076.9	573.2
Investment securities	–	–	–	–	–	–	–	–
Finance lease receivables								
Loans and advances to customers	50.8	51.1	42.6	9.7	4.7	0.2	159.1	122.5
Total	**929.3**	**117.8**	**74.8**	**60.2**	**18.5**	**35.3**	**1 236.0**	**695.8**

	Financial assets past due but not impaired						Total	Fair value of corresponding collateral
31 March 2008 in € million	Between one and five days	Between five and 30 days	Between 30 and 90 days	Between 90 and 180 days	Between 180 and 360 days	More than 360 days		
Amortised cost								
Loans and receivables	**981.8**	**140.5**	**40.2**	**71.6**	**18.7**	**59.4**	**1 312.2**	**559.2**
Loans and advances to banks	–	–	–	–	–	–	–	–
Loans and advances to customers (including hedge fair value adjustments)	981.8	140.5	40.2	71.6	18.7	59.4	1 312.2	559.2
Investment securities	–	–	–	–	–	–	–	–
Finance lease receivables								
Loans and advances to customers		–	–	–	–	–	–	–
Total	**981.8**	**140.5**	**40.2**	**71.6**	**18.7**	**59.4**	**1 312.2**	**559.2**

Financial instruments that are in arrears by one or more days are classed as overdue under IFRS 7. However, the first maturity range (one to five days in arrears) should be regarded as less meaningful due to delays in settlement on the part of the borrower. There is no impairment loss for the overdue financial instruments shown here.

The following financial assets were subject to individual write-downs as of the balance sheet date:

	Carrying amount of impaired assets before impairment		Amount of impairment		Carrying amount of impaired assets after impairment		Fair value of corresponding collateral	
in € million	31 Mar 2009	31 Mar 2008	31 Mar 2009	31 Mar 2008	31 Mar 2009	31 Mar 2008	31 Mar 2009	31 Mar 2008
Amortised cost								
Loans and receivables	**3 726.3**	**2 966.3**	**2 023.8**	**1 742.6**	**1 702.5**	**1 223.7**	**1 143.8**	**642.9**
Loans and advances to banks	–	–	–	–	–	–	–	–
Loans and advances to customers (including hedge fair value adjustments)	2 115.6	1 454.2	806.4	775.9	1 309.2	678.3	1 143.8	642.9
Investment securities	1 610.7	1 512.1	1 217.4	966.7	393.3	545.4	0.0	0.0
Finance lease receivables								
Loans and advances to customers	72.1	17.1	6.7	2.3	65.4	14.8	0.0	0.0
Total	**3 798.4**	**2 983.4**	**2 030.5**	**1 744.9**	**1 767.9**	**1 238.5**	**1 143.8**	**642.9**

Among other things, the rise in the carrying amount of assets written down under loans and advances to customers at cost from € 678.3 million to € 1,309.2 million is due to the fact that a volume of € 428 million is included for IKB Capital Corporation as of 31 March 2009. This volume was written down in the amount of € 28 million on account of disposal intentions on the basis of current fair values.

During the financial year, IKB generated collateral revenue in the amount of € 434.7 million (previous year: € 599.7 million).

Detailed information on risks can be found in the risk report in the Group management report.

Other disclosures

(64) Contingent assets/liabilities and other commitments

Contingent liabilities include, amongst others, potential future liabilities of the Group which result from term credit facilities granted to customers that have not been utilised.

Income from guarantees and similar transactions is recognised in net fee and commission income.

IKB's contingent liabilities and other commitments break down as follows:

	31 March 2009 in € million	31 March 2008 in € million*	Change in %
Contingent liabilities	876.1	1 482.5	–40.9
Guarantees, warranties, other	554.7	1 329.1	–58.3
Assumptions of liability	321.4	153.4	109.5
Other obligations	2 932.3	4 436.0	–33.9
Commitments up to one year	1 372.4	2 161.0	–36.5
Commitments of more than one year	1 559.9	2 275.0	–31.4
Total	**3 808.4**	**5 918.5**	**–35.7**

* Figures adjusted

Contingent liabilities are offset by contingent assets in the same amount. As of 31 March 2009, contingent liabilities included assumptions of liability totalling € 149.7 million that were recognised under *guarantees, warranties, other* as of 31 March 2008.

Other commitments comprised loan commitments to special-purpose entities for a total amount of € 125.1 million (previous year: € 17.4 million), which can be drawn upon by these entities in the case of short-term liquidity bottlenecks, or should default events (as defined in the relevant agreements) occur.

The figures presented reflect the amounts that would have to be paid if the respective customers were to use the relevant credit facilities in full, adjusted for provisions.

(65) Other financial obligations

As of the balance sheet date, the Group's payment obligations from equities not fully paid in, investments in GmbHs, investments in affiliated companies, the interests held by IKB Private Equity GmbH and subordinated loans amount to € 22.9 million (previous year: € 32.6 million).

There is a proportionate obligation to make additional contributions with respect to Liquiditäts-Konsortialbank GmbH, Frankfurt am Main, in accordance with section 26 of the *Gesetz betreffend die Gesellschaften mit beschränkter Haftung* (GmbHG – German Limited Liability Companies Act). IKB also has a proportionate contingent liability for the fulfilment of the obligation to make contributions of other members of the Association of German Banks. In accordance with section 5 (10) of the by-laws of the Deposit Protection Fund, IKB AG is required to indemnify the Association of German Banks from any losses incurred by banks in which it holds a majority interest. For further information, please see the annual financial statements and management report of IKB AG as of 31 March 2009.

(66) Leases

Finance leases

Receivables from leasing transactions	31 March 2009 in € million	31 March 2008 in € million	Change in %
Gross investment (maturities)			
up to one year	608.6	579.2	5.1
between one and five years	1 487.8	1 247.5	19.3
more than five years	148.7	106.9	39.1
Total gross investment	**2 245.1**	**1 933.6**	**16.1**
of which:			
Non-guaranteed residual values	34.2	32.8	4.3
Unrealised financial income (maturities)			
up to one year	104.4	92.1	13.4
between one and five years	177.9	138.8	28.2
more than five years	11.6	7.1	63.4
Total unrealised financial income	**293.9**	**238.0**	**23.5**
Net investment (maturities)			
up to one year	504.2	487.0	3.5
between one and five years	1 309.9	1 108.9	18.1
more than five years	137.1	99.7	37.5
Total net investment	**1 951.2**	**1 695.6**	**15.1**
Contingent rent recognised in profit or loss	0.0	8.7	–100.0
Cumulative impairment for irrecoverable outstanding minimum lease payments	3.3	0.8	

Future minimum lease payments from non-cancellable finance leases break down by maturities as follows:

	31 March 2009 in € million	31 March 2008 in € million	Change in %
up to one year	628.7	574.3	9.5
between one and five years	1 480.0	1 225.0	20.8
more than five years	139.7	101.2	38.0
Total	**2 248.4**	**1 900.5**	**18.3**

Operating leases

Future minimum lease payments from non-cancellable operating leases break down by maturities as follows:

	31 March 2009 in € million	31 March 2008 in € million	Change in %
up to one year	38.9	32.3	20.4
between one and five years	104.0	53.8	93.3
more than five years	5.8	0.4	>100.0
Total	**148.7**	**86.5**	**71.9**

As in the previous year, no contingent rents were recognised in profit or loss in the year under review.

IKB Leasing GmbH, Hamburg, no longer has any obligations from sale and leaseback transactions (previous year: € 2.2 million). In the previous year, these obligations were offset by corresponding claims against lessees.

Two administrative buildings in Düsseldorf were leased for a fixed lease term of 20 years under an operating lease. The lease can be renewed on two occasions, each time for five years, at the market conditions applicable at the time. In addition, IKB was granted a preferential purchase right and a preferential lease right. For the first three years of the lease agreement, a price escalation clause of 1% p.a. was agreed. From the fourth year onwards, a provision applies with regard to contingent rents pursuant to which the increase of the rents will be linked to changes in the consumer price index.

The minimum lease payments to be made by IKB from non-cancellable operating leases break down as follows:

	31 March 2009 in € million	31 March 2008 in € million	Change in %
up to one year	13.1	13.0	0.9
between one and five years	53.7	52.9	1.4
more than five years	162.2	172.2	–5.8
Total	**228.9**	**238.1**	**–3.8**

IKB still expects to receive rental payments from subleasing parts of the administrative buildings to third-party tenants of at least € 2.0 million p.a. (previous year: € 1.7 million).

(67) Disclosures on collateral

Disclosures on collateral provided for own liabilities and contingent liabilities

IKB provides collateral primarily for open market operations with the European Central Bank. Financial assets of € 7.1 billion (previous year: € 8.1 billion) have been pledged as collateral for the European Central Bank's tender and loan application process (collateral pool). As of the balance sheet date, credit facilities totalling € 2.9 billion had been utilised (previous year: € 3.1 billion).

	Assets provided as collateral as part of refinancing activities with the European Central Bank	
in € million	31 March 2009	31 March 2008
Assets held for trading		
Fair value through profit or loss	13.3	19.7
Investment securities		
Fair value through profit or loss	1 300.6	1 495.3
Fair value in equity	904.2	414.7
Amortised cost	4 159.8	4 577.0
Loans and advances to customers		
Amortised cost	731.1	1 631.9
Total	**7 109.0**	**8 138.6**

IKB has provided cash collateral of € 5.8 million in total (previous year: € 294.7 million) to various banks in connection with credit derivatives.

Cash collateral in the amount of € 1,627 billion (previous year: € 685.0 million) was assigned for interest derivatives as part of collateral management).

Securities with a nominal value of € 19.0 million (previous year: € 3.5 million) have been lodged with Clearstream Banking AG, Frankfurt am Main, for compliance with payment obligations in securities transactions; securities with a nominal value of € 7.0 million (previous year: € 7.0 million) have been deposited as collateral at Clearstream Banking S.A., Luxembourg. In futures trading on EUREX Germany, securities for margin obligations have been lodged with BHF-Bank AG, Frankfurt am Main, with a nominal value of € 5.0 million (previous year: € 5.0 million) and with Citigroup, London, with a nominal value of € 0.0 million (previous year: € 15.0 million).

Securities in the amount of € 158.0 million (previous year: € 246.7 million) have been pledged to KfW, Frankfurt am Main, to help hedge joint business concepts and cash collateral of € 170.0 million has been provided.

With the exception of cash collateral, assets pledged as collateral do not grant any rights of resale.

(68) Securities repurchase agreements

In the 2008/09 financial year, IKB significantly reduced its genuine repurchase agreement business. As a borrower, IKB transferred investment securities with a carrying amount of € 631.4 million (previous year: € 1,957.0 million) (repo agreements) as of the reporting date. These assets included collateral that can be re-sold or re-pledged. The repurchase agreements resulted in liabilities to banks of € 585.8 million (previous year: € 1,589.3 million).

	Repurchase agreements		Corresponding liabilities (liabilities to banks)	
in € million	31 March 2009	31 March 2008	31 March 2009	31 March 2008
Investment securities				
Fair value through profit or loss	0.0	334.8	0.0	264.1
Fair value in equity	0.0	236.4	0.0	201.8
Amortised cost	631.4	1 385.8	585.8	1 123.4
Total	**631.4**	**1 957.0**	**585.8**	**1 589.3**

As of 31 March 2009, there were no transactions in which IKB as a borrower reassigned collateral it had received (reverse repo transaction). In the previous year, government bonds with a fair value of € 229.5 million were received in repo transactions with an option for resale or reassignment. As of the previous year's reporting date, this resulted in loans and advances to banks with a carrying amount of € 230.8 million. In line with the usual conditions for repo agreements, there was a return obligation in the same amount for the government bonds received.

(69) Statement of changes in non-current assets

Non-current assets developed as follows in the past financial year:

in € million	Property, plant and equipment			Intangible assets	Total
	Lease assets from operating leases	Land, buildings buildings under construction not including investment property	Operating and office equipment including low-value assets		
Cost					
As of 31 March 2008	179.3	112.3	69.7	88.4	**449.7**
Changes in the scope of consolidation	–	–	–	–	**–**
Exchange differences	–0.6	–	–0.1	0.1	**–0.6**
Additions	96.7	12.6	5.8	2.5	**117.6**
Reclassification	–3.4	–	–	–	**–3.4**
Disposals	61.5	0.9	4.5	13.3	**80.2**
As of 31 March 2009	210.5	124.0	70.9	77.7	**483.1**
Cumulative change due to measurement at equity	–	–	–	–	**–**
Write-downs and reversals of write-downs					
As of 31 March 2008	67.1	29.0	46.4	56.3	**198.8**
Changes in the scope of consolidation	–	–	–	–	**–**
Exchange differences	–0.5	–	0.1	–	**–0.4**
Depreciation and amortisation	28.1	1.3	8.4	11.3	**49.1**
Impairment	0.1	7.6	–	–	**7.7**
Reversals of impairment losses	–	–	–	–	**–**
Reclassification	–	–	–	–	**–**
Disposals	33.9	0.2	4.2	9.0	**47.3**
As of 31 March 2009	60.9	37.7	50.7	58.6	**207.9**
Cumulative changes in measurement	–	–	–	–	**–**
Carrying amounts					
As of 31 March 2008	112.2	83.3	23.3	32.1	**250.9**
As of 31 March 2009	**149.6**	**86.3**	**20.2**	**19.1**	**275.2**

(70) Maturity structure

The remaining term is the period between the balance sheet date and the due date for each portion of an asset or liability. If there is a repricing date before the actual due date, this was shown as the due date.

The remaining terms of assets and liabilities break down as follows:

31 March 2009 in € million	up to three months	between three months and one year	between one and five years	more than five years	Total
Loans and advances to banks	2 243.6	631.4	71.0	33.5	2 979.5
Loans and advances to customers	2 251.5	3 226.0	13 365.5	9 084.9	27 927.9
Assets held for trading	195.8	112.6	508.4	2 916.0	3 732.8
Investment securities	696.8	613.8	3 558.6	5 367.1	10 236.3
Companies accounted for using the equity method	0.0	0.0	0.0	7.5	7.5
Total	**5 387.7**	**4 583.8**	**17 503.5**	**17 409.0**	**44 884.0**
Liabilities to banks	4 863.7	1 191.4	5 937.8	3 325.8	15 318.7
Liabilities to customers	1 485.2	824.9	1 154.4	2 354.3	5 818.8
Securitised liabilities	1 608.7	4 842.5	7 497.9	76.8	14 025.9
Liabilities held for trading	284.9	106.3	508.1	4 580.7	5 480.0
Subordinated capital	21.3	76.4	582.4	711.6	1 391.7
Total	**8 263.8**	**7 041.5**	**15 680.6**	**11 049.2**	**42 035.1**

31 March 2008 in € million	up to three months	between three months and one year	between one and five years	more than five years	Total
Loans and advances to banks	1 552.7	1 053.6	56.6	187.4	2 850.3
Loans and advances to customers*	2 435.6	3 607.1	13 673.6	9 127.3	28 843.6
Assets held for trading	303.5	64.7	211.8	3 057.7	3 637.7
Investment securities*	756.9	559.7	4 176.3	7 346.9	12 839.7
Companies accounted for using the equity method	0.0	0.0	0.0	14.7	14.7
Total	**5 048.7**	**5 285.1**	**18 118.3**	**19 734.0**	**48 186.0**
Liabilities to banks	7 017.1	1 184.5	4 267.0	4 980.7	17 449.3
Liabilities to customers	1 086.5	1 495.8	1 183.8	1 985.4	5 751.5
Securitised liabilities	1 741.9	6 345.9	10 000.9	96.1	18 184.8
Liabilities held for trading	142.8	78.0	543.4	4 646.7	5 410.9
Subordinated capital	23.1	239.7	382.3	1 134.6	1 779.7
Total	**10 011.4**	**9 343.9**	**16 377.4**	**12 843.5**	**48 576.2**

* Figures adjusted

(71) Contractual remaining terms of financial liabilities

The following table shows the liquidity risk in line with the requirements of IFRS 7.39a. It shows the undiscounted cash flows for balance sheet and off-balance sheet liabilities. Priority is given to the earliest termination date or the earliest utilisation date.

	Contractual remaining terms of financial liabilities					Total
31 March 2009 in € million	up to one month	between one and three months	between three months and one year	between one and five years	more than five years	
Liabilities to banks	3 950.9	989.5	1 713.6	6 594.6	3 854.9	17 103.5
Liabilities to customers	1 191.8	422.6	1 262.4	2 483.0	3 082.9	8 442.7
Securitised liabilities	570.1	1 123.8	5 157.0	7 861.3	65.7	14 777.9
Liabilities held for trading	3 569.9	134.3	332.3	1 385.6	2 729.4	8 151.5
Subordinated capital	9.9	7.9	156.7	1 595.7	1 541.4	3 311.6
Total	**9 292.6**	**2 678.1**	**8 622.0**	**19 920.1**	**11 274.3**	**51 787.2**
Off-balance sheet transactions	3 808.4	0.0	0.0	0.0	0.0	3 808.4

	Contractual remaining terms of financial liabilities					Total
31 March 2008 in € million	up to one month	between one and three months	between three months and one year	between one and five years	more than five years	
Liabilities to banks	4 081.8	3 050.4	1 387.3	5 229.1	6 090.1	19 838.7
Liabilities to customers	164.0	956.0	1 920.7	2 165.5	2 443.7	7 649.8
Securitised liabilities	657.5	1 578.1	6 741.7	10 532.2	108.0	19 617.4
Liabilities held for trading	4 257.2	25.7	170.9	381.4	–1 174.2	3 661.2
Subordinated capital	2.4	10.2	382.4	1 228.2	1 474.1	3 097.3
Total	**9 162.9**	**5 620.3**	**10 603.0**	**19 536.5**	**8 941.7**	**53 864.4**
Off-balance sheet transactions	5 918.5	0.0	0.0	0.0	0.0	5 918.5

Trading liabilities contain only derivatives. The cash outflows from swaps are reported in the table for contractual remaining residual terms after netting against inflows for each maturity range. All other derivatives are included in IDW ERS HFA 24 (Draft IDW Statement on the Issues of Financial Instrument Disclosures, 5 December 2007) at their fair value. IKB assumes that the fair value most closely reflects the cash flow generated from the conclusion of derivative positions. Fair values are classified into various maturity ranges based on agreed maturities. In contrast, the fair value of credit derivatives is allocated to the first maturity range.

Subordinated capital includes liabilities with perpetual maturity that grant the issuer an exclusive right to cancel. The resulting cash flows are allocated to the respective maturity ranges; the last maturity range reports the nominal value of the liabilities.

In contrast to contractual cash flows, IKB manages internal liquidity risk on the basis of expected values. Internal liquidity risk management is included in the risk report in the Group management report of IKB.

(72) Average number of employees in the financial year

	2008/09	2007/08	Change in %
Men	1 058	1 139	–7.1
Women	691	713	–3.0
Total	**1 749**	**1 852**	**–5.6**

(73) Related party disclosures

The following table shows the related parties of the executive bodies of the Bank taking into account the shareholder change in customer loans business:

	Credit volume (utilisation or amount of commitment) (€ thousand)		Average remaining term (years)		Average interest rate (%)	
Group	31 March 2009	31 March 2008	31 March 2009	31 March 2008	31 March 2009	31 March 2008
Board of Managing Directors	–	–	–	–	–	–
Employee representatives in the SB	104	151	2.3	5.5	4.0	4.1
Shareholder representatives in the SB	–	100	–	0.3	–	6.3
Companies controlled by shareholder representatives	38 344	140 472	5.7	8.1	3.0	4.8
Companies controlled by former shareholders	97 426	–	7.1	–	4.4	–
Total	**135 874**	**140 723**	**6.7**	**8.1**	**4.0**	**4.8**

All loans were granted at normal market conditions on the basis of IKB's standard principles of business and were secured either with real property liens or other collateral instruments. These exposures represent 0.4% (previous year: 0.4%) of total credit extended by the Group. There were no individual write-downs on these loans.

The following table shows the remaining related party transactions that were also carried out at normal market conditions:

Group	Type of transaction	Volume (€ thousand)		Average remaining term (years)		Average interest rate (%)	
		31 March 2009	31 March 2008*	31 March 2009	31 March 2008*	31 March 2009	31 March 2008*
Companies controlled by shareholder representatives	Interest rate swaps	39 374	43 740	5.8	6.7	IKB pays variable: EURIBOR 3M and EURIBOR 6M receives: 3.60 to 4.57%	IKB pays variable: EURIBOR 3M and EURIBOR 6M receives: 3.60 to 4.57%

* Figures adjusted due to allocation of interest rate swaps

IKB AG has prepared a dependent company report in line with section 312 AktG. The dependent company report is not published. The closing statement by the Board of Managing Directors of the Bank in the dependent company report reads as follows: "According to the circumstances known to us at the time at which the transactions and measures stated in the dependent company report were executed, implemented or omitted, our Company received appropriate consideration for every transaction and was not disadvantaged by the implementation or omission of any measures."

Directors' dealings as defined by section 15a WpHG

Persons with management responsibilities, including in particular the members of the Board of Managing Directors and the Supervisory Board of IKB and persons closely related to them are legally required in line with section 15a of *Wertpapierhandelsgesetz* (WpHG – German Securities Trading Act) to disclose transactions with IKB shares or financial instruments based on them if the value of the transactions performed by the member and the related person within a calendar year amounts to or exceeds a total of €5,000.

In the reporting year, there were no transactions in the shares of IKB AG or financial instruments based on them by directors or persons closely related to them.

There were no reportable shareholdings as defined by item 6.6 of the German Corporate Governance Code as of 31 March 2009.

Loans and advances to and liabilities from subsidiaries

The loans and advances to and liabilities from non-consolidated subsidiaries, associated companies and other investees and investors break down as follows:

	Parent company		Companies assigned to the parent company		Subsidiaries		Associated companies and other investees and investors		Total	
in € million	31 Mar 2009	31 Mar 2008	31 Mar 2009	31 Mar 2008	31 Mar 2009	31 Mar 2008	31 Mar 2009	31 Mar 2008	31 Mar 2009	31 Mar 2008
Receivables										
Loans and advances to banks	–	–	–	–	–	2.0	–	33.4	–	35.4
Loans and advances to customers	–	–	–	–	10.9	3.0	160.9	208.9	171.8	211.9
Assets held for trading	–	–	–	–	–	–	3.7	–	3.7	–
Bonds and other fixed-income securities	–	–	–	–	–	–	–	101.0	–	101.0
Equities and other non-fixed-income securities	–	–	–	–	–	–	–	144.6	–	144.6
Other assets	–	–	–	–	–		–	1 857.2	–	1 857.2
Total	**–**	**–**	**–**	**–**	**10.9**	**5.0**	**164.6**	**2 345.1**	**175.5**	**2 350.1**
Liabilities										
Liabilities to banks	–	–	–	–	–	–	–	8 566.3	–	8 566.3
Liabilities to customers	–	–	634.5	–	0.6	0.8	0.4	4.0	635.5	4.8
Securitised liabilities	–	–	–	–	–	–	–	–	–	–
Liabilities held for trading	–	–	–	–	–	–	–	–	–	–
Subordinated liabilities	105.6	–	106.1	–	–	–		–	211.7	–
Other liabilities	–	–	–	–	–	–		5.8	–	5.8
Total	**105.6**	**–**	**740.6**	**–**	**0.6**	**0.8**	**0.4**	**8 576.1**	**847.2**	**8 576.9**

Letter of comfort

IKB shall ensure that its subsidiaries indicated in the list of shareholdings of IKB AG as protected by the letter of comfort are able to meet their contractual obligations with the exception of the event of political risk.

IKB Leasing GmbH, Hamburg, has issued letters of comfort to Commerzbank Rt., Budapest, for its subsidiaries IKB Leasing Hungaria Kft., Budapest, and IKB Penzüdyi Lizing Hungaria Rt, Budapest. Furthermore, IKB Leasing GmbH, Hamburg, issued a letter of comfort to Bankhaus Carl Spängler & Co., Salzburg for IKB Leasing Austria GmbH, Salzburg.

IKB Projektentwicklung GmbH & Co. KG issued a letter of comfort to Zoo & Co. in the amount of € 340 thousand for ilmenau center GmbH & Co. KG.

(74) Remuneration and loans to executive bodies

A detailed description of the principles of the remuneration and the compensation system for the members of the Board of Managing Directors and of the Supervisory Board is included in the remuneration report in the Group management report.

Remuneration of the Board of Managing Directors

The total remuneration of the members of the Board of Managing Directors for the 2008/09 financial year amounted to € 7,068 thousand (previous year: € 4,264 thousand). € 2,380 thousand (previous year: € 2,023 thousand) of this related to fixed compensation, € 3,117 thousand (previous year: € 2,044 thousand) to variable compensation, € 280 thousand to additions to pension replacement payments and € 1,291 thousand (previous year: € 197 thousand) to additional benefits (including compensation of € 1,120 thousand).

Former and retired members of the Board of Managing Directors

The total remuneration for former and retired members of the Board of Managing Directors and their surviving dependents amounted to € 3,097 thousand (previous year: € 3,822 thousand). Provisions of € 45,959 thousand were recognised for pension obligations to former members of the Board of Managing Directors and their surviving dependents (previous year: € 42,536 thousand).

Remuneration of the Supervisory Board

The total remuneration of the members of the Supervisory Board for the 2008/09 financial year amounted to € 498 thousand. This includes € 69 thousand in reimbursement for expenses.

Remuneration of the Advisory Board

€ 417 thousand (previous year: € 361 thousand) including VAT was paid to the members of the Advisory Board.

Loans extended to members of executive bodies and the Advisory Board

As of 31 March 2009, IKB had extended loans of a total amount of € 0.1 million (previous year: € 1.0 million) to members of the Supervisory Board and the Advisory Board.

(75) The Corporate Governance Code

The Board of Managing Directors and the Supervisory Board issued its annual declaration of compliance in line with section 161 AktG on 11 July 2008 and an updated declaration of compliance on 14 July 2009. Both declarations were made permanently accessible to the shareholders on the Company's website.

(76) Events after 31 March 2009

Please see the supplementary report in the Group management report for information on events after 31 March 2009.

(77) Executive bodies

The following list of members of the Supervisory Board and Board of Managing Directors shows
a) their membership in other statutory supervisory boards and
b) similar offices held in comparable governing bodies of German and foreign companies.

Supervisory Board

Chairman

Werner Oerter, Linden
Director of KfW Bankengruppe
(Chairman until 30 October 2008 and
member until 31 December 2008)

*b) Grundstücks- und Gebäudewirtschafts-
Gesellschaft m.b.H.
High-Tech Gründerfonds GmbH & Co. KG
Authentos GmbH*

Bruno Scherrer, London
Senior Managing Director/Head of European Investments
Lone Star Management Europe Ltd.
(Chairman and member from 30 October 2008)

*a) COREALCREDIT BANK AG (Chairman)
MHB-Bank Aktiengesellschaft (Chairman)*

Deputy Chairman

Dr Karsten von Köller, Frankfurt
Chairman Lone Star Germany GmbH
(Member from 16 December 2008,
Deputy Chairman from 1 January 2009)

*a) COREALCREDIT BANK AG (Deputy Chairman)
MHB-Bank Aktiengesellschaft
(Deputy Chairman)*

b) W.P. Carey & Co. LLC (Executive Director)

Detlef Leinberger, Neu-Anspach
(until 6 October 2008)

*b) Europäischer Investitionsfonds (Luxembourg) (EIF)
(until May 2008)*

Werner Möller, Echzell
Director (retired) of KfW Bankengruppe
(Member from 28 August 2008 until 18 November 2008
and Deputy Chairman from 8 October 2008
to 18 November 2008)

Dieter Pfundt, Frankfurt (Main)
Personally liable partner of
Sal. Oppenheim jr. & Cie. KGaA
(Member and Deputy Chairman until 31 December 2008)

a) Börse Düsseldorf AG

*b) Sal. Oppenheim jr. & Cie. Corporate
Finance (Switzerland) AG, President
Bank Sal. Oppenheim jr. & Cie (Austria) AG
(Deputy Chairman)
4IP Management AG
Air Berlin PLC
Bank Sal. Oppenheim jr. & Cie (Switzerland) AG
Collineo Asset Management GmbH
(from 8 January 2009)
Kommanditgesellschaft Allgemeine Leasing GmbH & Co.
MB Advisory Group, LLC
Sal. Oppenheim (France) S.A.
Sal. Oppenheim Alternative Asset Management S.A.
(from 1 July 2008)
Sal. Oppenheim Alternative Investments GmbH
Sal. Oppenheim Investments GmbH
Sal. Oppenheim (Hong Kong) Limited*

Members

Dieter Ammer, Hamburg
CEO of Conergy AG
(until 30 November 2008)

a) Beiersdorf AG (Chairman until 30 April 2008)
Conergy AG (until 31 July 2008)
GEA AG
Heraeus Holding GmbH
tesa AG (until 24 April 2008)

Jörg Asmussen, Berlin
Ministerial Director in the German Federal
Ministry of Finance (until 27 May 2008)

a) Euler Hermes Kreditversicherungs-AG
(until 27 May 2008)
Postbank AG (until 27 May 2008)

b) Bundesanstalt für Finanzdienstleistungsaufsicht
(Deputy Chairman)

Dr Jens Baganz, Düsseldorf
State Secretary in the Ministry for
Economic Affairs and Energy
in the State of North-Rhine Westphalia
(until 30 November 2008)

a) Messe Düsseldorf GmbH
duisport AG

b) NRW.Invest GmbH (Chairman)
NRW.International GmbH (Chairman)
Entwicklungsgesellschaft Zollverein mbH
Forschungszentrum Jülich GmbH
Institut für Mittelstandsforschung
NRW.BANK
NRW Japan, K.K.
ZENIT GmbH

Stefan Baustert, Bad Homburg
President and CEO of
SINGULUS TECHNOLOGIES AG
(from 25 March 2009)

b) AptarGroup

Wolfgang Bouché, Düsseldorf
Employee representative

Olivier Brahin, London
Head of European Real Estate Investments division at
Lone Star Management Europe Ltd.
(from 22 January 2009)

a) COREALCREDIT BANK AG

Hermann Franzen, Düsseldorf
Personally liable partner of
Hermann Franzen KG
(until 31 December 2008)

a) SIGNAL IDUNA Allgemeine Versicherung AG
(Deputy Chairman)
SIGNAL-IDUNA Holding AG

Dr Lutz-Christian Funke, Frankfurt
Director of Corporate Strategy/
Head of the Office of the Board of
KfW Bankengruppe
(from 22 January 2009)

a) Dedalus GmbH & Co. KGaA
(Deputy Chairman)

Dipl.-Kfm. Ulrich Grillo, Duisburg
Chairman of the Board of
Grillo-Werke Aktiengesellschaft

a) Praktiker Bau- und Heimwerkermärkte Holding AG
Praktiker Bau- und Heimwerkermärkte AG
mateco AG

b) HDF Hamborner Dach- und Fassadentechnik GmbH & Co. KG (Chairman)
Grillo Zinkoxid GmbH
Zinacor S.A. (Belgium)

Arndt G. Kirchhoff, Attendorn
Managing Partner of
KIRCHHOFF Automotive GmbH
(from 25 March 2009)

a) DEKRA AG
KOSTAL Verwaltungsgesellschaft mbH

b) DEG – Deutsche Investitions- und Entwicklungsgesellschaft mbH
LEWA Attendorn GmbH

Jürgen Metzger, Hamburg
Employee representative

Dr Claus Nolting, Munich
Chairman of the Board of
COREALCREDIT BANK AG
(from 22 January 2009)

Roland Oetker, Düsseldorf
Managing Partner of
ROI Verwaltungsgesellschaft mbH
(until 30 November 2008)

a) Deutsche Post AG
Volkswagen AG

b) Dr. August Oetker KG (Deputy Chairman)
RAG-Stiftung

Dr Christopher Pleister, Berlin
Member of the Steering Committee of the
German Financial Market Stabilisation Fund
(from 28 August 2008 to 1 February 2009)

b) Sennheiser electronic GmbH & Co. KG (until 31 December 2008)

Dr Thomas Rabe, Berlin
Member of the Board of
Bertelsmann AG
(from 23 June 2009)

a) Arvato AG (Deputy Chairman)
Druck- und Verlagshaus Gruner + Jahr AG
Symrise AG

b) Ricordi & C. S.p.A. (Chairman)
Bertelsmann Capital Investment (S.A.) SICAR
Bertelsmann Digital Media Investments S.A.
Bertelsmann Inc.
Edmond Israel Foundation
RTL Group S.A.

Dr-Ing. E.h. Eberhard Reuther, Hamburg
Chairman of the Supervisory Board of
Körber Aktiengesellschaft (until 27 April 2009)

a) Körber AG (Chairman)

Randolf Rodenstock, Munich
Managing Partner of
Optische Werke G. Rodenstock GmbH & Co. KG
(until 3 December 2008)

a) E.ON Energie AG
Rodenstock GmbH

Rita Röbel, Leipzig
Employee representative
(until 30 November 2008)

Dr Michael Rogowski, Heidenheim
Chairman of the Supervisory Board of Voith AG
(until 28 August 2008)

a) Voith AG (Chairman)
Carl Zeiss AG
HDI Haftpflichtverband der
Deutschen Industrie V.a.G.
Klöckner & Co. AG
Talanx AG
Vattenfall Europe AG (from June 2008)

b) Freudenberg & Co. (Deputy Chairman)
Würth Gruppe (honorary member)

Jochen Schametat, Düsseldorf
Employee representative
(until 30 November 2008)

Dr Carola Steingräber, Berlin
Employee representative

Dr Alfred Tacke, Celle
Member of the Board of
Evonik Industries AG
(until 31 December 2008)

a) Evonik New Energies GmbH
(Chairman until 31 December 2008)
Deutsche Steinkohle AG
RAG Aktiengesellschaft

Dr Andreas Tuczka, London
Head of European Financial Institutions division at
Lone Star Management Europe Ltd.
(from 22 January 2009)

Dr Martin Viessmann, Allendorf (Eder)
Partner and President of
Viessmann Werke GmbH & Co. KG
(until 25 March 2009)

a) Messe Frankfurt GmbH
Schott Glas AG

Ulrich Wernecke, Düsseldorf
Employee representative

Andreas Wittmann, Munich
Employee representative

Board of Managing Directors

Dr Günther Bräunig
(Member and Chairman until 31 October 2008)

b) IKB Autoleasing GmbH (until 31 October 2008)
IKB Leasing Berlin GmbH (until 31 October 2008)
IKB Leasing GmbH (until 31 October 2008)
IKB Private Equity GmbH (until 31 October 2008)

Dr Dieter Glüder

b) IKB Autoleasing GmbH (until 21 May 2008 and from 5 March 2009 to 9 June 2009)
IKB Capital Corporation (until 19 May 2009)
IKB Data GmbH (Chairman from 9 June 2009)
IKB Immobilien Management GmbH (Chairman from 9 June 2009)
IKB International S.A. (Chairman)
IKB Leasing Berlin GmbH (until 21 May 2008 and from 5 March 2009 to 9 June 2009)
IKB Leasing GmbH (until 21 May 2008 and from 5 March 2009 to 9 June 2009)
Movesta Lease and Finance GmbH (from 9 June 2009)

Dr Reinhard Grzesik
(until 3 July 2009)

b) IKB Data GmbH (Chairman until 9 June 2009)
IKB Immobilien Management GmbH (Chairman until 9 June 2009)
IKB International S.A. (from 30 June 2008 to 3 July 2009)
IKB Private Equity GmbH (until 15 May 2008)
Movesta Lease and Finance GmbH (until 21 May 2008 and from 26 November 2008 to 9 June 2009)

Dr Andreas Leimbach
(from 1 April 2008 to 31 January 2009)

b) Argantis GmbH (until 31 January 2009)
IKB Autoleasing GmbH (Chairman from 21 May 2008 to 31 January 2009)
IKB International S. A. (from 30 June 2008 to 31 January 2009)
IKB Leasing Berlin GmbH (Chairman from 21 May 2008 to 31 January 2009)
IKB Leasing GmbH (Chairman from 21 May 2008 to 31 January 2009)
IKB Private Equity GmbH (Chairman from 15 May 2008 to 31 January 2009)
Movesta Lease and Finance GmbH (from 21 May 2008 to 25 November 2008)

Claus Momburg

b) Argantis GmbH (until 31 August 2008)
IKB Autoleasing GmbH (Chairman until 20 May 2008, then member)
IKB International S.A. (member and Deputy Chairman until 30 June 2008, member from 16 March 2009)
IKB Leasing Berlin GmbH (Chairman until 20 May 2008, then member)
IKB Leasing GmbH (Chairman until 20 May 2008, then member)
IKB Private Equity GmbH (Chairman until 14 May 2008, then member)
Movesta Lease and Finance GmbH (Deputy Chairman)

Hans Jörg Schüttler
(Member and Chairman from 1 November 2008)

b) IKB Autoleasing GmbH (from 27 November 2008)
IKB Leasing Berlin GmbH (from 25 November 2008)
IKB Leasing GmbH (from 25 November 2008)
IKB Private Equity GmbH (from 25 November 2008)

Dr Michael H. Wiedmann
(from 1 March 2009)

b) IKB Autoleasing GmbH (from 9 June 2009)
IKB Capital Corporation (from 20 May 2009)
IKB Leasing Berlin GmbH (from 9 June 2009)
IKB Leasing GmbH (from 9 June 2009)
IKB Private Equity GmbH (Chairman from 2 April 2009; member from 4 March 2009)

Offices held by employees

As of 31 March 2009, the following employees were represented in the statutory supervisory boards of large corporations:

Dr Reiner Dietrich
Tricor Packaging & Logistics AG

Roland Eschmann (until 29 May 2009)
Oechsler AG

Frank Kraemer
ae Group AG

(78) List of consolidated entities as of 31 March 2009

	Letter of comfort	Share of capital in %	Financial year	Equity in € thousand
A. Consolidated subsidiaries				
1. Foreign banks				
IKB International S.A., Luxembourg	x	100 [1]	1 Apr - 31 Mar	183 133
2. Other German companies				
ICCO Grundstücks-Vermietungsgesellschaft mbH & Co. KG, Düsseldorf[3]	x	100 [1]	1 Apr - 31 Mar	193
ICCO Grundstücks-Vermietungsgesellschaft mbH, Düsseldorf	x	100 [1]	1 Apr - 31 Mar	46
IKB Autoleasing GmbH, Hamburg	x	100 [1]	1 Apr - 31 Mar	14 000
IKB Beteiligungen GmbH, Düsseldorf	x	100	1 Apr - 31 Mar	475 710
IKB Data GmbH, Düsseldorf	x	100	1 Apr - 31 Mar	20 000
IKB Dritte Equity Suporta GmbH, Düsseldorf		100 [1]	1 Jan - 31 Dec	2 160
IKB Equity Capital Fund I GmbH & Co. KG, Düsseldorf	x	100 [1]	1 Apr - 31 Mar	53 966
IKB Equity Finance GmbH, Düsseldorf		100 [1]	1 Apr - 31 Mar	962
IKB Erste Equity Suporta GmbH, Düsseldorf		100 [1]	1 Apr - 31 Mar	183
IKB Grundstücks GmbH & Co. Objekt Degerloch KG, Düsseldorf[3]	x	100	1 Jan - 31 Dec	1 977
IKB Grundstücks GmbH & Co. Objekt Hamburg KG, Düsseldorf[3]	x	100	1 Jan - 31 Dec	–746
IKB Grundstücks GmbH & Co. Objekt Holzhausen KG, Düsseldorf[3]	x	100	1 Jan - 31 Dec	3 678
IKB Grundstücks GmbH & Co. Objekt Uerdinger Straße KG, Düsseldorf[3]	x	100	1 Jan - 31 Dec	8 699
IKB Grundstücks GmbH, Düsseldorf	x	100	1 Jan - 31 Dec	113
IKB Immobilien Management GmbH, Düsseldorf	x	75	1 Jan - 31 Dec	2 295
IKB Leasing Berlin GmbH, Erkner	x	100 [1]	1 Apr - 31 Mar	8 000
IKB Leasing GmbH, Hamburg	x	100 [1]	1 Apr - 31 Mar	45 000
IKB Private Equity GmbH, Düsseldorf	x	100 [1]	1 Apr - 31 Mar	90 000
IKB Projektentwicklung GmbH & Co. KG, Düsseldorf[3]	x	100	1 Jan - 31 Dec	40 467
IKB Projektentwicklungsverwaltungsges. mbH, Düsseldorf	x	100	1 Jan - 31 Dec	28
IMAS Grundstücks-Vermietungsges. mbH, Düsseldorf	x	100	1 Apr - 31 Mar	2 442
ISOS Grundstücks-Vermietungsgesellschaft mbH & Co. KG, Düsseldorf[3]	x	100 [1]	1 Apr - 31 Mar	246
ISOS Grundstücks-Vermietungsgesellschaft mbH, Düsseldorf	x	100 [1]	1 Apr - 31 Mar	46
ISTOS Beteiligungsverwaltungs- und Grundstücksvermietungsges. mbH, Düsseldorf	x	100	1 Jan - 31 Dec	55
ISTOS Dritte Beteiligungsverwaltungs- und Grundstücksvermietungsgesellschaft mbH & Co. KG, Düsseldorf[3]		100	1 Jan - 31 Dec	245
ISTOS Erste Beteiligungsverwaltungs- und Grundstücksvermietungsges. mbH & Co. KG, Düsseldorf[3]	x	100	1 Jan - 31 Dec	40
ISTOS Zweite Beteiligungsverwaltungs- und Grundstücksvermietungsgesellschaft mbH & Co. KG, Düsseldorf[3]		100	1 Jan - 31 Dec	193

[1] Indirect interest
[2] Subordinated letter of comfort
[3] Company has not prepared its own notes in line with section 264b HGB
[4] Incl. silent partnership contributions/preferred shares
[5] 2007/08 financial year

	Letter of comfort	Share of capital in %	Financial year	Equity in € thousand
3. Other foreign companies				
IKB Capital Corporation, New York		100	1 Apr - 31 Mar	38 114 [5]
IKB Finance B.V., Amsterdam	x	100	1 Apr - 31 Mar	4 911
IKB Funding LLC I, Wilmington, Delaware	x [2]	100	1 Apr - 31 Mar	75 997 [4]
IKB Funding LLC II, Wilmington, Delaware	x [2]	100	1 Apr - 31 Mar	402 687 [4]
IKB Leasing Austria GmbH, Salzburg	x	100 [1]	1 Jan - 31 Dec	799
IKB Leasing ÈR s.r.o., Prague	x	100 [1]	1 Jan - 31 Dec	2 870
IKB Leasing Finance IFN SA, Bucharest	x	100 [1]	1 Jan - 31 Dec	495
IKB Leasing France S.A.R.L., Marne	x	100 [1]	1 Jan - 31 Dec	1 466
IKB Leasing Hungária Kft., Budapest	x	100 [1]	1 Jan - 31 Dec	267
IKB Leasing Polska Sp.z o.o., Posen	x	100 [1]	1 Jan - 31 Dec	5 407
IKB Leasing SR, s.r.o., Bratislava	x	100 [1]	1 Jan - 31 Dec	2 198
IKB Leasing srl, Bucharest	x	100 [1]	1 Jan - 31 Dec	–24
IKB Lux Beteiligungen S.à.r.l., Luxembourg	x	100	1 Apr - 31 Mar	59 265
IKB Penzüdyi Lizing Hungaria Rt., Budapest	x	100 [1]	1 Jan - 31 Dec	1 924
Still Location S.A.R.L., Marne	x	100 [1]	1 Jan - 31 Dec	10 473
ZAO IKB Leasing, Moscow	x	100 [1]	1 Jan - 31 Dec	276
B. Joint ventures/associates				
Linde Leasing GmbH, Wiesbaden		30 [1]	1 Jan - 31 Dec	
Movesta Lease and Finance GmbH, Düsseldorf		50 [1]	1 Jan - 31 Dec	
C. Special purpose entities in accordance with SIC-12				
Bacchus 2008-1 Plc, Dublin				
Bacchus 2008-2 Plc, Dublin				
ELAN Ltd., Jersey (two units)				
Havenrock I Ltd., Jersey				
Havenrock II Ltd., Jersey				
REPV-DS Finance 2008-1 GmbH, Frankfurt a.M.				
Rio Debt Holdings Ltd., Dublin				

[1] Indirect interest
[2] Subordinated letter of comfort
[3] Company has not prepared its own notes in line with section 264b HGB
[4] Incl. silent partnership contributions/preferred shares
[5] 2007/08 financial year

The following list also shows the assets, liabilities, results and income of companies accounted for using the equity method in line with IFRS:

Name of company accounted for using the equity method in € million	Assets	Liabilities	Result	Income
Linde Leasing GmbH, Wiesbaden	512.2	487.1	–6.2	33.9

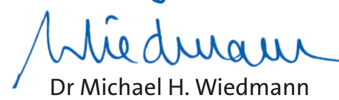
The full list of shareholdings has been submitted to the electronic Federal Gazette and can be accessed on the Internet site of the Company Register. It can be requested from IKB AG free of charge.

Düsseldorf, 13 July 2009
IKB Deutsche Industriebank AG
The Board of Managing Directors

Hans Jörg Schüttler

Dr Dieter Glüder

Claus Momburg


Dr Michael H. Wiedmann

Annex:

Accounting provisions applied

In accordance with section 315a (1) HGB in conjunction with EU Regulation 1606/2002, a new standard must be endorsed in EU law before it can be applied by the Bank. The date shown (applicable from) is the date of first-time adoption. New standards can often be applied earlier than required by the issuer of the standard. However, IKB did not exercise this option in these financial statements.

The abbreviation IFRS stands for the International Financial Reporting Standards passed since November 2003. The abbreviation IAS, International Accounting Standards, refers to all provisions published by 2002. If an IAS standard is revised fully it is renamed as an IFRS.

The regulations of the German Accounting Standards Committee “DRSC” are only relevant if they apply in line with section 315 a HGB and cover issues not regulated by the IFRS standards.

On 3 November 2008, with Regulation 1126/2008, the European Commission again endorsed all IFRS standards already in effect so that companies would in future only have to refer to one regulation rather than 18 individual ones.

The following table shows only the standards relevant to IKB as of the reporting date rather than all of them:

International Financial Reporting Standards (IFRS)				
International Accounting Standards (IAS)	**Status**	**Title**	**Applicable since**	**Endorsed by EU regulation**
IAS 1	2005	Presentation of Financial Statements	1 January 2007	1126/2008 of 3 November 2008
IAS 7	rev. 1992	Cash Flow Statement	1 January 1994	1126/2008 of 3 November 2008
IAS 8	rev. 2003	Accounting Policies, Changes in Accounting Estimates and Errors	1 January 2005	1126/2008 of 3 November 2008
IAS 10	rev. 2003	Events after the Balance Sheet Date	1 January 2005	1126/2008 of 3 November 2008
IAS 11	rev. 1993	Construction Contracts	1 January 1995	1126/2008 of 3 November 2008
IAS 12	rev. 2000	Income Taxes	1 January 1998	1126/2008 of 3 November 2008
IAS 14	rev. 1997	Segment Reporting	1 July 1998	1126/2008 of 3 November 2008
IAS 16	rev. 2003	Property, Plant and Equipment	1 January 2005	1126/2008 of 3 November 2008
IAS 17	rev. 2003	Leases	1 January 2005	1126/2008 of 3 November 2008

International Accounting Standards (IAS)	Status	Title	Applicable since	Endorsed by EU regulation
IAS 18	rev. 1993	Revenue	1 January 1995	1126/2008 of 3 November 2008
IAS 19	2004	Employee Benefits	1 November 2005	1126/2008 of 3 November 2008
IAS 20	rev. 2008	Government Grants	1 January 2009	1126/2008 of 3 November 2008
IAS 21	2005	The Effects of Changes in Foreign Exchange Rates	1 January 2006	1126/2008 of 3 November 2008
IAS 23	rev. 1993	Borrowing Costs	1 January 1995	1126/2008 of 3 November 2008
IAS 24	rev. 2003	Related Party Disclosures	1 January 2006	1126/2008 of 3 November 2008
IAS 27	rev. 2003	Consolidated and Separate Financial Statements	1 January 2006	1126/2008 of 3 November 2008
IAS 28	rev. 2003	Investments in Associates	1 January 2006	1126/2008 of 3 November 2008
IAS 31	rev. 2003	Interests in Joint Ventures	1 January 2005	1126/2008 of 3 November 2008
IAS 32	rev. 2003	Financial Instruments: Presentation	1 January 2005	1126/2008 of 3 November 2008
IAS 33	rev. 2003	Earnings Per Share	1 January 2005	1126/2008 of 3 November 2008
IAS 34	1998	Interim Financial Reporting	1 January 1999	1126/2008 of 3 November 2008
IAS 36	rev. 2004	Impairment of Assets	31 March 2004	1126/2008 of 3 November 2008
IAS 37	1998	Provisions, Contingent Liabilities and Contingent Assets	1 July 1999	1126/2008 of 3 November 2008
IAS 38	rev. 2004	Intangible Assets	31 March 2004	1126/2008 of 3 November 2008
IAS 39	2008	Financial Instruments: Recognition and Measurement	1 January 2006	1126/2008 of 3 November 2008
IAS 40	rev. 2003	Investment Property	1 January 2005	1126/2008 of 3 November 2008

International Financial Reporting Standards (IFRS)	Status	Title	Applicable since	Endorsed by EU regulation
IFRS 5	2004	Non-current Assets Held for Sale and Discontinued Operations	1 January 2005	1126/2008 of 3 November 2008
IFRS 7	2004	Financial Instruments: Disclosures	1 January 2007	1126/2008 of 3 November 2008

Standing Interpretations Committee (SIC)	Status	Title	Applicable since	Endorsed by EU regulation
SIC 10	1998	Government Assistance – No Specific Relation to Operating Activities	1 August 1998	1126/2008 of 3 November 2008
SIC 12	2004	Consolidation – Special Purpose Entities	1 January 2005	1126/2008 of 3 November 2008

International Financial Interpretation Committee (IFRIC)	Status	Title	Applicable since	Endorsed by EU regulation
IFRIC 9	2006	Reassessment of Embedded Derivatives	1 June 2006	1126/2008 of 3 November 2008
IFRIC 10	2006	Interim Financial Reporting and Impairment	1 January 2007	1126/2008 of 3 November 2008
IFRIC 14	2007	The Limit on a Defined Benefit Asset Minimum Funding Requirements and their Interaction	1 January 2008	1126/2008 of 3 November 2008

German Accounting Standards (DRS)	Status	Title	Applicable since	Endorsed by EU regulation
DRS 5-10	2006	Risk Reporting by Financial Institutions and Financial Service Institutions	1 January 2005	not relevant
DRS 15	rev. 2005	Management Reporting	1 January 2003/ 1 January 2004 1 January 2005	not relevant
DRS 15a	rev. 2007	Group Management Report Disclosures and Narrative Explanations Required by Takeover Law	31 December 2008	not relevant
DRS 16	2008	Interim Financial Reporting	1 January 2008	not relevant
DRS 17	2007	Reporting on the Remuneration of Members of Governing Bodies	31 December 2008	not relevant

Capital market-oriented provisions	Status	Title	Applicable since	Endorsed by EU regulation
WpHG	2007	Wertpapierhandelsgesetz – German Securities Trading Act, particularly section 37v to section 37z	1 January 2007	not relevant
DCGC in conjunction with section 161 AktG	2008	German Corporate Governance Code	31 December 2008	not relevant
FWBO	2008	Frankfurt Securities Exchange Ordinance	15 August 2008	not relevant

The following auditor‘s report (Bestätigungsvermerk) has been issued in accordance with § (Article) 322 German Commercial Code (Handelsgesetzbuch) in German language on the German version of the annual financial statements, comprising the balance sheet, the income statement and the notes to the financial statements, and of the management report of the IKB Deutsche Industriebank AG, Düsseldorf, for the business year from April 1, 2008, to March 31, 2009.

Auditor’s Report

We have audited the consolidated financial statements prepared by the IKB Deutsche Industriebank AG, Düsseldorf, comprising the balance sheet, the income statement, statement of recognised income and expense, cash flow statement and the notes to the consolidated financial statements, together with the group management report for the business year from April 1, 2008, to March 31, 2009. The preparation of the consolidated financial statements and the group management report in accordance with the IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to § (Article) 315a Abs. (paragraph) 1 HGB (“Handelsgesetzbuch”: German Commercial Code) is the responsibility of the parent Company’s Board of Managing Directors. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of the entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the Company´s Board of Managing Directors, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion based on the findings of our audit the consolidated financial statements comply with the IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

According to our duties, we refer to the fact that the Company's ability to continue as a going concern is threatened by risks, which are described in the section 'Overall view of the risk situation' of the Group management report. It is stated there that IKB Deutsche Industriebank Aktiengesellschaft's ability to continue as a going concern depends on the compliance with the conditions stipulated by SoFFin for the provision of guarantees, by the European Commission for the approval of the state aid and by the Deposit Protection Fund of the private banks and on the approval of the extended SoFFin guarantees by the European Commission. For this purpose, it is particularly necessary that

- the Tier I capital ratio (Kernkapitalquote) of at least 8% is adhered to at individual Bank level and Group level,

- total Group assets are reduced to € 33.5 billion by September 30, 2011,

- the Real Estate Finance segment and activities at the sites in Luxembourg and New York are ceased on schedule and

- the risk-bearing capacity is also present in the future in due consideration of the above points and the new business model.

If IKB is unable to sufficiently reduce risk items in the coming business years for the purpose of maintaining a Tier I capital ratio (Kernkapitalquote) of at least 8% and guaranteeing its risk-bearing capacity, further additional equity will be required.

Düsseldorf, July 13, 2009

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Ralf Schmitz	Michael Maifarth
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

Responsibility statement in line with section 297 (2) sentence 4 HGB, section 315 (1) sentence 6 HGB

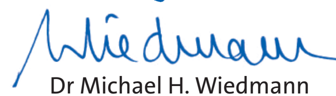
To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the management report of the Group includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Düsseldorf, 13 July 2009
IKB Deutsche Industriebank AG
The Board of Managing Directors

Hans Jörg Schüttler

Dr Dieter Glüder

Claus Momburg



Dr Michael H. Wiedmann

Development of key financial indicators

Development of key items of the Consolidated Income Statement of IKB Deutsche Industriebank AG in accordance with IFRS

Consolidated Income Statement in € million	2008/09	2007/08**	2006/07	2005/06	2004/05*
Interest income	2 560.7	3 315.6	3 831.6	2 681.9	2 664.5
Interest expenses	2 258.1	2 864.0	3 158.5	2 071.4	2 142.9
Net interest income	302.6	451.6	673.1	610.5	521.6
Provision for possible loan losses	–589.6	–255.2	–239.7	–318.6	–313.8
Net interest income after provision for possible loan losses	–287.0	196.4	433.4	291.9	207.8
Net fee and commission income	33.2	54.7	52.0	30.4	83.6
Net income from financial instruments at fair value	–162.1	–1 830.2	–37.8	–11.2	–
Net income from investment securities	–282.1	–979.9	–12.4	13.1	135.7
Personnel expenses	179.4	190.7	185.8	162.8	139.6
Other administrative expenses	195.9	195.3	130.4	106.2	96.3
Net other operating income	131.3	666.3	–6.2	115.8	9.3
Income from risk transfer	–	2 401.0	–	–	–
Restructuring expense	51.8	–	–	–	–
Operating result	–1 002.2	124.0	114.5	171.0	200.5
Taxes	–421.9	134.6	76.6	62.2	45.1
Net income for the year	–580.3	–10.6	37.9	108.8	155.4
Minority interests	0.3	–0.1	–0.1	0.0	–0.3
Net income after minority interests	–580.0	–10.7	37.8	108.8	155.1
Earnings per share €	–1.88	–0.12	0.43	1.24	1.76

* The consolidated income statement for the financial year 2004/05 was prepared without applying IAS 32 and IAS 39.
** Figures adjusted

Development of key items of the Consolidated Income Statement of IKB Deutsche Industriebank AG in accordance with the German Commercial Code (HGB)

Consolidated Income Statement in € million	2003/04	2002/03	2001/02	2000/01	1999/2000	1998/99	1997/98
Interest income, income from leasing transactions	3 251.6	3 223.2	3 215.2	3 097.6	2 524.3	2 334.3	2 138.9
Current income from securities, investments and profit transfer agreements	2.0	1.8	4.8	2.7	36.7	12.9	20.0
Interest expenses, expenses and scheduled depreciation from leasing transactions	2 728.2	2 740.0	2 748.7	2 661.6	2 141.3	1 953.6	1 793.7
Net interest income	525.4	485.0	471.3	438.7	419.7	393.6	365.2
Net commission income	84.7	64.1	39.5	12.3	7.7	8.8	7.6
Net result from financial operations	3.2	0.8	1.9	2.5	–2.6	6.6	8.1
Personnel expenses	146.8	137.8	133.4	117.2	107.2	87.4	82.5
Other administrative expenses including depreciation of tangible fixed assets	85.4	82.1	73.1	66.0	59.1	51.3	49.6
Net other operating income/expenses	11.2	20.2	29.3	91.8	77.8	–3.5	–8.1
Risk provisioning balance	–211.7	–183.4	–175.2	–187.2	–165.5	–88.4	–78.7
Result from ordinary activities	180.6	166.8	160.3	174.9	170.8	178.4	162.0
Other income/expenses	–	–	–	–1.5	–10.0	–3.1	–7.7
Taxes	75.8	81.0	77.2	87.5	85.3	84.3	77.9
Net income	104.8	85.8	83.1	85.9	75.5	91.0	76.4
Earnings per share €	1.19	0.98	0.94	0.98	0.86	1.03	0.87

Development of key items of the Consolidated Balance Sheet of IKB Deutsche Industriebank AG in accordance with IFRS

Consolidated Balance Sheet in € million	31 Mar 2009	31 Mar 2008	31 Mar 2007	31 Mar 2006	31 Mar 2005*
Loans and advances to banks	2 980	2 850	4 442	2 197	1 381
Loans and advances to customers	27 928	28 844	29 685	28 018	26 628
Provision for possible loan losses	–998	–861	–1 095	–1 412	–1 378
Assets held for trading	3 733	3 638	2 209	586	766
Investment securities	10 236	12 840	27 259	23 174	10 757
Property and equipment	256	219	212	231	338
Remaining assets	228	2 111	589	468	1 011
Liabilities to banks	15 319	17 449	13 913	14 060	12 170
Liabilities to customers	5 819	5 752	4 279	2 546	1 982
Securitised liabilities	14 026	18 185	39 556	30 761	18 861
Liabilities held for trading	5 480	5 411	1 165	1 021	1 100
Provisions	172	84	60	303	254
Income tax liabilities	95	88	79	103	142
Other liabilites	514	163	173	264	850
Subordinated capital	1 392	1 780	3 108	2 910	2 834
Shareholders’ equity	1 755	1 163	1 196	1 293	1 310
Subscribed capital	1 498	248	225	225	225
Capital reserve	598	598	568	568	568
Retained earnings	–207	318	331	273	265
Currency translation reserve	–21	7	–15	–7	–11
Revaluation reserve	–36	3	88	159	192
Minority interests	0	0	0	0	0
Consolidated profit	–78	–11	–	75	71
Total	**44 711**	**50 224**	**63 545**	**53 262**	**39 503**

* For the sake of a better comparability with the consolidated balance sheet as at 31 March 2006, the comparative prior year figures as at 31 March 2005 were adjusted by the effects from the first-time adoption of IAS 32 and IAS 39 as at 31 March 2005.

** Figures adjusted

Development of key items of the Consolidated Balance Sheet of IKB Deutsche Industriebank AG in accordance with the German Commercial Code (HGB)

Consolidated Balance Sheet in € million	31 Mar 2004	31 Mar 2003	31 Mar 2002	31 Mar 2001	31 Mar 2000	31 Mar 1999	31 Mar 1998
Loans and advances to banks	1 238	2 140	1 605	804	1 650	2 273	1 641
Loans and advances to customers	24 116	24 803	24 600	24 276	22 635	22 188	20 771
Bonds, notes and other fixed-income securities	8 211	5 927	4 928	3 814	2 652	1 629	1 364
Equities and other non-fixed income securities	87	38	38	36	13	153	139
Investments, interests in affiliated companies	78	45	47	44	91	176	174
Tangible fixed assets	262	245	215	212	214	223	223
Leased assets	2 231	2 466	2 346	2 239	2 114	462	451
Deferred items	108	136	139	153	164	158	166
Other assets including cash reserve	625	610	956	862	408	399	240
Liabilities to banks	15 112	16 223	15 436	15 182	13 181	13 991	11 876
Liabilities to customers	2 228	2 019	2 250	2 411	2 414	2 501	2 482
Securitised liabilities	14 734	13 700	12 975	10 825	10 803	8 280	8 053
Provisions	310	337	301	282	266	237	235
Subordinated liabilities	1 042	632	868	803	582	472	473
Profit-participation certificates	563	614	624	439	439	419	419
Fund for general banking risks	80	80	80	80	80	77	8
Equity	1 962	1 729	1 296	1 270	1 187	1 049	1 022
Subscribed equity	225	225	225	225	225	225	225
Hybrid capital	820	620	170	170	100	–	–
Reserves	919	873	887	848	817	824	797
Minority interest	–2	11	14	27	45	–	–
Deferred items	316	456	469	514	498	297	299
Other liabilities including consolidated profit	609	620	575	634	491	338	302
Total	**36 956**	**36 410**	**34 874**	**32 440**	**29 941**	**27 661**	**25 169**

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 our assumptions and expectations and the assumptions on which these expectations are based. These statements are based on the planning, estimates and forecasts currently available to the management of IKB. Forward-looking statements therefore only relate to the day on which they are made. We accept 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 the condition and development of the finance markets in Germany, Europe, the US and other places where we generate a substantial portion of our income from securities trading, the possible default of borrowers or counterparties in trades, the implementation of our management agenda, the reliability of our risk management policies, procedures and methods and the liquidity situation (non-comprehensive list).

If you have any questions please contact:

IKB Deutsche Industriebank AG
Investor Relations and Communications – COM
Wilhelm-Boetzkes-Straße 1 · 40474 Düsseldorf · Germany
Telephone +49 211 8221-4511
Telefax +49 211 8221-2511
E-mail: investor.relations@ikb.de
www.ikb.de