Annual Report 2010/2011

IKB Deutsche Industriebank

Contents

Letter from the Chairman of the Board of Managing Directors

Dear Shareholders,
Dear business partners of IKB,

The realignment of IKB progressed significantly in the 2010/11 financial year. We continued to refine our profile in a positive macroeconomic environment. As a bank for SMEs, we built on customer relationships developed over many years. Our traditional core business – lending to companies – is being strengthened and capital market and advisory business is being expanded further. We offer solutions for German SMEs with sophisticated financing requirements and are pleased that our customers are taking advantage of the increased range of services.

On the basis of these experiences, we will continue to expand our services for SMEs in a targeted manner in the areas of advisory, capital market, risk management and credit. A positive development in diversification and an increase in income from new business have already become apparent. The volume of new payments in the 2010/11 financial year is above the level for the same period of the previous year with improved margins, while commission income from capital market and advisory business was also increased.

In addition to working actively with customers, we have also progressed a good deal on other important issues.

The EU conditions have already largely been implemented, meaning that we can assume they will be fulfilled as of the effective date 30 September 2011. The conditions included a drastic reduction of IKB's business activities, the discontinuation of the Real Estate Finance segment and the closure of certain international offices. In order to fulfil them, we had to expend considerable resources, which are reflected in the current high level of operating expenses. For instance, the Bank previously operated derivatives business from Luxembourg and is now re-establishing it in Dusseldorf.

The liquidity situation and outlook are stable with a sufficient buffer. We returned the first SoFFin-guaranteed bond and SoFFin guarantees totalling another € 0.4 billion early. With "IKB direkt", IKB is catering to retail clients for the first time. The speed of implementation and success of this project demonstrate the Bank's adaptability. By broadening deposit business with corporate and retail clients and using collateralised financing, we are freeing ourselves from our previous dependence on rating-based capital market issues.

We have decided to terminate our contracts with rating agencies, as there is no longer any benefit from a rating for the Bank or its investors and therefore costs can be saved.

Risks for IKB remain limited. The loans to the special-purpose entity Rio Debt Holdings, to which we had outsourced the remaining portfolio investments still containing sub-prime risks in 2008, have now been repaid. In addition, we have systematically reduced market price risks and extensively secured against credit risks. The provision for possible loan losses decreased substantially in the 2010/11 financial year due to the positive economic development.

The equity position is sound. At 11.2%, the tier 1 capital ratio of the IKB Group is higher than in the previous year and significantly exceeds the statutory minimum requirements. We will also continue to comply with the stricter minimum requirements imposed by SoFFin and the Auditing Association of German Banks (including a tier 1 capital ratio of 8%).

The earnings situation of IKB improved in the 2010/11 financial year. The Group reported a net profit of € 52 million after a net loss of € 967 million in the previous year. In the past financial year the contribution from extraordinary factors influencing the earnings situation was positive in net terms, but even after adjustment for extraordinary factors we considerably reduced the losses as against the previous year.

Uncertainty remains due to the government debt crisis in the European Monetary Union and the possibility of an economic slowdown. The greater equity requirements under Basel III mean that banks will have to maintain more and better quality equity in future. IKB still has a great deal to do by systematically and profitably implementing its business model and continuing to adapt it. To date, the development of new business and the growth in net fee and commission income from customer lending and derivatives business has been in line with forecasts. The planned sale of IKB by Lone Star could help accelerate the ongoing development of the company and is therefore supported by the Board of Managing Directors of IKB.

Our goal is for the Bank to become profitable in operational terms in the medium term. The fundamental strategic adjustments have been initiated. The Bank is soundly capitalised, risks have been reduced, liquidity secured and the EU conditions largely fulfilled. We therefore have sufficient scope to focus on working with our customers and to follow up on the first visible successes.

Düsseldorf, June 2011

Hans Jörg Schüttler
Chairman of the Board of Managing Directors

Report of the Supervisory Board

In the financial year 2010/11, the Supervisory Board fulfilled the duties and obligations incumbent upon it comprehensively and diligently in accordance with the relevant statutory provisions, the Articles of Association and its by-laws. The Supervisory Board regularly consulted with the Board of Managing Directors and continuously supervised the activities of the latter. The Supervisory Board dealt intensively with the situation of the Bank and accompanied the economic development of the Bank. In particular, the Board addressed the realignment of the business model of the Bank which was visibly manifested, inter alia, by the commencement of operation of an IKB Internet platform for private clients. Furthermore, also in the completed financial year, other focal points of the work of the Board of Managing Directors and the Supervisory Board were the implementation of the conditions imposed on the Bank by the EU Commission in the course of the proceedings regarding state aids of the Federal Republic of Germany for IKB, as well as ensuring liquidity. Besides, the Supervisory Board dealt with various legal issues also in the financial year 2010/11, mostly in connection with the crisis of IKB and the processing of the latter.

Supervisory Board Activities in the Financial Year 2010/11

At five meetings, the Supervisory Board discussed the course of business, matters of risk provisioning and compliance as well as other matters of the company group.

With the Board of Managing Directors, the Supervisory Board discussed regularly and intensively the current economic situation of the Bank and the Group and the earnings and risk situation of the Bank and the Group. In addition, the Board of Managing Directors reported regularly to the Supervisory Board with regard to the liquidity and refinancing situation of the Bank and the regulatory capital situation within the Group.

Furthermore, the strategic orientation of the Group was also the subject matter of regular deliberations of the plenum of the Supervisory Board. In this respect, the focus of discussion was on the progress of the realignment of the business model, in particular in relation to the credit business, various advisory products, e.g. in the areas of M&A, restructuring and optimisation of structures and earnings as well as in the area of capital markets. In its meeting of 30 June 2010, the Supervisory Board deliberated on the five-year planning of the Board of Managing Directors, with special attention given to the EU-imposed conditions and the effects of the SoFFin guarantees. It required regular reports from the Board of Managing Directors on the implementation of the planning. The Supervisory Board was also informed on a regular basis by the Board of Managing Directors on the status of the implementation of the EU conditions that were imposed on the Bank in the course of the proceedings regarding state aids of the Federal Republic of Germany. Due to other obligations, the member of the Supervisory Board, Mr Olivier Brahin, was only able to attend one meeting of the Supervisory Board in the financial year 2010/11.

The Chief Compliance Officer furnished two reports to the Supervisory Board in the financial year completed.

Furthermore, in the course of the reporting period, the Supervisory Board addressed the report on the review of the business organisation and risk management of the Bank conducted at IKB by the Deutsche Bundesbank upon request of the Federal Financial Supervisory Authority (*Bundesanstalt für Finanzdienstleistungsaufsicht*) pursuant to Sec. 44 para. 1 sent. 2 of the German Banking Act (*Kreditwesengesetz - KWG*).

The Supervisory Board was also informed of and deliberated on the group-wide measures for personnel planning and development. Besides, in the financial year completed, the Supervisory Board also deliberated on the appointment of new members of the Advisory Board of IKB.

Further, the Supervisory Board addressed the issue of the remuneration of the members of the Board of Managing Directors, taking into account the Ordinance on Remuneration Systems for Credit and Financial Services Institutions (*Institutsvergütungsverordnung*) and the conditions of the *Sonderfonds Finanzmarktsstabilisierung* (Financial Market Stabilisation Fund) (SoFFin), as well as the pensions of former members of the Board of Managing Directors.

In its meetings in the financial year 2010/11, the Supervisory Board also discussed various legal issues, such as the situation regarding the lawsuits asserting claims for damages brought against IKB by investors in Germany and the lawsuits filed against IKB abroad under capital markets law as well as the examination of potential claims for damages of the Bank in connection with the subprime crisis.

As had been the case in previous financial years, in the financial year completed, the Supervisory Board again dealt with handling the crisis of the company. In this respect, the Board is obliged to consider the interests of the company, in particular with regard to the possible asserting of potential claims for damages. Various parties are still asserting alleged claims against the company in considerable amounts in several lawsuits. In view of this, it still cannot be ruled out that other parties will initiate similar court proceedings in the future. In the assessment of the Supervisory Board, if potential claims for damages of the company against members of corporate bodies holding office prior to the crisis of the Bank were asserted, this would create the significant risk that such third parties would be presented the means required in order to allege and assert themselves even such claims that are without merit. This alone would mean a high risk for the company, especially since even in the case of a ruling in its favour the company would only be entitled to claim reimbursement for a fraction of the defence expenses it incurred. If the company were to lose in such court proceedings, considering the circumstances it would be unrealistic to expect to be able to assert recourse claims against the persons responsible other than to a small extent. All this is contrary to the interests of the company. For this reason, the Supervisory Board has again refrained in the financial year completed from asserting potential claims for damages in connection with the crisis of the Bank. Nonetheless, the Supervisory Board will address the issue of a potential assertion of claims for damages against the persons who were responsible for the crisis of the company also in the current financial year, taking into account the interests of the company, and will regularly reassess the interests of the company in order to determine whether these interests allow for the assertion of potential claims for damages in connection with the crisis of the company.

In its meeting of 30 June, 2010, the Supervisory Board deliberated on the results of the examination of efficiency conducted in March / April 2010. In the further course of the financial year, the Supervisory Board took into account the results of this examination of efficiency for its work.

Activities of the Supervisory Board Committees

In the financial year 2010/11, the Supervisory Board had an Executive Committee, a Finance and Audit Committee as well as a Nominations Committee.

The Executive Committee held a total of six meetings in the financial year 2010/11. The Executive Committee primarily discussed in advance the issues to be addressed at the meetings of the Supervisory Board. It focused on business development (including the approval of any transactions requiring approval) and discussed with the Board of Managing Directors the situation of the Bank and the Group in particular. On 10 May 2010, and on 1 October 2010, the Executive Committee deliberated on several legal issues in connection with the crisis of IKB and the further handling of the latter, respectively.

The Finance and Audit Committee held five meetings in the financial year 2010/11. The activities of the Finance and Audit Committee focused on monitoring accounting procedures, the efficiency of the internal controlling system, of the risk management, the internal audit system and compliance as well as the audit of the financial statements, in particular the independence of the auditor and the additional services provided by the auditor. The Committee advised on the preparation of the annual financial statements and the consolidated financial statements, the review of the financial report on the first six months of the financial year and the appointment of the auditor. The Finance and Audit Committee also obtained the statement of independence from the auditor required by Sec. 7.2.1 of the German Corporate Governance Code and commissioned the auditor to perform the audit. The Finance and Audit Committee also concluded with the auditor an agreement on the focal points of the audit and the audit fee.

The Nomination Committee held a meeting on 30 June 2010, at which it discussed the proposals to the Supervisory Board and the resolutions to be proposed to the General Meeting regarding the election of Supervisory Board members by the Annual General Meeting on 26 August 2010.

The members of the Committees also repeatedly engaged in deliberations among themselves and maintained ongoing contact with the Board of Managing Directors outside of Committee meetings.

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

A list of the meetings held by the Supervisory Board and its Committees, together with the relevant issues of the deliberations, can be found at the end of this report.

Corporate Governance

The Declaration of Conformity dated 10 March 2011, and further information on this topic can be found in the section "Corporate Governance Declaration in accordance with Sec. 289a of the German Commercial Code (*Handelsgesetzbuch – HGB*) / Corporate Governance Report" of this annual report.

No conflicts of interest arose in the course of the deliberations of the Supervisory Board in the financial year 2010/11 and to date.

Review and Approval of the Annual Financial Statements and the Consolidated Financial Statements for the Financial Year 2010/11

The Board of Managing Directors prepared the annual financial statements and the consolidated financial statements and the management reports for IKB AG and the Group with resolutions dated 19 May 2011 and 1 June 2011. The annual financial statements of IKB AG were prepared in accordance with the German Commercial Code, and the consolidated financial statements were prepared in accordance with the International Financial Reporting Standards (IFRS) and the supplementary provisions of commercial law applicable pursuant to Sec. 315a para. 1 HGB. The auditors, PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft (PwC), audited the annual financial statements and the consolidated financial statements and the management reports for IKB AG and the Group and issued both sets of financial statements with unqualified audit opinions.

The Supervisory Board reviewed the annual financial statements and the consolidated financial statements as well as the management reports for IKB AG and the Group in its meeting held on 28 June 2011. The members of the Supervisory Board have received the financial statement documentation, the management reports and the written audit reports of the auditors already before the meeting, enabling them to deal with the respective contents in due time. In addition, the Finance and Audit Committee prepared the following review by the entire Supervisory Board in a separate committee meeting.

The auditors participated in the deliberations on the annual financial statements and the consolidated financial statements of the Supervisory Board and the Finance and Audit Committee on 28 June 2011. In the course of the meetings, the auditors reported on the key findings of their audit, answered questions and provided additional information. The auditors did not determine any significant deficiencies in the internal controlling and risk management systems in respect of the accounting procedures. The auditors informed the Supervisory Board and the Finance and Audit Committee of all services rendered by them in addition to the audit of the financial statements. The Supervisory Board approved the result of the audit of the financial statements in its meeting held on 28 June 2011.

In accordance with the final result of the own review of the annual financial statements and the consolidated financial statements and the management reports by the Supervisory Board no objections are to be raised. Therefore, the Supervisory Board approved the annual financial statements and the consolidated financial statements prepared by the Board of Managing Directors in its meeting on 28 June 2011. The annual financial statements have thus been adopted.

Review and Approval of the Dependent Company Report for the Financial Year 2010/11

The report on business relationships with affiliated companies for the financial year 2010/11 (dependent company report) which was prepared by the Board of Managing Directors was also examined by the auditors. The dependent company report was issued with the following unqualified audit opinion: "Having duly examined and assessed this report, we confirm that the factual statements made in the report are correct, the company's consideration with respect to the transactions listed in the report was not inappropriately high, and there are no circumstances that indicate a materially different assessment of the measures listed in the report from that given by the Board of Managing Directors."

In the meetings held on 28 June 2011 first the Finance and Audit Committee and later the Supervisory Board deliberated on and reviewed the dependant company report. The members of the Supervisory Board have received both the dependent company report and the related audit report of the auditors already before the meeting, enabling them to deal with the respective contents in due time. The auditors also participated in the deliberations on the dependent company report of the Supervisory Board and the Finance and Audit Committee, they reported on the key findings of their audit, answered questions and provided additional information. The Supervisory Board approved the result of the audit of the auditors in its meeting on 28 June 2011.

In accordance with the final result of the own review by the Supervisory Board no objections are to be raised against the declaration of the Board of Managing Directors at the end of the dependant company report.

Changes in Composition – Supervisory Board

Mr Olivier Brahin, Dr Lutz-Christian Funke, Mr Ulrich Grillo and Dr Andreas Tuczka, whose terms of office expired, in each case, upon the close of the Annual General Meeting of 26 August 2010, were re-elected as members of the Supervisory Board by resolutions of the Annual General Meeting of 26 August 2010, with a term of office ending upon the conclusion of the Annual General Meeting resolving on a formal discharge of the members of the Supervisory Board for the financial year 2012/13. As scheduled, Mr Jürgen Metzger ceased to be a member of the Supervisory Board upon conclusion of the Annual General Meeting of 26 August 2010, whereas Dr Carola Steingräber was elected as a member of the Supervisory Board due to a new election of the employee representatives. Mr Ulrich Wernecke, whose term of office also expired upon conclusion of the aforesaid Annual General Meeting, was re-elected as an employee representative on the Supervisory Board. Due to the termination of his employment relationship on grounds of his reaching the age limit, Mr Wolfgang Bouché ceased to be a member of the Supervisory Board upon expiry of 31 January 2011. For him, the substitute member, Mr Bernd Klein, became a member of the Supervisory Board on 1 February 2011. Also with effect as of 1 February 2011, Dr Steingräber was elected as a member of the Finance and Audit Committee from among the employee representatives as successor of Mr Bouché.

After the Annual General Meeting on 26 August 2010, the Supervisory Board held its constituent meeting, in which Mr Wernecke from the group of employee representatives and Dr Tuczka from the group of shareholder representatives were elected as members of the Executive Committee. In addition, Mr Wernecke was elected in the Supervisory Board meeting of 26 August 2010, as the appointed substitute (*Verhinderungsvertreter*) from the group of the employee representatives on the Finance and Audit Committee. While the Supervisory Board, in its meeting of 30 June 2010, had first elected Mr Wolfgang Bouché as the appointed substitute from the group of employees for the Executive Committee, after Mr Bouché's leaving the board as of 31 January 2011, Dr Carola Steingräber was elected as the appointed substitute from the group of employee representatives for the Executive Committee with effect as of 1 February 2011.

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

Changes in Composition – Board of Managing Directors

In the financial year completed, there were no changes in the composition of the Board of Managing Directors of the Bank. The members of the Board of Managing Directors were Messrs Hans Jörg Schüttler (Chairman of the Board of Managing Directors), Dr Dieter Glüder, Claus Momburg and Dr Michael Wiedmann.

The Supervisory Board would like to thank the members of the Board of Managing Directors and all employees for their personal commitment and contributions.

Düsseldorf, 28 June 2011
The Supervisory Board

Bruno Scherrer
Chairman

Supervisory Board Meetings in the Financial Year 2010/11

Date of meeting	Subject matter of deliberations
30 June 2010	▪ General development of the Bank ▪ Annual financial statements and consolidated financial statements as of 31 March 2010, and dependant company report ▪ Dashboard Group risk as of 31 March 2010 ▪ Annual report from group internal audit for the financial year 2009/10 ▪ Auditors' report on the audit of the annual financial statements and the consolidated financial statements with the management reports for IKB AG and the Group as well as of the dependent company report for the financial year 2009/10 ▪ Report of the Finance and Audit Committee on the preparation of the audit of the annual financial statements and the consolidated financial statements with the management reports for IKB AG and the Group as well as of the dependent company report for the financial year 2009/10 ▪ Approval of the annual financial statements with the management report and of the consolidated financial statements with the Group management report and approval of the dependent company report for the financial year 2009/10 ▪ Report of the Supervisory Board ▪ Annual report of the Chief Compliance Officer ▪ Corporate Governance Declaration / Corporate Governance Report, including the Declaration of Conformity ▪ Report on the internal controlling, risk management and audit system ▪ Five-year planning ▪ Remuneration systems for the company ▪ Proposals for the agenda of the Annual General Meeting on 26 August 2010 ▪ Result of the examination of efficiency of the Supervisory Board ▪ Matters concerning the Board of Managing Directors - Reduction of the pensions for former members of the Board of Managing Directors - Litigation ▪ Matters concerning the Supervisory Board - Information regarding the election of employee representatives to the Supervisory Board - Election of appointed substitutes (*Verhinderungsvertreter*) to the Committees of the Supervisory Board ▪ Miscellaneous - Information on urgent resolutions adopted by the Executive Committee of the Supervisory Board
25 August 2010	▪ IKB's current business development ▪ Report on the Group interim results as of 30 June 2010 ▪ Dashboard Group risk as of 30 June 2010 ▪ Preparation of the Annual General Meeting on 26 August 2010 ▪ Meeting dates 2011
26 August 2010	▪ Election of one member each from the group of shareholder representatives and employee representatives to the Executive Committee of the Supervisory Board ▪ Election of an appointed substitute from the group of employee representatives to the Finance and Audit Committee

Supervisory Board Meetings in the Financial Year 2010/11

Date of meeting	Subject matter of deliberations
25 November 2010	▪ IKB's current business development ▪ Report on the interim consolidated financial statements as of 30 September 2010 ▪ Auditor's report on the review of the interim consolidated financial statements as of 30 September 2010 ▪ Adjustment of the business and risk strategy ▪ Dashboard Group risk as of 30 September 2010 ▪ Review pursuant to Sec. 44 para. 1 sent. 2 KWG ▪ Remuneration report for the company ▪ D&O insurance / agreement on non-forfeitable subsequent notification periods ▪ Approval of the appointment of Mr Friedhelm Loh as member of the Advisory Board ▪ Matters concerning the Board of Managing Directors (including litigation) ▪ Granting of a major loan ▪ Report on resolutions of the Executive Committee of the Supervisory Board ▪ Meeting dates

10 March 2011	▪ IKB's current business development
	▪ Group interim results as of 31 December 2010, and segment reporting
	▪ Dashboard Group risk as of 31 December 2010
	▪ Current business and risk strategy
	▪ Personnel planning and development
	▪ Review pursuant to Sec. 44 para. 1 sent. 2 KWG
	▪ Annual report of the Chief Compliance Officer
	▪ Amendment of the by-laws for the Board of Managing Directors and the Supervisory Board
	▪ Matters concerning the Supervisory Board
	  - Support of measures for training and continuing education
	▪ Matters concerning the Board of Managing Directors
	  - Variable remuneration subsequently payable in respect of the financial years 2008/09 and 2009/10, and possible future amendment of the service agreements of the members of the Board of Managing Directors
	  - Pensions of former members of the Board of Managing Directors
	  - Litigation
	▪ Declaration of Conformity pursuant to Sec. 161 of the German Stock Corporation Act (*Aktiengesetz – AktG*)
	▪ Report on resolutions of the Executive Committee of the Supervisory Board
	▪ Approval of the appointment of Prof. Dr Klaus L. Wübbenhorst as member of the Advisory Board

Meetings of the Executive Committee of the Supervisory Board in the Financial Year 2010/11

Date of meeting	Subject matter of deliberations
10 May 2010	▪ Litigation
30 June 2010	▪ IKB's current business development ▪ Agenda of the Annual General Meeting on 26 August 2010 ▪ Remuneration systems for the company ▪ Matters concerning the Board of Managing Directors - Reduction of the pensions for former members of the Board of Managing Directors - Litigation ▪ Matters concerning the Supervisory Board ▪ Election of appointed substitutes (Verhinderungsvertreter) to the Committees of the Supervisory Board
25 August 2010	▪ IKB's current business development ▪ Preparation of the Annual General Meeting on 26 August 2010 ▪ Meeting dates 2011
1 October 2010	▪ Litigation
25 November 2010	▪ IKB's current business development ▪ Adjustment of the business and risk strategy ▪ D&O insurance / agreement on non-forfeitable subsequent notification periods ▪ Matters concerning the Board of Managing Directors (including litigation) ▪ Granting of a major loan ▪ Acquisition of part of the existing credit and derivatives business from IKB International S.A. for the purpose of implementation of the EU condition regarding the winding up of IKB International S.A.
10 March 2011	▪ General development of the bank ▪ Amendment of the by-laws for the Board of Managing Directors and the Supervisory Board ▪ Matters concerning the Supervisory Board ▪ Support of measures for training and continuing education ▪ Matters concerning the Board of Managing Directors - Variable remuneration subsequently payable in respect of the financial years 2008/09 and 2009/10, and possible future amendment of the service agreements of the members of the Board of Managing Directors - Pensions of former members of the Board of Managing Directors ▪ Declaration of Conformity pursuant to Sec. 161 AktG ▪ Appointment of Prof. Dr Klaus L. Wübbenhorst as member of the Advisory Board ▪ Online platform for retail business

Meetings of the Finance and Audit Committee in the Financial Year 20010/11

Date of meeting	**Subject matter of deliberations**
30 June 2010	▪ Annual financial statements and consolidated financial statements as of 31 March 2010, and dependant company report ▪ Dashboard Group risk as of 31 March 2010 ▪ Auditors' report on the audit of the annual financial statements and the consolidated financial statements with the management reports for IKB AG and the Group as well as of the dependent company report for the financial year 2009/10 ▪ Approval of the report of the Finance and Audit Committee on the preparation of the audit of the annual financial statements and the consolidated financial statements with the management reports for IKB AG and the Group as well as of the dependent company report for the financial year 2009/10 ▪ Proposal for the approval of the annual financial statements and the consolidated financial statements with the management reports for IKB AG and the Group as well as of the dependent company report for the financial year 2009/10 ▪ Proposal for the election of the auditor for the annual financial statements and the consolidated financial statements for the financial year 2010/11 as well as of the auditor for the review of the condensed financial statements and the interim management report for the first half of the financial year 2010/11 ▪ Authorisation of the Chairman of the Finance and Audit Committee for the commissioning of the auditor
25 August 2010	▪ Report on the Group interim results as of 30 June 2010 ▪ Dashboard Group risk as of 30 June 2010
25 November 2010	▪ Report on the interim consolidated financial statements as of 30 September 2010 ▪ Auditor's report on the review of the interim consolidated financial statements as of 30 September 2010 ▪ Focal points of the audit for the financial year 2010/11 ▪ Dashboard Group risk as of 30 September 2010 ▪ Review pursuant to Sec. 44 para. 1 sent. 2 KWG
24 February 2011	▪ Group interim result as of 31 December 2010 ▪ Challenging of resolutions of the Annual General Meeting
10 March 2011	▪ Group interim results as of 31 December 2010, and segment reporting ▪ Dashboard Group risk as of 31 December 2010 ▪ Review pursuant to Sec. 44 para. 1 sent. 2 KWG ▪ Annual report of the Chief Compliance Officer ▪ Miscellaneous

Meetings of the Nomination Committee in the Financial Year 2010/11

Date of meeting	Subject matter of deliberations
30 June 2010	▪ Proposals to the Supervisory Board for the election of Supervisory Board members by the Annual General Meeting on 26 August 2010

Corporate governance declaration in accordance with section 289 a HGB/ corporate governance report

In the following declaration, the Board of Managing Directors reports – at the same time also for the Supervisory Board – in accordance with Sec. 289a of the German Commercial Code (*Handelsgesetzbuch – HGB*) on company management and in accordance with item 3.10 of the German Corporate Governance Code (DCGC) on the Company's Corporate Governance.

Declaration of Conformity pursuant to Sec. 161 of the German Stock Corporation Act (*Aktiengesetz - AktG*)

The Board of Managing Directors and the Supervisory Board of IKB declare annually that the recommendations of the Government Commission German Corporate Governance Code – indicated in the text by the word "shall" – have been or are being complied with or which specific recommendations have not or are not being complied with for whatever reasons (Sec. 161 para. 1 s. 1 AktG). The most recent Board of Managing Directors and Supervisory Board Declaration of Conformity dates from 10 March 2011. As with prior Declarations of Conformity, it is accessible at all times to the public in compliance with Sec. 161 para. 2 AktG on the IKB internet site (www.ikb.de) under Investor Relations/Corporate Governance/Declaration of Conformity. It is worded as follows:

> The Board of Managing Directors and Supervisory Board of IKB Deutsche Industriebank AG ("IKB") hereby declare in accordance with Sec. 161 AktG that the recommendations of the Government Commission German Corporate Governance Code in the version of the Code of 18 June 2009 published by the Federal Ministry of Justice in the official section of the electronic Federal Gazette on 5 August 2009 have been met since issue of the last Declaration on 30 June 2010 up to the point of entry into force of the new version of the Code of 26 May 2010 on 2 July 2010 with the following exceptions:
>
> - item 3.8 para. 3: Agreement of a deductible of at least 10% of damages up to at least the level of one and a half times the fixed annual remuneration when taking out D&O insurance for the Supervisory Board
>
>   D&O insurance exists for Supervisory Board members, which does not provide a deductible. Responsible action is a duty which is a matter of course for all Company Board members: no deductible is therefore required for the Supervisory Board.
>
> - item 4.2.1 s. 2: Regulation of allocation of duties of Board of Managing Directors members in the by-laws
>
>   Departmental responsibility of the members of IKB Board of Managing Directors is not regulated in the by-laws for IKB Board of Managing Directors but in a separate schedule of responsibilities. This 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.
>
> - item 6.3 s. 2: Provision to shareholders of all new facts which have been communicated to financial analysts and similar addressees
>
>   In conversations with rating agencies relating directly to the rating of the Bank, due to the significance of the rating for IKB capital market viability and the particular restructuring situation of the Bank, new and as yet unpublished facts were confidentially communicated.
>
> The IKB Board of Managing Directors and Supervisory Board further declare pursuant to Sec. 161 AktG, that the recommendations of the Government Commission German Corporate Governance Code in the version of the Code of 26 May 2010 have been met since publication thereof in the electronic Federal Gazette on 2 July 2010 with the following exceptions:

- item 3.8 para. 3: Agreement of a deductible of at least 10% of damages up to at least the level of one and a half times fixed annual remuneration when taking out D&O insurance for the Supervisory Board

  D&O insurance exists for Supervisory Board members which does not provide a deductible. Responsible action is a duty which is a matter of course for all Company Board members: no deductible is therefore required for the Supervisory Board.

- item 4.2.1 s. 2: Regulation of allocation of duties of Board of Managing Directors members in the by-laws

  Departmental responsibility of the members of IKB Board of Managing Directors is not regulated in the by-laws for IKB Board of Managing Directors but in a separate schedule of responsibilities. This 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.

- item 4.2.3 para. 4: In concluding Management Board contracts consideration that payments to a member of the Board of Managing Directors, in the event of premature termination of Management Board contract in the absence of serious cause including fringe benefits, do not exceed the equivalent of two years compensation (severance payment cap) and do not compensate more than the remaining term of the contract and that based on total compensation for the past full financial year and if appropriate also on the expected total compensation for the current financial year for calculation of the severance payment cap

  With regard to the intention of IKB's major shareholder to sell its shareholding in IKB no restriction of the severance payment cap was agreed with the members of the Managing Board of Directors.

- item 5.4.1 para. 2: Definition of concrete objectives regarding the composition of the Supervisory Board and consideration of an appropriate degree of female representation in establishing the said concrete objectives

  Due to the intention of IKB's major shareholder to sell its shareholding in IKB it was initially refrained from specifying concrete objectives for composition of the Supervisory Board.

- item 6.3 s. 2: Provision to shareholders of all new facts which have been communicated to financial analysts and similar addressees

  In conversations with rating agencies which relate directly to the rating of the Bank, due to the significance of the rating for the capital market viability of IKB and the particular restructuring situation of the Bank, new and yet unpublished facts were confidentially communicated.

- item 7.1.2 s. 4 var. 2: Publication of interim reports within 45 days from the end of the report period

  The Interim Announcement as of 30 June 2010 (first quarter) was published on 26 August 2010, the 6-Month Report 2010/11 on 26 November 2010 and the Interim Announcement as of 31 December 2010 on 28 February 2011. Due to the particular situation of IKB since onset of the crisis at the end of July 2007 and the particular requirements in respect of balance sheet and accounting associated therewith publication could not take place earlier.

The Board of Managing Directors and the Supervisory Board hereby further declare that IKB will comply with the recommendations of the Government Commission German Corporate Governance Code in the version of the Code of 26 May 2010 - with the exception of items 3.8 para. 3, 4.2.1 s. 2, 4.2.3 para. 4, 5.4.1 para. 2, 6.3 s. 2 and 7.1.2 s. 4 var. 2 on the grounds listed above. Further, due to the deviation from the recommendation pursuant to item 5.4.1 para. 2 IKB will deviate from the recommendations of item 5.4.1 para. 3 in the future.

Düsseldorf, 10 March 2011

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

Relevant information regarding company management practices

German Corporate Governance Code suggestions

IKB principally complies with all suggestions contained in the German Corporate Governance Code – indicated in the Code by the use of terms such as " should" or "can" – and deviates merely in the following points:

- The General Meeting does not resolve on the authorisation of the remuneration system for the members of the Board of Managing Directors (item 2.2.1 para. 2 s. 2 DCGC). The remuneration system for the members of the Board of Managing Directors is described in the remuneration report.

- Representatives appointed by IKB to exercise shareholders' voting rights subject to instructions are reachable during the General Meeting only for those shareholders attending (item 2.3.3 s. 3 half-sentence 2 DCGC). Shareholders not attending the General Meeting have the opportunity to authorise the voting rights representatives to represent them prior to the General Meeting.

- The General Meeting is transmitted live only in part, namely up to the end of the opening addresses by the Chairman of the Meeting and the Chairman of the Board of Managing Directors, via the IKB internet site (www.ikb.de) (item 2.3.4 DCGC).

Code of Conduct

The Code of Conduct applies to all IKB Group employees. It reflects the moral values and beliefs of IKB. In order to guarantee a high degree of credibility, integrity, reliability and performance commitment in all activities, the Code of Conduct has been developed as a binding commitment framework for day-to-day business. The principles include minimum requirements in respect of the behaviour of all individuals. The Code of Conduct is published in its current version on the IKB website (www.ikb.de) under Investor Relations/Corporate Governance.

Apart from that, no relevant company management practices in terms of Sec. 289 a para. 2 no. 2 HGB are in effect at IKB which are applied over and above the statutory requirements.

Board of Managing Directors and Supervisory Board Mode of Operation

In accordance with German Stock Corporation Law, IKB with its Board of Managing Directors and Supervisory Board has a dual management and control structure. Company management is based on close, constructive and trusting collaboration between the Board of Managing Directors and the Supervisory Board and an intensive and constant flow of information. This complies with the generally accepted understanding of good Corporate Governance by the Board of Managing Directors and the Supervisory Board.

Management of the Company

The Board of Managing Directors develops the business and risk strategy, ensures implementation thereof in consultation with the Supervisory Board and conducts the business of the Company on its own responsibility. In the course thereof it observes the statutory provisions, the Articles of Association, the by-laws issued by the Supervisory Board, the schedule of responsibilities and the respective contracts of service. In addition, it is bound by the Company interests and is obligated to increase sustainable corporate value. The Board of Managing Directors' by-laws have been adapted in the expired business year both to the changed recommendations of the German Corporate Governance Code and also to the changed banking regulatory requirements of the Federal Financial Supervisory Authority. The principle of collective responsibility applies, i.e. members of the Board of Managing Directors jointly bear responsibility for management. Each member of the Board of Managing Directors, however, is allocated responsibility for specific departments.

The Board of Managing Directors is appointed by the Supervisory Board. It currently consists of four members. Mr Schüttler, Chairman of the Board of Managing Directors, is responsible for the departments Treasury, Legal and Compliance, Group Audit, Organisation, Strategic Planning and Investment

Management as well as Communications. Dr Glüder's responsibilities comprise Information Technology, Finance and Taxation. Mr Momburg is responsible for Credit Risk Management and - Controlling, Credit Treasury Operations, Securitisation Structures Management and Human Resources. Dr Wiedmann is responsible for Sales, Products, Industry Groups and Economic Research. Further information regarding individual members of the Board of Managing Directors can be found in the Group Notes under Note 80.

The Board of Managing Directors is required to inform the Supervisory Board regularly, promptly and comprehensively regarding all essential business development questions, strategy, company planning, the earnings situation, profitability, compliance, risk situation, risk management and risk controlling. It addresses deviations in the course of business from plans and targets indicating the reasons therefor. In addition, the Board of Managing Directors reports to the Chairman of the Supervisory Board on other important matters as necessary. Transactions of fundamental significance, such as the granting of large exposure loans or the conclusion of company agreements, are subject to Supervisory Board approval in accordance with the by-laws for the Board of Managing Directors issued by the Supervisory Board.

In financial year 2010/11 and until today, no conflicts of interest have arisen between members of the Board of Managing Directors and the Company. The mandates of the members of the Board of Managing Directors as well as business relationships to related parties are shown in the Group Notes.

In the event that a public limited company takes out insurance to cover a member of a Board of Managing Directors against risks arising from his professional activity, with effect from 5 August 2009 the German Stock Corporation Act provides that a deductible of a minimum of 10% of damages up to at least a level of 1.5 times fixed annual remuneration of the members of the Board of Managing Directors must be provided for. In accordance with the appropriate transition rules, this applies also with effect from 1 July 2010 to such insurance policies concluded prior to 5 August 2009. IKB has agreed corresponding deductibles for existing insurance policies it holds for the period required with effect from 1 July 2010.

Control of the Company

The Supervisory Board advises and monitors the Board of Managing Directors in its management of the Bank and Group Companies. It fulfils its tasks in accordance with statutory provisions, the IKB Articles of Association and its by-laws.

In accordance with the German One-Third Employee Participation Act (*Drittelbeteiligungsgesetz*), the Supervisory Board consists of two thirds shareholder representatives and one third employee representatives. Shareholder representatives are elected per individual by the General Meeting. In actual terms, the Supervisory Board comprises ten shareholder representatives and five employee representatives. Details regarding personnel composition of the Supervisory Board and changes in this regard in the past financial year can be found in the Report of the Supervisory Board to the Annual General Meeting and also in the Group Notes under Note 80.

The Supervisory Board meets at least twice per calendar half-year and where possible at least once per calendar quarter. It constitutes a quorum if all members have been properly invited and more than half of its members, from whom it must consist overall under the Articles of Association, participate in passing resolutions. As far as statutory provisions or the Articles of Association do not provide differently, the Supervisory Board passes resolutions by simple majority vote. The Supervisory Board mode of operation is regulated in detail in by-laws issued by the Supervisory Board. The Supervisory Board's by-laws have been adapted in the course of the past financial year to the changed recommendations of the German Corporate Governance Code and the changed requirements of the Federal Financial Supervisory Authority. For efficient organisation of its work, the Supervisory Board has set up a number of committees; the actual composition and mode of operation of which are reported further below in an independent section of this declaration. More detailed information regarding the actual work of the Supervisory Board and its committees in the past financial year can be read in the Report of the Supervisory Board to the Annual General Meeting.

The Supervisory Board includes a sufficient number of members who are independent in terms of item 5.4.2 DCGC, i.e. who have no business or personal relation to the Company or its Board of Managing Directors. However, a proportion of the Supervisory Board members in office in the past financial year have a close relation to other companies with whom IKB maintains business relations. Transactions between IKB and the said companies are conducted in all cases on market terms as between unaffiliated third parties. These transactions had and/or have no influence in our estimation on the independence of Supervisory Board members close to the said companies. The Supervisory Board members' mandates including business relationships to related parties are shown in the Group Notes. Consultancy and other service and works contracts subject to approval did not exist and do not exist between Supervisory Board members and IKB or Group Companies.

In Supervisory Board deliberations in financial year 2010/11 and to the present day, no conflicts of interest occurred.

In its meeting of 4 March 2010, the Supervisory Board decided on performance of an efficiency audit in accordance with the recommendation contained in item 5.6 DCGC. The results of the efficiency audit were presented in the Supervisory Board Meeting on 30 June 2010.

Risk management

The Board of Managing Directors is responsible for IKB risk management. Proceeding on the basis of the business and risk strategy and risk-bearing capacity, it determines the risk policy principles which are incorporated in IKB risk strategies together with the limit structure. In its determinations, the Board of Managing Directors also takes into account the quality of processes of risk management, in particular control processes.

The Supervisory Board and the Finance and Audit Committee were regularly informed by the Board of Managing Directors in the past financial year about the risk situation at IKB and the overall Group. In addition, the Finance and Audit Committee also discussed questions regarding accountancy, inter alia the implementation of new regulatory stipulations.

Accountancy and financial statement audit

IKB Group accountancy is in accordance with International Financial Reporting Standards (IFRS); the IKB AG annual financial statements are prepared in accordance with the provisions of the German Commercial Code. The financial statement auditor is elected by the General Meeting in accordance with Stock Corporation Act provisions. The Finance and Audit Committee has prepared the Supervisory Board proposal to the General Meeting regarding the election of the financial statement auditor for financial year 2010/11 and the financial statement auditor for the review of the condensed financial statements and the interim management report for the first half of financial year 2010/11. In addition, it has obtained from the financial statement auditor the declaration recommended by the German Corporate Governance Code in respect of any existing exclusion or prejudicial grounds (item 7.2.1 para. 1 DCGC) and concluded with him all necessary agreements required in the context of award of audit engagement (item 7.2.1 para. 2, item 7.2.3 paras. 1 and 2 DCGC).

At the IKB Annual General Meeting on 26 August 2010 - as proposed by the Supervisory Board – PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Düsseldorf was elected as auditor of the annual financial statements and the consolidated financial statements for financial year 2010/11 and as auditor for the review of the condensed financial statements and the interim management report for the first half of financial year 2010/11.

Transparency

IKB abides by the principle of equal treatment. On the IKB internet site (www.ikb.de), private investors may also promptly inform themselves regarding significant dates including current developments (including ad hoc releases) in the Group. In addition, significant processes within the Company are publicised via press releases which are also posted on the internet site. The Company offers all interested parties the option of subscribing to an electronic newsletter which provides information by means of current financial reports including ad hoc releases and press bulletins.

Compliance as an essential Board of Managing Directors responsibility

Compliance as pertains to measures taken to ensure conformity with laws, statutes, regulatory requirements and internal company guidelines is an essential IKB management responsibility. The Board of Managing Directors has introduced a compliance concept for employees which is regularly reviewed and adapted as necessary.

Implementation and compliance with the German Corporate Governance Code are monitored by a Corporate Governance Officer appointed by the Board of Managing Directors in mutual agreement with the Chairman of the Supervisory Board. With effect from 1 April 2010, Ms Christina Wolff, Head of the Office of the Board of Managing Directors, Banking Law and Corporate Law, was appointed Corporate Governance Officer.

General Meeting

Decisions on questions of company management are basically reserved to the Board of Managing Directors, which is advised and monitored by the Supervisory Board. The General Meeting can only decide on questions of company management if the Board of Managing Directors requests it (Sec. 119 para. 2 AktG). However, the General Meeting among other things decides on the appointment of shareholder representatives on the Supervisory Board, appropriation of balance sheet profit, ratification of members of the Board of Managing Directors and of the Supervisory Board and appointment of the financial statement auditor. In addition, any decision regarding amendments to the Articles of Association, which contain binding regulations for Board of Managing Directors and Supervisory Board, is the sole responsibility of the General Meeting. In the course of the General Meeting, individual IKB shareholders exercise their rights and in particular exercise their voting right. Shareholders are informed in accordance with the recommendation contained in item 6.7 DCGC regarding important dates by way of a financial calendar published on the IKB website (www.ikb.de). Shareholders have the option of exercising their voting right in person or by an authorised person of their choice or to have it exercised by a Company voting rights representative subject to instructions (item 2.3.3 s. 3 half-sentence 1 DCGC).

Composition and Mode of Operation of Board of Managing Directors Committees

IKB Board of Managing Directors has not formed any committees.

Composition and Mode of Operation of Supervisory Board Committees

IKB Supervisory Board has formed committees to discharge its tasks; the composition and mode of operation of these committees is reported below.

Supervisory Board Executive Committee

The Supervisory Board Executive Committee issues approval in accordance with the by-laws for the Supervisory Board for a range of transactions for which the Board of Managing Directors requires Supervisory Board approval, e.g. - where appropriate subject to further preconditions - for the acquisition and sale of real estate property, holdings in or formation of companies, granting of large exposure loans or sale of own shares. In addition, the Supervisory Board Executive Committee decides on the basis of its immediate responsibility bestowed upon it in lieu of the Supervisory Board in all cases, in which a deferral of necessary measures to avert material disadvantages for the Company until the next Supervisory Board meeting is not deemed appropriate and where a decision of the plenary Supervisory Board cannot be obtained within the time required. The Supervisory Board Executive Committee met six times in financial year 2010/2011.

This past financial year, the Supervisory Board Executive Committee was composed of the following members:

- Bruno Scherrer (Chairman)
  Head of European Investments, Lone Star Management Europe Ltd., resident in London

- Dr Karsten von Köller
  Chairman of Lone Star Germany GmbH, resident in Frankfurt am Main

- Dr Andreas Tuczka
  Head of European Financial Institutions, Lone Star Management Europe Ltd., resident in London

- Ulrich Wernecke
  Works Council of IKB Deutsche Industriebank AG, resident in Rommerskirchen.

Finance and Audit Committee

The tasks of the Finance and Audit Committee include inter alia the preparation of the audit of the annual and consolidated financial statements, making a recommendation to the Supervisory Board in respect of the election of the auditor, awarding the auditor his engagement and agreeing his remuneration. In addition, the Finance and Audit Committee is engaged in monitoring accounting, the effectiveness of internal control and auditing systems, risk management and questions of compliance. The Chairman of the Finance and Audit Committee reports to the Supervisory Board at the latest in the next meeting on information essential for the Supervisory Board from risk aspects which has been forwarded to the Committee by the Board of Managing Directors. The Chairman of the Finance and Audit Committee is further entitled to obtain information directly from the Head of Group Auditing and the Compliance Officer with involvement of the Chairman of the Board of Managing Directors. The Finance and Audit Committee met five times in financial year 2010/11.

This past financial year, the Finance and Audit Committee was composed of the following members:

- Dr Karsten von Köller (Chairman)
  Chairman of Lone Star Germany GmbH, resident in Frankfurt/Main

- Wolfgang Bouché (until 31 January 2011)
  Works Council of IKB Deutsche Industriebank AG, resident in Rheinberg

- Dr Claus Nolting
  CEO of Corealcredit Bank AG, resident in Munich

- Bruno Scherrer
  Head of European Investments, Lone Star Management Europe Ltd., resident in London

- Dr Carola Steingräber (since 1 February 2011)
  Industry Analyst, IKB Deutsche Industriebank AG, resident in Berlin.

Nomination committee

The Nomination Committee has the task of proposing to the Supervisory Board suitable candidates for a Supervisory Board seat in respect of election proposals to be submitted to the General Meeting. The Nomination Committee met once in financial year 2010/11.

This past financial year, the Nomination Committee was composed of the following members:

- Bruno Scherrer (Chairman)
  Head of European Investments, Lone Star Management Europe Ltd., resident in London

- Dr Karsten von Köller
  Chairman of Lone Star Germany GmbH, resident in Frankfurt/Main

- Dr Claus Nolting
  CEO of Corealcredit Bank AG, resident in Munich.

Board of Managing Directors and Supervisory Board Remuneration

The Remuneration Report is shown in chapter "Remuneration Report" of the Group Management Report. In accordance with item 4.2.5 DCGC, generally comprehensive explanations of the remuneration system for Board of Managing Directors members including details of the nature of fringe benefits provided by the Company can be found there. Additionally remuneration of Supervisory Board members is shown individualised and structured by components in accordance with item 5.4.6 para. 3 s. 1 DCGC. In the year under review, Supervisory Board members did not receive any further compensation or benefits for services they provided themselves, in particular for consulting and brokerage services, other than their fixed remuneration (item 5.4.6 para. 3 s. 2 DCGC).

Share ownership of board members

Pursuant to Sec. 15 a of the German Securities Trading Act (*Wertpapierhandelsgesetz*), persons with management responsibilities, in particular members of the IKB Board of Managing Directors and Supervisory Board, including persons closely associated with them, are legally obliged to disclose dealings in IKB shares or related financial instruments if the value of transactions conducted by the respective member and persons closely associated with him/her within a calendar year is equal to or exceeds the sum of € 5,000. No such notifications occurred in the year of the report, nor was there any notifiable ownership as defined in item 6.6 DCGC up until 31 March 2011.

Stock option programmes and similar securities-based incentive systems

At IKB there are no stock option programmes or similar securities-based incentive systems.

Düsseldorf, 28 June 2011

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. Business and general conditions

The global financial market crisis is now entering its fifth year. The focus is shifting more and more towards public-sector deficits, which have risen substantially in many countries. 2010 was above all a year of government debt crises with the solvency of some euro nations increasingly being questioned. The financial crisis and, from 2010, the debt crisis, have left a lasting mark on the international banking system. At the same time, uncertainty and the crisis of confidence also persisted.

Regardless of these problems, the global economy continued its ongoing recovery. The emerging nations are still setting the pace for the world's economy. They were barely affected by the financial market crisis or the budget consolidation pressure and are performing at pre-crisis levels. The trend is still rising in the industrialised nations as well. However, the effects of the financial market crisis are still being felt here: In spite of massive impetus from fiscal policy, the adjustments in the real estate sector and the necessary efforts to counter public and private are hampering economic development significantly in some cases. In the euro area in particular, economic performance has diverged greatly owing to the relatively high government debt. Driven by high indebtedness, the peripheral states are seeing very weak development.

In light of the uncertain economic development, monetary policy in the euro zone and the US retained its expansive alignment in the reporting period, even though concerns of rising inflation increased as commodities prices rose sharply around the world. In the booming emerging markets in particular, there was growing fear of significant inflation and economic overheating. Asset prices in these countries have frequently been overvalued in the past, to be followed by an abrupt correction sooner or later.

General conditions for the core business

There was major progress in the recovery of the German economy in 2010. With GDP growth of 3.6%, a considerable amount of the decline in production caused by the crisis in 2009 (GDP: -4.7%) was reversed. The first quarter of 2011 also continued to perform dynamically (up 1.5% on the previous quarter). The key mainstay of the economic recovery was the revived demand for exports on the global markets. It was particularly helpful that German companies diversified their sales by region at an early stage and are now profiting to a large extent from the upward trend in the emerging economies.

As early as 2010, the momentum of the export business had extended to domestic demand. Taken together, domestic demand related to investment and consumption accounted for approximately two thirds of the growth in the entire economic output in 2010.

As a result of this development, there was a particularly sharp increase in the demand for equipment – a key factor driving demand for loans. Following the slump in 2009 (down 23%), investments in equipment and machinery rose by almost 11%, but were still significantly below pre-crisis levels. The increasing capacity utilisation at companies should contribute to a lasting recovery in equipment investments.

In addition, the German labour market proved highly robust during the crisis owing to programmes such as reducing working hours. In September 2010, the number of the unemployed fell below 3 million for the first time – as it last did in the spring of 1992 during the reunification boom. For the year as a whole, the average unemployment rate was 7.7% and the number of people in employment climbed to 40.5 million, a level not seen since reunification. The current expansion in employment is giving rise to hopes of a more lasting revival in private consumer spending. Overall, the recovery in Germany has broadened to encompass all sectors of the economy. Fortunately, the rise in business insolvencies rose less sharply overall in 2010 (up 3%) than had been anticipated given the deep economic slump.

IKB's main international markets posted GDP growth in 2010 – though the extent of this varied (UK: 1.3%; France 1.5%; Italy: 1.3%, all figures as against previous year). While Spain, which is still suffering greatly from a property and construction crisis, generated minor GDP growth from quarter to quarter, the figure for 2010 as a whole was still only -0.1%. Owing to the drastic deterioration in the budget situation, financial policy in most industrialised nations has been forced to swing round to consolidation, which could harm further economic recovery.

Events on the financial markets in the past year were defined by the debt crisis in the euro area in particular. Matters came to a head in May 2010 when the markets for government bonds from the peripheral nations of the euro zone threatened to dry out in some cases. To avoid exacerbating the situation, extensive stabilisation measures were implemented.

With the assistance of the International Monetary Fund (IMF), the heads of state of the EU set up the preventive European Financial Stability Facility (EFSF), which was boosted further over the course of the year. In addition, the European Stability Mechanism (ESM) will provide liquidity assistance beyond 2013. However, this is tied to strict consolidation conditions.

Overall, a critical development was averted in spring 2010. In contrast to the preceding phase of the financial crisis, the latest disruptions left little impact on the real economy. The recovery – thanks also to the extensive stability measures of the EU – remained intact. Nonetheless, the turbulence that followed in the wake of the debt crisis shows how sensitively the financial markets are still reacting. In spite of the bailout, there was still speculation regarding a possible debt restructuring by individual PIIGS states (Portugal, Ireland, Italy, Greece and Spain), which was reflected in rising risk premiums on the bonds of those states. After Greece, Ireland and Portugal in particular came under pressure. The negative rating outlook for the US has also triggered uncertainty of late. If the debt crisis lingers, it is expected to depress the financial markets for years.

The international banking system is still ailing. The persistent mistrust towards financial institutes is also being reflected in heightened EU bank stress tests. In addition, a law was introduced in Germany to restructure and reorganise banks while establishing a restructuring fund. The law should ensure that banks minimise risks and bear the costs of any future bank crises themselves by charging a bank levy. The bank levy to be paid is based on the adopted HGB annual financial statements; the basis of measurement is determined by a Restructuring Fund Ordinance. The Bundesrat has yet to hold a final vote on the ordinance.

Regardless of the continued existence of considerable vulnerabilities, the German banking system was in a better general condition in 2010 than other countries. According to Deutsche Bundesbank's financial stability report, the risk situation had relaxed somewhat and the once feared credit crunch failed to materialise. The strong economic upswing supported the credit standing of domestic debtors. The credit quality of global capital market players also improved. However, some state debtors have lost creditworthiness as a result of the debt crisis.

Despite the relative improvement in the situation, the German banking system continues to face considerable burdens. According to the Deutsche Bundesbank, there is lingering refinancing pressure and competition in the short-term refinancing of banks. In addition, Basel III is heightening the requirements for equity and liquidity. In this context, banks must retain significantly more and better quality equity for lending. Against this backdrop, a functional securitisation market for banks and companies is vital. While this showed signs of recovery in 2010, options are far more limited than they were before the crisis broke out.

IKB's strategic positioning

IKB Deutsche Industriebank AG (IKB AG or IKB when referring to the Group) has undergone comprehensive restructuring in the past four years of severe global financial crisis. Key risks have been gradually reduced. Lending business without real customer relationships and very long-term project and export financing activities are no longer being actively continued. The Bank has been completely refocused on its traditional customer base – particularly German SMEs with sophisticated financing requirements.

Its business model has also been expanded parallel to this. IKB no longer just offers its corporate clients (with sales upwards of € 50 million) credit financing, but an increasingly wider range of capital market and advisory services (such as derivatives, placements, M&A, restructuring advisory) that allow them to optimise their financing structure and grant them access to the capital market. In terms of acquisition finance, IKB works closely with private equity companies. As new business shows (increase in new lending business at IKB AG including the Leasing Group in the 2010/11 financial year: from € 3.0 billion to € 3.7 billion), IKB is satisfying the requirements of its existing customers, some of whom have been with IKB for decades, with this new approach.

IKB has a nation-wide sales network of locations of IKB AG and the IKB Leasing Group that covers all regions of Germany. Domestic sales are also supplemented by selected European locations. As at 31 March 2011, the Bank held an estimated 8% share in the market for long-term corporate loans to the German manufacturing industry. For public subsidy loans, which are of particular benefit to SMEs, the market share is much higher in some areas. IKB's main competitors are larger banks in Germany and abroad on a market undergoing great upheaval on account of the financial crisis, the intervention by the EU Commission, aid programmes and regulatory reforms.

The refinancing structure of IKB, which prior to the financial crisis was dominated by the issuance of unsecured bonds, has since been gradually replaced by a refinancing mix with secured financing and broader deposit business with corporate and retail clients. Thus, IKB is preparing itself for a sharp decline in demand among traditional investors (banks, insurance companies) for unsecured bank bonds due to Basel III and Solvency II. Accordingly, the ratings for this asset class are becoming less significant.

Given the efforts of the banking authorities to redesign comprehensively and enhance the regulation of banks worldwide, the implications for IKB's business model are

- that the provision of its own customers with sufficient funding, whether short-term or medium-term financing or equity, will be organised on the capital market to an increasing degree;
- that strict price discipline is needed and that customers will therefore also face higher credit costs than in pre-crisis times.

To compensate for the aid provided by public-sector sources, IKB must satisfy extensive EU requirements (see section 2). IKB has gone on the offensive in implementing these requirements, even though they have meant substantial internal costs and losses on the disposal of assets. When the implementation has been completed by 30 September 2011 as scheduled, IKB will be able to focus all its energies on its business model. IKB will continue to reduce the complexity of the Group's structure to cut costs and, by contrast, build capacity (infrastructure, personnel) to manage its target customers.

Segments

The previous segment structure was dissolved at the end of the 2009/10 financial year as it was no longer consistent with the strategic repositioning or management of IKB. Since 1 April 2010, the Group's reporting has therefore been based on banking products with the segments

- Credit Products
- Advisory and Capital Markets
- Treasury and Investments
- Head Office/Consolidation.

The **Credit Products** segment reports the earnings components and asset positions from the Bank's lending and leasing business. This includes regular loans and public programme loans, IKB Leasing Group business and mezzanine financing for companies by the subsidiary IKB Private Equity GmbH (IKB PE). The results of collateralised loan obligations, which relate to the loans of this segment, are also presented here.

The **Advisory and Capital Markets** segment comprises the Bank's advisory activities in the fields of M&A, structuring, restructuring, structure/income optimisation and private equity. This sub-segment is a new product offering for IKB and will be expanded further in future. The Capital Markets sub-segment also bundles the range of capital market solutions in the area of equity and liabilities lending, risk management solutions in the customer derivatives area, the management of customer deposits for institutional and private investors, the structuring of the Bank's securitisation transactions and advisory and structuring services for securitisation for third parties.

The **Treasury and Investments** segment reports the earnings components resulting from investment decisions by Treasury in the context of asset/liability management and holdings of liquid or ECB-eligible securities. In addition, the segment comprises structured investments, such as bonds and promissory note loans, the Bank's portfolio investments that represent the Bank's investments in securitisation products including first loss pieces, and the Bank's proprietary trading activities. Credit exposures that are no longer included in the strategic portfolio and assets of the Bank not related to customers and managed as investments are also assigned to the Treasury and Investments segment. These portfolios are to be reduced through active portfolio management while preserving equity.

In addition to the administrative expenses of head office units, the **Head Office/Consolidation** segment shows extraordinary factors as earnings components and asset positions.

2. Significant events in the reporting period

Implementation of EU 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 had been approved subject to conditions and requirements.

The 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. The Group's total assets are to be reduced by around 47% to € 33.5 billion (from € 63.5 billion on 31 March 2007, before the start of the IKB crisis) by 30 September 2011. IKB must comply with an agreed restructuring plan.

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

Specifically, the conditions are as follows:

- discontinuation of the Real Estate Finance segment (discontinuation of new business as at 31 December 2008; reduction of at least 20% of the portfolio by 30 September 2010; reduction of a further 40% of the portfolio by 30 September 2011; remaining portfolio by way of scheduled repayments); subsidiaries affected: IKB Immobilien Management GmbH (IKB Immobilien Management), IKB Projektentwicklung GmbH & Co. KG (IKB Projektentwicklung), IKB Projektentwicklungsverwaltungs GmbH,

- disposal of IKB's 50% interest in Movesta Lease and Finance GmbH (Movesta) by 30 September 2011

- winding-up or disposal of IKB Capital Corporation, New York, (IKB CC) by 30 September 2011 (active reduction of 25% of portfolio by 30 September 2010) and discontinuation of new business as at 31 December 2008,

- winding-up of IKB International S.A. by 1 April 2011 (the derivatives business and loan portfolio 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,

- winding-up of IKB's business activities in Amsterdam by 30 March 2010 and discontinuation of new business as at 31 December 2008 and

- sale of non-strategic assets by 30 September 2011.

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

The status of the implementation of the EU conditions is currently as follows:

- The credit volume of Real Estate Finance was reduced to € 2.1 billion as at 31 March 2011. IKB is assuming that the reduction target set by the EU requirement for 30 September 2011 will therefore be met. The winding-up of the other Real Estate Finance segment subsidiaries named is currently being advanced and/or has been completed (IKB Immobilien Management GmbH). Much of the staff reorganisation associated with this has already been implemented. New business has been discontinued.

- IKB's 50% interest in Movesta was sold in 2009. One purchase condition was hiving off Movesta Development GmbH and selected special purpose entities from Movesta which have proportionately remained with their former owners. IKB intends to wind up Movesta Development GmbH. No new business has been performed.

- IKB CC: The credit portfolio was reduced in full by way of sale. The company's liquidation has been initiated.

- IKB International S.A.: The company's new business was discontinued on time. Provided that customers had granted their consent, derivatives and loan business was transferred to IKB AG in Düsseldorf. The remaining derivatives and loan holdings must remain with the company as they cannot be legally transferred. By way of resolution of its Extraordinary General Meeting, IKB International S.A. was dissolved and entered liquidation as at 1 April 2011. Its banking licence was also returned. Thus, the company has been a wind-up company since 1 April 2011. The closure process was approved by the Luxembourg banking authority Commission de Surveillance du Secteur Financier. In July 2010, IKB AG had acquired the new customer derivatives business from IKB International S.A.

- All business activities of IKB in Amsterdam have been discontinued.

- The non-strategic assets referenced in the corresponding EU requirement have been selectively reduced from € 1.7 billion as at 31 March 2007 to € 0.3 billion as at 31 March 2011.

- The total assets of the Group were reduced to € 31.4 billion as at 31 March 2011.

The EU Commission's resolution dated 17 August 2009 also imposes other obligations on IKB in respect to conduct regarding the extension of the guarantee window for the Special Fund for Financial Market Stabilisation (SoFFin):

- Firstly, the ruling requires restrictions in proprietary trading. These are compatible with IKB's objectives.

- Secondly, the repurchasing of IKB's own liabilities is highly restricted in line with this EU decision, whereby these restrictions do not apply to buying back SoFFin-guaranteed bonds.

IKB has taken organisational precautions to comply with these requirements. The EU Commission has been informed of the status of implementation. To date, IKB has complied with the requirements.

Repayment of all Rio portfolio loans

With the exception of a small number of portfolio exposures and those that were in the process of being wound up, IKB sold the portfolio investments in its statement of financial position, which also contained some sub-prime risks, to the special-purpose entity Rio Debt Holdings (Ireland) Ltd. (Rio Debt Holdings) in 2008. IKB partially financed the special-purpose entity by retaining the first loss pieces, meaning that it limited its own risk of further loss. The loans assumed by the special-purpose entity to finance the purchase price as a whole – including the first loss tranche held by IKB – with a total original volume of a good € 900 million have now been paid back ahead of schedule thanks to repayments and disposals at favourable conditions. As at 31 January 2011, this tranche including the right to additional proceeds (equity kicker) was transferred to IKB PE. The current income and the income from the settlement of the portfolio still held by the special-purpose entity will be divided between IKB PE and LSF Aggregated Lendings S.A.R.L., Luxembourg, a company of the Lone Star Group. The Lone Star Group also includes the main shareholder of IKB, LSF6 Europe Financial Holdings, L.P., Delaware, Dallas/USA (LSF 6 Europe).

Return of SoFFin guarantees

On 7 October 2010, SoFFin had approved a limited buy-back of SoFFin-guaranteed bonds and a corresponding reduction in the guarantee volume. In this context, a total of € 500 million was returned ahead of schedule – € 100 million from the SoFFin-guaranteed bond maturing on 29 April 2011 and a € 200 million each in the SoFFin-guaranteed bonds maturing on 27 January 2012 and 13 March 2012. This meant that the guarantee fees payable to SoFFin were reduced by utilising available liquidity reserves.

The current maturity structure of the SoFFin-guaranteed bonds – after the repayment and return of the € 0.9 billion maturing in April 2011 – is presented in the supplementary report (section 6).

Lone Star's intention to sell

In the middle of October 2010, Lone Star reported that it is seeking a strategic partner to advance the development of the Bank.

The Board of Managing Directors of IKB is providing constructive support for this project and using the necessary resources to provide the information required. Finding a partner and shareholder for the accelerated implementation and further development of IKB's new business model is in the long-term interests of the Bank.

Changes in the Group

IKB AG acquired from IKB Beteiligungen GmbH (IKB Beteiligungen) its share in IKB Immobilien Management GmbH (IKB Immobilien Management), Düsseldorf. In order to satisfy EU requirements, IKB Immobilien Management was then incorporated into IKB AG by way of transformation and subsequent exit of the general partner.

Further, IKB Grundstücks GmbH & Co. Objekt Uerdinger Straße KG was dissolved by way of incorporation without settlement effective 31 December 2010 following the exit of its general partner.

In the financial year, Aleanta GmbH (Aleanta), Düsseldorf, was created by hiving off assets of IKB Beteiligungen GmbH, Düsseldorf, and included in the consolidated financial statements as a subsidiary of IKB AG.

As a component of its liquidity provision, IKB invested a total of € 811.1 million in various investment funds organised as an umbrella fund in the 2010/11 financial year. The partner fund, Europa Renten, Luxembourg, consists of two independent reinvestment funds under a joint issue document. The total market value of the company on 31 March 2011 was € 778.5 million. Furthermore, the partner fund Euro Bonds, Luxembourg, was set up in March 2011, initially with just one sub-fund; its market value was € 29.8 million as at the end of the reporting period.

IKB's limited partner interest in IKB Grundstücks GmbH & Co. Objekt Degerloch KG was 94.9% sold as at 31 July 2010.

Other significant transactions

In connection with the implementation of requirements imposed by the European Commission for the restructuring of IKB, all rights and obligations of a total of three silent participation agreements between IKB International S.A. and Deutsche Bank Luxembourg S.A. (Deutsche Bank Luxembourg) of 16 November 2000 were transferred from IKB S.A. to IKB AG by way of assumption of agreement on 30 September 2010. Prior to this, the respective meetings of owners had unanimously approved the transfer of the silent participation certificates issued on a trust basis by Deutsche Bank Luxembourg (ISIN XS0119317823, XS0119814456 and XS0119317740). As per agreement, the silent participations that ended on 31 March 2010 were repaid after loss participation in the following amounts on 17 November 2010:

- ISIN XS0119317823 (nominally € 45 million) at € 8.6 million
- ISIN XS0119814456 (nominally € 15 million) at € 2.9 million
- ISIN XS0119317740 (nominally € 10 million) at € 1.9 million

Legally relevant events

Please see the “Legal risks” section in the risk report for details of the significant legally relevant events.

Results of the special audit

In August 2009, the Düsseldorf Regional Court resolved at the request of shareholders to appoint a special auditor to examine whether members of the Board of Managing Directors or the Supervisory Board of IKB AG committed breaches of duty in connection with certain transactions relating to the crisis at IKB. The District Court awarded the special audit mandate to Dr Harald Ring, a member of the Management Board of Treuhand- und Revisions-Aktiengesellschaft Niederrhein, Wirtschaftsprüfungsgesellschaft/Steuer-beratungsgesellschaft, Krefeld, Germany. Appeals by IKB AG against the court appointment were unsuccessful. Dr Ring had already been appointed as the special auditor under stock corporation law by the Annual General Meeting in March 2008 and performed audit activities until his appointment was revoked by the Annual General Meeting in March 2009.

IKB has not yet received the results of this audit.

Debt issuance programme

The debt issuance programme (DIP) was updated on 21 December 2010. Thus, IKB has a valid basic prospectus under which it can flexibly manage its issues. This has extended its range of possible refinancing instruments.

Refinancing through online offering for retail customers

On 15 March 2011, IKB launched its online service, “IKB direkt” for retail customers (www.ikbdirekt.de). IKB has created a further source of refinancing with this offering of overnight and fixed term deposits.

Personnel changes

Mr. Olivier Brahin, Dr Lutz-Christian Funke, Mr. Ulrich Grillo and Dr Andreas Tuczka, whose terms in office ended after the Annual General Meeting on 26 August 2010, were re-elected to the Supervisory Board by way of resolution of the Annual General Meeting on 26 August 2010.

As per the terms of his appointment, Mr. Jürgen Metzger left the Supervisory Board at the end of this Annual General Meeting. Dr Carola Steingräber was elected to the Supervisory Board as a new employee representative. Mr. Ulrich Wernecke, whose term of office also ended with this Annual General Meeting, was re-elected to the Supervisory Board. Owing to the ending of his employment relationship as a result of having reached the age limit, Mr. Wolfgang Bouché left the Supervisory Board from 31 January 2011. Mr. Bernd Klein joined the Supervisory Board as a substitute member on 1 February 2011.

Annual General Meeting on 26 August 2010

The Annual General Meeting of IKB AG for the 2009/10 financial year was held in Düsseldorf on 26 August 2010. The Annual General Meeting adopted all the resolutions proposed by the Bank’s management by a large majority. The results of the individual votes can be found on the Bank’s website under www.ikb.de. Legal suits described under “Legal risks” in the risk report are pending against individual resolutions by the Annual General Meeting.

Current rating situation

The rating agency Moody’s confirmed the following ratings for IKB on 17 August 2010: long-term rating: Baa3, short-term rating: Prime-3, financial strength individual rating: E, outlook: negative. Owing essentially to the German Bank Restructuring Act that came into effect at the start of 2011, the rating for the subordinated debt of IKB was downgraded from Ba2 to Caa2, outlook stable on 17 February 2011. On 19 April 2011, Moody’s downgraded its rating – mainly as a result of the reduction in government support assumed by the agency – to long-term Ba2, negative outlook and short-term non-prime.

The rating agency Fitch confirmed the following on 26 January 2011: long-term rating BBB-, short-term rating F3, outlook negative, financial strength individual rating E. The rating for subordinated debt was downgraded from BB+ to B+, outlook negative, also on account of the changing legal conditions. On 13 April 2011, Fitch again confirmed the long-term rating BBB-, negative outlook and short-term rating F3.

The current rating situation is as follows:

Table: IKB Rating

		Long-term	Short-term	Financial strength	Outlook/ rating watch
Moody's	17 Aug. 2010	Baa3	P-3	E	Negative
	19 Apr. 2011	Ba2	Non-prime	E	Negative
Fitch	26 Jan. 2011	BBB-	F3	E	Negative
	13 Apr. 2011	BBB-	F3	E	Negative

3. Net assets, financial position and results of operations

Business development

New business volume amounted to € 3.7 billion in the 2010/11 financial year (previous year: € 3.0 billion). This is an increase of 24% as against the previous year.

Income statement figures

The consolidated income statement for the 2010/11 financial year shows a consolidated net profit for the year, while a high consolidated net loss had been incurred in the previous year. Results were again largely affected by a number of extraordinary factors. The financial and economic crisis in the euro area and the resulting high risk premiums for certain sovereign risks in Europe and for Banks affected results with correspondingly high remeasurement effects. A notable positive effect was also contributed by the remeasurement of repayment obligations under liabilities not recognised at fair value (particularly the compensation agreements from future profits), which reflects the need for stronger reserves in future to strengthen capital from income. The positive trend in portfolio investments also continued in the 2010/11 financial year, which means that, looking back, holding firm against the (distress) sale of individual investments while the crisis was at its height was advantageous for the Bank. Results are still being squeezed substantially by the implementation of the EU conditions. However, this was countered somewhat by the excellent economic development – particularly in Germany – and the significant reduction in provisions for possible loan losses as a result.

The consolidated net profit amounted to € 52 million after a consolidated net loss of € 967 million in 2009/10. After adjustment for the extraordinary factors, the consolidated income statement reports a significantly lower adjusted consolidated net loss of € 136 million as against the previous year.

The following table shows an overview of the consolidated income statement for the 2010/11 financial year and the previous year and the main extraordinary factors affecting the consolidated net profit in the financial year.

Table: Income statement with extraordinary factors

				thereof extraordinary factors					
in € million	Unadjusted Profit & Loss account 1 Apr 2009 - 31 Mar 2010*	Unadjusted Profit & Loss account 1 Apr 2010 - 31 Mar 2011	Change absolute	Portfolio Investments	Long-term invest-ments and derivatives	Measure-ment of liabilities due to credit rating changes	Measure-ment of liabilities according to IAS 39 AG 8	Other factors	Adjusted Profit & Loss account 1 Apr 2010 - 31 Mar 2011
Net interest income	178.5	139.6	-38.9				-59.0	-46.0	244.6
Provision for possible loan losses	493.9	70.8	-423.1						70.8
Net interest income after provision for possible loan losses	**-315.4**	**68.8**	**384.2**				**-59.0**	**-46.0**	**173.8**
Net fee and commission income	-51.5	-93.0	-41.5					-126.2	33.2
Net income from financial instruments at fair value	-598.9	71.4	670.3	47.3	-154.0	187.7			-9.6
Income from investment securities	159.2	42.3	-116.9	24.0	19.1				-0.8
Result of investments accounted for at equity	-0.7	1.6	2.3						1.6
Administrative expenses	301.5	321.3	19.8					20.3	301.0
Net other operating income	164.7	242.9	78.2	-3.4			320.5	-28.7	-45.4
Operating result	**-944.1**	**12.7**	**956.8**	**67.9**	**-134.9**	**187.7**	**261.4**	**-221.2**	**-148.2**
Tax expense	22.8	-38.8	-61.6					-27.0	-11.8
Consolidated net income / loss	**-966.9**	**51.5**	**1,018.4**	**67.9**	**-134.9**	**187.7**	**261.4**	**-194.2**	**-136.4**

* Prior-year figures adjusted

At € 140 million, **net interest income** was € 39 million down on the previous year (€ 179 million). In particular, the decline is due to the lower earnings contributions from equity investments in the Treasury and Investments segments. However, this development also reflects the reduction of lending business in the context of the EU conditions for the reduction of total assets and portfolio investments as part of the restructuring.

Net interest income includes the following extraordinary factors:

- The measurement of liabilities in accordance with IAS 39 AG 8 resulted in an interest expense in net interest income of € 59 million. These include the compensation from future profits in connection with the former debt waivers issued by the KfW and the compensation from future profits in connection with the debt waiver issued by LSF6 Europe Financial Holdings, L.P., Delaware, Dallas/USA, (LSF6 Europe) plus some profit participation certificates and silent partnership contributions.

- The amortisation of the adjustment item for reversed hedges as at the time of transition to IFRS (IFRS 1 IG 60A) resulted in an expense of € 46 million. The adjustment item was fully amortised as at 31 March 2011 and therefore will not result in any further expenses in future.

The **provision for possible loan losses** was € 71 million, well below the previous year's figure of € 494 million. The decrease of € 423 million is primarily due to the significant improvement in the economic situation. This included € 144 million in net additions to individual impairment losses, provisions and write-downs (previous year: € 492 million). Provisions for possible loan losses include an expense of € 18 million from asset disposals in connection with the EU conditions. € 73 million of portfolio impairment losses were net reversed, reducing them from € 185 million to € 112 million.

Net interest income after provisions for possible loan losses was therefore positive, rising by € 384 million to € 69 million (previous year: € -315 million).

At € 93 million, the negative **net fee and commission income** was € 41 million down on the previous year (€ 52 million). This development was due to the guarantee commission of € 126 million payable to SoFFin, a figure € 49 million higher than the previous year's costs. Adjusted for SoFFin commission, net fee and commission income improved by € 8 million to € 33 million thanks to the recovery in customer business, thereby showing a rising trend.

Net income from financial instruments at fair value was positive. At € 71 million, it was € 670 million down on the previous year's figure (€ -599 million). This result was essentially due to opposing effects that are presented as extraordinary factors:

- Positive fair value developments in portfolio investments led to net income of € 47 million.

- The net expense on the measurement at fair value of non-current assets and derivatives of € -154 million is largely due to the public debt crisis in the euro area and the resulting development of risk premiums on European government and bank bonds used for refinancing and held for short-term liquidity procurement.

- In the wake of the financial crisis, there was again an increase in risk premiums for banks, including IKB. Own liabilities carried at fair value resulted in measurement gains of € 188 million on account of widening IKB spreads.

Net income from investment securities was again positive this year at € 42 million (previous year: € 159 million). This was almost entirely due to positive changes in fair value and disposals of portfolio investments and non-current assets (extraordinary factors).

At € 321 million, **administrative expenses** were up € 20 million on the previous year's figure of € 301 million. Staff costs increased by € 3 million year-on-year to € 167 million. The average **number of employees** declined by 79 to 1,534 in the financial year. Other administrative expenses amounted to € 154 million (previous year: € 137 million). In particular, this rise of € 17 million is in connection with the reorientation of the Bank and the consulting costs for internal process optimisation projects this entailed. Administrative expenses are still being affected by costs of € 20 million in connection with the handling of the crisis and by consulting costs for the implementation of the EU conditions (extraordinary factors).

Net other operating income increased by € 78 million year-on-year to € 243 million. As in the previous year, net other operating income was essentially defined by extraordinary factors:

- In portfolio investments, a provision expense of € 8 million was incurred for costs in connection with winding them up. The reimbursement of legal costs for previous years amounted to € 5 million, reducing the result from portfolio investments by a net figure of € 3 million.

- Measurement of liabilities in accordance with IAS 39 AG 8 resulted in a measurement gain in net other operating income of € 321 million (previous year: € 127 million). The basis for measurement is formed by the yield and capital planning of IKB. Owing to the more stringent capital requirements anticipated on account of Basel III among other things, greater profit retention was assumed as against previous years. This led to a change in planning for the appropriation of profits. As a result of the change in planning, remeasurement in line with IAS 39 AG8 led to lower carrying amounts being recognised for the compensation from future profits in connection with the debt waivers issued by KfW Bankengruppe, Frankfurt, and the compensation from future profits in connection with the debt waiver issued by LSF6 Europe Financial Holdings, L.P., Delaware, Dallas/USA, (LSF6 Europe) plus some profit participation certificates and silent partnership contributions.

- The sale of a company resulted in an expense of € 20 million from the purchase price and the net assets of this company acquired at fair value. This difference was derecognised as an expense.

- The buy-back and early return of SoFFin-guaranteed issues resulted in a net expense of € 9 million.

In addition to the extraordinary factors presented above, net other operating income was reduced by a write-down and a provision in the context of real estate activity of € 57 million.

The **operating result** was therefore positive at € 13 million. It improved by € 957 million as against the previous year. The adjusted operating result was € -148 million, also a significant improvement on the previous year’s figure.

The **net tax result** was positive at € 39 million. The merger of two companies led to a reversal of tax provisions, which resulted in income from taxes of € 27 million (extraordinary factor). Furthermore, there was net income of € 21 million in the tax result from the recognition of deferred taxes.

Overall, there was **consolidated net profit** of € 52 million and thereby an improvement as against the previous year of € 1,018 million (previous year: consolidated net loss of € 967 million). Adjusted for extraordinary factors, there was a consolidated net loss of € 136 million.

Please see the notes for further information on the development of individual income statement items.

Segment development

The **Credit Products** segment comprises loans from own funds and public programme funds plus the equipment leasing and mezzanine financing business of IKB PE. It generated a positive operating result of € 90 million. An operating loss of € 185 million had been recorded in the previous year. This positive development is due to significantly lower risk provisions and reduced administrative expenses. By € 19 million, the provision for possible loan losses was down on the previous year’s level by € 229 million on account of the good economic development. The new business volume was € 3.5 billion in the reporting period (previous year: € 2.6 billion). The rise is essentially due to increased credit demand. While payments in subsidies business did not match the previous year’s level at around € 1.0 billion, the volume in own funds increased significantly to € 1.6 billion (previous year: € 0.5 billion).

In this segment, the IKB Leasing Group, which operates nationally and internationally in the field of equipment leasing, achieved new business volume of € 0.9 billion (previous year: € 0.7 billion). In particular, the company benefited from the expansion of the economy and the recovery in investment activities in Germany. The IKB Leasing Group operates in nine countries (Germany, France, Austria, Poland, Romania, Russia, Slovakia, Czech Republic, Hungary) through 14 leasing companies.

The segment’s return on equity was 15.5% (previous year: -31.2%), while the cost/income ratio was 52.0% (previous year: 71.8%).

The **Advisory and Capital Markets** segment essentially bundles advisory activities and the capital market and risk management solutions for customers. Net interest and net fee and commission income increased to € 11 million after € 4 million in the previous year. In customer derivatives business, which is reported in net income from financial instruments at fair value, income of € 23 million was generated after € 11 million in the previous year. The increased headcount and ongoing projects to create the infrastructure for capital market and risk management solutions in particular led to a rise in administrative expenses to € 71 million (previous year: € 11 million). As a result of the division's start-up costs in particular, it generated an operating loss of € -33 million (previous year: operating profit of € 7 million).

The **Treasury and Investments** segment comprises the earnings components and asset positions from the Bank's asset/liability management, holdings of ECB-eligible securities, structured investments and other assets being reduced in line with the EU conditions in addition to the Bank's proprietary trading activities. In particular, earnings development was affected by the effects of the increased risk premiums for certain government and bank risks and lower long-term interest rates, which led to higher losses on the remeasurement of non-current assets in the portfolio held to safeguard liquidity and derivatives (see also "Extraordinary factors" table) in the reporting period. As a result, there was an operating loss of € -311 million after an operating profit of € 174 in the previous year. The Treasury sub-segment is influenced by the high fair value losses on non-current assets and derivatives described above and the expenses for the guarantee commission paid to SoFFin. However, risk provisioning was reduced significantly in the portfolios of the Investments sub-segment that no longer make up the Bank's core business. The net operating result of € -65 million (previous year: € 19 million) essentially includes write-downs for a real estate project and a provision expense mainly for legal costs in the context of winding up portfolio investments. In the previous year, income of € 25 million from buying back own issues was reported in the other operating result; in the 2010/11 financial year this resulted in a net loss of € 9 million. The segment's return on equity was -48.3% (previous year: 23.2%), while the cost/income ratio was -28.8% (previous year: 14.6%).

In addition to administrative expenses for head office units, the **Head Office/Consolidation** segment reports extraordinary accounting factors as earnings components and asset positions, the effects of differences in methods between management reporting and the consolidated financial statements and intra-Group consolidation issues. As a result of the effects of the credit rating-driven remeasurement of liabilities reported in net income from financial instruments at fair value, which led to income of € 188 million in the reporting period (previous year: €-859 million) in particular, the segment generated a positive result of € 267 million (previous year: € -939 million). The other operating result includes the difference between the purchase price and the fair value of the acquired net assets of a company of around € 20 million. The remeasurement of liabilities in accordance with IAS 39 AG 8 resulted in € 321 million after € 127 million in the previous year.

Net assets

On 31 March 2011, **total assets** amounted to € 31.4 billion and were therefore below the target figure of € 33.5 billion required for compliance with the EU condition in terms of the reduction of consolidated total assets. Total assets declined by € 4.3 billion in the financial year. This was primarily due to the reduction in loans and advances to customers in accordance with the EU conditions and the reduction in investment securities and assets held for trading, which were also subject to the same measurement fluctuations as liabilities held for trading. On the liabilities side, the main decline was in securitised liabilities, amounts due to banks and liabilities held for trading.

Loans and advances to customers declined by € 3.3 billion as against the previous year to € 20.3 billion. New business volume of € 3.7 billion was offset by maturities and the reduction of credit volumes in the amount of € 7 billion, due partly to the EU conditions. New business was concluded at significantly higher margins.

Provisions for possible loan losses declined by € 0.3 billion to € 0.8 billion.

Loans and advances to banks declined by € 0.2 billion to € 2.3 billion, essentially as a result of reduced cash collateral for derivative transactions.

Assets held for trading declined by € 0.5 billion to € 0.8 billion, which was essentially due to declining volumes and remeasurement losses.

Investment securities fell by € 0.4 billion to € 7.9 billion as a result of maturity, disposals and remeasurement losses.

Securitised liabilities fell by € 3.1 billion to € 7.7 billion as a result of repayments. A nominal volume of € 0.5 billion of this related to the return of SoFFin-guaranteed issues.

Amounts due to banks declined by € 0.8 billion to € 11.2 billion. The main reason for this reduction was lower borrowing on the inter-bank market and earmarked refinancing.

Amounts due to customers rose by € 0.2 billion to € 7.7 billion on account of the greater level of customer term deposits received.

Reflecting the development of assets held for trading, **liabilities held for trading** fell by € 0.5 billion to € 2.0 billion.

Subordinated capital declined by € 0.1 billion to € 1.1 billion as a result of changes in value.

Equity increased from € 937 million in the previous year to € 972 million, largely as a result of the consolidated net profit. The revaluation surplus in equity declined by € 30 million year-on-year to € -37 million.

The **tier I ratio** of the IKB Group based on HGB data was 11.2% on 31 March 2011 (previous year: 10.4%). The **overall capital ratio** was 15.9% (14.9%).

Financial position

The liquidity situation at IKB is stable. Factors contributing to this included the utilisation of the SoFFin guarantees, the substantial reduction in assets and the increase in deposits by customers. IKB returned SoFFin guarantees of € 0.5 billion in this financial year. It should still be noted that the money and capital markets are only functioning to a limited extent. Thus, mainly collateralised borrowing is possible as a financing option. Looking ahead to a more positive market performance in future, IKB updated its debt issuance programme in December 2010 so as to be able to float issues on the capital market on an unsecured basis as well. Furthermore, IKB launched its online service, “IKB direkt” for retail customers (www.ikbdirekt.de) on 15 March 2011. IKB has thus created a further source of refinancing with this offering.

Overall assessment

The business performance and the situation in the 2010/11 financial year improved as against the previous year. This improvement can be seen in both the unadjusted and the adjusted results. The development of the adjusted result reflects the positive performance in operating business. This was influenced not just by the significant reduction in risk provisioning as a result of the good economic development, but also by increased commission income and higher interest margins in new credit business. The extraordinary factors included in the unadjusted income statement will also influence results in future, though their effect will lessen over time. Portfolio investments are still being reduced and will therefore continue to affect the earnings situation. IKB is assuming that the developments in the value of the European government and bank bonds held for liquidity will not be permanent, meaning that the measurement losses included in the net income from financial instruments at fair value should be reversed by measurement gains in future. Conversely, the measurement gains resulting from the credit rating-driven remeasurement of liabilities will reverse as measurement losses in future. The regulatory capital requirements placed on banks will be increased by Basel III. In yield and capital planning it is therefore being assumed that future income will be retained as reserves. This assumption regarding the appropriation of profits will affect the measurement of compensation agreements from future profits. Expenses in connection with the implementation of the EU conditions, which are due to the crisis at the Bank, and the restructuring, such as the commission to be paid to SoFFin, will diminish appreciably.

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. The business and risk strategy outlook in addition to the measures derived from this are set out in the business and risk strategy, which is updated at least annually.

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

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

Departmental responsibility for back-office functions, particularly transaction-related risk monitoring, intensive support and problem exposure management, portfolio-based 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. Responsibility for legal and compliance risks lies with the Chairman of the Board of Managing Directors. The Board of Managing Directors as a whole is responsible for managing risks associated with the strategic business focus and reputation 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, Risk Controlling, Finance and Financial Markets & Treasury divisions and meets at least quarterly. 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 Management. The key tasks of Credit Risk Management include activities associated with the credit approval process to be carried out independently of front-office, as well as developing and monitoring Group-wide standards for the lending business and ongoing risk monitoring of credit exposure. The division also participated in credit portfolio management.

Exposures with an increased risk as well as restructuring and settlement cases are managed in special management units within Credit Risk Management.

Risk Controlling. Risk Controlling is responsible for calculating and analysing counterparty, market price and liquidity risks in the banking and trading book, monitoring compliance with the limits prescribed by the Board of Managing Directors and reporting on risk positions at Group level.

It also examines and improves the models and procedures used to measure financial instruments and manages and enhances the rating systems used.

The prompt and ongoing monitoring, analysis and reporting of the Bank's total risk, the monitoring of the risk-bearing capacity and the validation of models used in risk quantification and credit assessment are also carried out in separate units.

Group-wide monitoring of operational risk is also located centrally in risk controlling. In addition to identifying, analysing and reporting on operational risk, this also includes developing and establishing methods for measuring operational risk in the Group. Central operational risk management is aided by local operational risk managers in the segments, subsidiaries and central divisions.

Compliance activities are located in the Legal division. These are coordinated by the Chief Compliance Officer, who performs these activities alongside his responsibilities as the head of the Legal division.

Monitoring risks from securitisation and structured credit products. The monitoring of structured credit products is performed by the Securitisation Structure Management back-office division. Among other things, its main activities are the performance of the credit approval and impairment process for structured credit products independently of front-office. Furthermore, this central division is responsible for the administration of the special purpose entity Rio Debt Holdings (Ireland) Limited in addition to 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.

Monitoring earnings development and capital resources. The Finance division prepares monthly performance analyses for existing and new business in the context of performance controlling and presents these to the Board of Managing Directors on a weekly basis, where deviations in the net assets and results of operations from the projected figures are identified and analysed on an ongoing basis. This ensures that business risk is continually monitored and reported. The Board of Managing Directors is therefore able to react to negative developments even at short notice.

In addition, the Finance division is responsible for capital controlling and integrated capital planning and monitoring within IKB in line with regulatory and economic aspects.

Internal Audit. The Group Audit central division is organised as a process-independent part of the risk management system and the internal control processes. It operates on behalf of the entire Board of Managing Directors, with no duty to comply with instructions, as an independent body that reports directly to the Chairman of the Board of Managing Directors. All activities and processes throughout the Group are examined on the basis of risk-oriented process checks. It focuses 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 receives 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. Independently of this, it is ensured that the Chairman of the supervisory body or the Finance and Audit Committee can obtain information directly from the head of Group Audit with the involvement of the management.

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[1] This is Rhineland Funding Capital Corporation LLC, Delaware, (RFCC) and various purchasing companies based in Jersey and Delaware. These legally independent special-purpose entities are no longer active on the market. They invest in structured securities. Among other things, IKB acts as a consultant for RFCC and the purchasing companies.

[2] These two legally independent special-purpose entities backed 25% of the liquidity risk for two liquidity providers of Rhineland Funding and the entire credit risk that arises on utilisation of the liquidity lines. IKB acts as an administrator for the Havenrock companies.

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: duration method; option risks: delta-plus method). The transition from the maturity-based method to the duration method was effected as part of the introduction of the new regulatory market price risk solution "RiVa". As part of the planned introduction of Murex as a new trading system, the implementation and approval of the scenario matrix method is currently being worked on.

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

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

Regulatory capital situation in € million	**as of 31 Mar. 2011**	**as of 31 Mar. 2010**	**as of 31 Mar. 2009**
Risk-weighted assets	16,776	19,265	24,718
Market risk equivalent	663	313	613
Operational risk	782	1,100	1,324
Risk position	**18,221**	**20,678**	**26,655**
Tier I capital	2,120	2,257	2,276
Tier II capital	919	1,030	1,245
Tier III capital	0	0	35
Deductions[1)]	-149	-216	-236
Equity capital	**2,890**	**3,071**	**3,320**
Tier I ratio in %	11.2	10.4	8.1
Overall capital ratio in %	15.9	14.9	12.5

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

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

At 11.2% at Group level, the tier 1 capital ratio has risen again as against the previous year. This is still above the regulatory minimum tier 1 capital ratio of 4.0%. At 15.9% at Group level, the overall capital ratio is also higher than the regulatory minimum of 8.0%.

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 a tier I ratio of 8%) in the future (see also outlook). Although the main data is now known following the approval of Basel III, it remains uncertain in the medium term as to how the numerous regulation projects intended by national and international banking authorities will affect equity composition and requirements overall.

The decline in risk-weighted assets as at 31 March 2011 is essentially the result of the reduction of total assets in line with the conditions imposed by the EU 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. An economic analysis is also used in addition to monitoring regulatory minimum capital resources and target ratios for regulatory capital resources in order to monitor risk-bearing capacity. This compares the economically defined risk cover with the capital requirements necessary to cover unexpected risk derived using business methods.

As a supplement to the regulatory analysis intended to ensure the continued existence of a bank, the economic analysis distinguishes between an equity capital provider perspective (going concern approach) and a lender perspective (liquidation approach). The equity capital provider perspective is intended to ensure that the minimum capital (benchmark capital) required to continue banking operations is not affected, even if both expected and unexpected losses are incurred in the period of analysis. The perspective of a non-subordinated lender should ensure that the non-subordinated capital borrowed by a bank can be repaid in full even if all expected and unexpected risks occur. In contrast to the equity provider view, this assumes a significantly higher level of security (confidence level).

Risk cover. From an equity capital provider perspective in the meaning of a going concern approach, only the capital components that exceed a benchmark specified by the Bank subject to risk-weighted assets can be used as risk cover. In contrast to regulatory tier 1 capital, benchmark capital only includes capital components such as profit participation certificates and silent partnership contributions with a discount on prudence grounds to reflect a possibly lower quality of liability. The risk horizon for the risk forecast within the risk tolerance calculations is twelve months. As a result of this, interest and volatility-driven unrealised losses expected within the next twelve months on the basis of the forecast interest developments are deducted when calculating risk cover. In line with a paper published by Deutsche Bundesbank and the BaFin on the range of practice in calculating risk tolerance, in a departure from the previous year, certain interest-driven hidden losses incurred outside the risk horizon are also deducted when calculating risk cover. Spread-driven hidden charges for non-current assets are still not taken into consideration as these are intended to be held in the long term. If a negative operating result occurs in the analysis period, this is deducted from cover assets.

From the perspective of a non-subordinated lender in the meaning of a gone concern approach, all capital components, including silent partnership contributions, profit participation certificates and subordinated liabilities are available as risk cover. At the same time, almost all interest, volatility and spread-driven hidden charges in the securities portfolios are deducted from risk cover. Only credit spread-driven hidden charges from structures similar to the credit book, such as promissory note loans, are not taken into consideration. Here, too, the Bank reduces risk cover if a negative operating result is expected for the analysis period.

Table: Components of risk cover

Equity capital provider perspective			Lender perspective		
in € million	31 Mar. 2011	31 Mar. 2010[2]	**in € million**	31 Mar. 2011	31 Mar. 2010[2]
"Core capital"[1]	1,286	1,110	"Core capital"	511	550
Pro rata profit participation certificates and silent partnership contributions	356	366	Profit participation certificates and silent partnership contributions	558	553
			Subordinated capital	996	995
Benchmark capital	-955	-1,005			
Risk cover	**688**	**471**	**Risk cover**	**2,065**	**2,099**

Some totals may be subject to discrepancies due to rounding differences.
1) "Core capital" includes share capital, reserves, net retained profits/loss carryforward and the planned operating result of the next twelve months. Hidden charges are deducted from risk cover. The two values for the previous year have been adjusted as against the Group management report as at 31 March 2010 as the core capital as at 31 March 2010 was reported too low.
2) Prior-year figures adjusted due to change in method

The risk cover available has changed as against the start of the financial year essentially as a result of the following developments:

- Owing to the better operating result as against the previous year's planning and changes in methods for including hidden charges, the core capital is higher in the equity provider perspective than in the previous year. If the core capital had already been calculated using the same methods in the previous year, it would have been € 163 million higher. However, the positive effect of the better operating result is offset in the lender perspective by the rise in hidden charges not included in the equity lender perspective.

- Reduction of the minimum benchmark capital reserved for total Bank risk in the equity capital provider view owing to the reduction of risk-weighted assets (see also "Regulatory capital situation" tables),

The Group's economic capital requirements in order to cover "unexpected" counterparty default risk, market price risk and general business, operational risk and liquidity risk as well for the first time, are determined using the Bank's own models. Economic capital is not calculated for reputation or participation risks; however, these are also subject to ongoing monitoring. This also applies to legal risks (see "Legal risks").

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"), which is developed further on an ongoing basis. The statistical parameters included here necessarily take into account economic effects.

Market price risk is calculated as the integrated value-at-risk (VaR) by way of historical simulation assuming a holding period of one year for the entire portfolio of the Bank, taking into account all relevant risk factors (interest, exchange rates, credit spread, volatility). Here, too, the Bank regularly develops the methods used for risk quantification.

Credit spread risks from loans and corporate promissory note loans in fixed assets are excluded from market risk calculations for risk-bearing capacity in both the equity capital provider analysis and the lender analysis as these assets are similar to loans and the Bank's intentions to hold these. Credit spread risks from non-current assets are only not included from an equity capital provider perspective as the Bank intends to hold these beyond the risk cover horizon.

Business risk is calculated on the basis 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.

The operational risk is quantified using a Monte Carlo simulation based on loss distribution (VaR).

The liquidity risk in the form of unexpectedly high refinancing costs is derived from expert estimates and has been included in risk tolerance calculations in the equity provider perspective since 31 March 2011. Given the assumption that in the event of the Bank's liquidation, timely refinancing could not be guaranteed even at greater cost, this risk is not included in the lender perspective.

Interactions between risks (diversification effects) are taken into account when pooling individual risks in an omnibus item. To satisfy the more stringent regulatory requirements for the inclusion of diversification effects, the Bank has analysed the assumptions on which interactions were based in the past financial year and calculated them on the basis of empirical data that can be transferred to the individual risk situation of the Bank.

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 below.

Equity capital provider perspective. The following table shows economic capital requirements from the perspective of an equity capital provider at a confidence level of 90%.

Table: Economic capital requirements – equity capital provider perspective

	31 Mar. 2011		31 Mar. 2010	
	in € million	in %	in € million	in %
Counterparty default risk	198	51	226	54
Market price risk	71	18	89	21
Operational risk	29	8	29	7
Business risk	72	19	75	18
Liquidity risk	16	4	-	-
Total	**387**	**100**	**419**	**100**
Minus diversification effects	-98		-108	
Overall risk position	**289**		**311**	
Risk cover	**688**		**471**[1)]	

Some totals may be subject to discrepancies due to rounding differences.
1) Prior-year figures adjusted due to change in method

The total risk position declined as against the previous year to € 289 million. However, it should be noted that the risk of an unexpected increase in refinancing costs (liquidity risk) was also included in the past financial year for the first time. The decline in the total risk position is due to both the active reduction of counterparty risk and the reduction of market price risks. However, the positive economic development forecast for 2011 also plays a role in counterparty risk, which is expressed in a decline in default projections.

Even without taking into account the risk-reducing diversification effects between risk categories, risk cover is still by far sufficient to cover the economic capital requirements of unexpected risks over the risk horizon. Utilisation of risk cover in excess of benchmark capitalisation was 42% as at 31 March 2011 and has therefore decreased significantly as against the previous year's figure (66% as at 31 March 2010).

Lender perspective. The following table shows economic capital requirements from the perspective of a non-subordinated lender at a confidence level of 99.76%.

Table: Economic capital requirements – lender perspective

	31 Mar. 2011		31 Mar. 2010	
	in € million	**in %**	**in € million**	**in %**
Counterparty default risk	764	47	821	56
Market price risk	609	37	391	27
Operational risk	97	6	84	6
Business risk	158	10	165	11
Total	**1,628**	**100**	**1,462**	**100**
Minus diversification effects	-308		-166	
Overall risk position	**1,321**		**1,296**	
Risk cover	**2,065**		**2,099**[1)]	

Some totals may be subject to discrepancies due to rounding differences.
1) Prior-year figures adjusted due to change in method

Although, here too, the counterparty risk was down significantly on the previous year's figure, in contrast to the equity provider perspective, the total risk position rose slightly by 2% to € 1,321 million in the non-subordinated lender perspective. This was due to market price risk, which rose significantly as a result of the massive spread widening observed in the wake of the European debt crisis.

The risk cover assets declined slightly as against the previous year's reporting date as a result of the rise in spread-driven hidden charges. The utilisation of risk cover assets climbed to 64% and was therefore up slightly on the previous year's level (62%).

Forecast calculations and stress tests. In light of the great uncertainty on the capital markets with regard to the further development of some states in the euro area and lessons learned in the financial crisis, the Bank is also performing its own stress tests in addition to various forecast calculations.

The findings of the forecast calculations for the next two financial years based on the Bank's business plan are that risk cover consistently exceeds the overall risk position from both an equity capital provider and lender perspective. This emphasises the Bank's risk-bearing capacity.

It should be noted as regards the stress tests that even the normal historic simulation as at 31 March 2011 includes stress components such as market changes due to the European debt crisis. The analysis of the economic and macroeconomic stress scenarios shows that, in the more extreme scenarios, the risk assets will no longer be able to cover the total risk position in either the equity provider or the lender perspective. These scenarios include, for example, the disintegration of the euro area with repercussions for the entire EU economic area and the macroeconomic stress scenario of stagnation, in which economic growth remains well below the potential growth level in the medium term as well.

Risk strategy

The individual risk strategies are a component of the integrated business and risk strategy. They set the framework to which IKB's business activities are geared. All risk strategies were revised with regard to the new business outlook and economic situation in the 2010/11 financial year.

Credit risk strategy. In its lending business, the Bank intends to limit its overall risk in relation to its credit portfolio and thereby to further lower allowances for losses on loans and advances in the coming financial years to a low level. In addition to restricting new business to good credit standings to improve the average credit rating over time, this also includes limiting concentration risks at individual borrower and borrower group levels. Given its core business, the IKB regional focus will also remain on Germany. Outside Germany, its activities (except for leasing) are currently limited to Western Europe, particularly France, Italy and Spain. With regard to its target customers in the high-end SME segment, industry diversification is also highly significant. In assessing its limits, the Bank looks at both the significance of the industry to the German economy and an analysis of the industry in terms of its forecast development.

Market price risk strategy. In derivatives business with customers, with regard to possible market price risks, the Bank focuses on providing interest and currency derivatives to support the interest and currency management of its customers. This is supplemented by the development of a brokerage model by accepting securities issued by customers in the trading book with the aim of promptly reselling them to third-party investors. For trading book transactions the Bank largely restricts itself to highly liquid products in the currencies of euro, US dollar and pound sterling though the maximum risk positions this entails are kept very low.

Liquidity strategy. Liquidity protection is currently based on the issues guaranteed by SoFFin, obtaining client deposits guaranteed by the Deposit Protection Fund and issuing promissory notes. In the medium term, the Bank's goal is to restore its ability to perform on the capital market and, building on that, achieve matched-maturity refinancing with senior bonds. Its liquidity reserve is a diversified portfolio of ECB-eligible liquid securities with low market risks, the maximum volume of which is stipulated by the Risk and Capital Committee in line with liquidity requirements.

Counterparty default risk

In the case of counterparty default risk, IKB distinguishes 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 that 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 explicitly included in planning based on risk-bearing capacity, new business and earnings targets. The target figures derived include not only new business volume, interest and commission income and personnel and material costs, but also the forecast risk provisioning requirement.

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 front-office-independent Credit Risk Management central division and are thereby separated from front-office functions (acquisition and business initiation) in accordance with regulatory requirements.

After voting by front-office, all credit decisions are made in line with authorisation regulations either centrally by the person responsible within Credit Risk Management or by committees involving the Board of Managing Directors. This is subject to the size of the Group's existing credit exposure, the credit rating of the borrower, the collateral and, not least, the existing and planned portfolio structure.

The preparation of loan and collateral agreements and subsequent adjustments are done by employees of Credit & Treasury Operations, involving the Legal department for complex loan agreements, working independently of front-office.

The basis for every credit decision is a detailed credit analysis which shows and evaluates the information relevant to the decision, and documents this clearly in a decision paper. 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.

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.

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 systems. The selection of business partners and investments is made feasible in terms of operations by means of requirements in respect to collateral provided for exposures and creditworthiness given in the credit guidelines. Thus, the credit rating of borrowers plays a central role within the credit process.

IKB uses computer-aided rating systems tailored to the respective customer segment or the specific finance type to carry out credit assessments. The individual rating classes are assigned probabilities of default based on the analysis of historical defaults and economic expectations.

The forecast overall economic performance is reviewed regularly and adjusted in the rating as appropriate. As a result, customers' credit ratings will also change as economic forecasts change.

In the case of classic 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. A more advanced version of the SME rating developed as part of regular revision has been in use since the end of March 2011.

From the middle of the financial year, the procedure previously used for acquisition finance was replaced by a new system developed for leveraged finance transactions. This involved the development, maintenance and operation of the rating system being outsourced to a third-party service provider.

For project and special financing, IKB uses models that enable statements as to the debt service capacity by means of various scenarios and simulations as 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. The real estate rating procedure used in commercial real estate financing rates creditworthiness on the basis of a variety of specific property data and investor information. As both project finance and real estate financing are no longer part of IKB's strategic focus and there will be no more new business, these rating methods will no longer be developed further.

Country risk. 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, rating agencies and other external sources are used as sources of information.

Quantifying credit risk. An internally developed model is used to quantify counterparty default risk, which generates a distribution of potential credit losses, taking into consideration fluctuation ranges for statistical default probabilities. This model takes into account individual aspects of each loan or investment (amount, collateralisation, term, sector, group affiliation, rating) as well as a large number of other variables, for example default probability, likely collateral realisation quotas, sector/asset correlations based on the Bank's experience or on external reference sources.

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

Portfolio monitoring and management. When monitoring portfolios, the central focus is on examining the entire credit portfolio. Industry and market changes are jointly observed in a timely manner by front and back-office units specialising in industry risks. Their extensive industry 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 industry groups specialising in sectors, the Economic Research and Credit Risk Management and Risk 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. 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.

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.

Structure of counterparty default risk. At the time of the transition in reporting to the new segments (Credit Products, Advisory and Capital Markets, Treasury and Investments, Head Office/Consolidation) the counterparty risk positions previously analysed separately, term deposits and overnight money, derivatives that are assets and other securities, were integrated into the credit volume in line with the new definition at the same time. By including the further positions, the credit volume was increased by around € 7.6 billion (€ 37 million of which problem exposures) retroactively as at 31 March 2010 from previously € 28.8 billion to € 36.4 billion. As a result of the new definition of the credit volume, the problem exposure rate declined from previously 10.4% (former market segments) to 8.0% retroactively as from March.

The redefinition of credit volume has the following effects on the segment view as at 31 March 2010:

		New segments				
	Credit volume by segment (31 Mar. 2010) in € million	**Advisory and Capital Markets**	**Credit Products**	**Treasury and Investments**	**Head Office/ Consoli-dation**	**Total**
Old segments	Corporate Clients	-	14,222	329	-	**14,551**
	Real Estate Clients	-	386	3,196	-	**3,583**
	Structured Finance	-	2,247	3,704	-	**5,951**
	Head Office/Consolidation	-	52	3,337	22	**3,412**
	First-to-default bonds	-	-	1,313	-	**1,313**
	Sub-total	**-**	**16,908**	**11,879**	**22**	**28,810**
	Counterparty risk positions previously analysed separately	29	83	7,046	423	**7,581**
	Total	**29**	**16,991**	**18,925**	**445**	**36,390**

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

The Bank calculated the credit volume as at 31 March 2011 and 31 March 2010 as follows:

Table: Credit volume

Credit volume in € million	**31 Mar. 2011**	**31 Mar. 2010**	**Difference**
Loans to banks	2,308	2,459	-151
Loans to customers	18,430	21,817	-3,387
Securitised credit business	8,690	9,298	-609
Operating and finance leases	2,029	1,959	70
Contingent liabilities (gross), credit default swaps and guarantees	625	857	-232
Total credit volume	**32,081**	**36,390**	**-4,309**

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

Essentially as a result of the implementation of EU requirements, the gross credit volume was reduced by € 4.3 billion (12%). At € 3.4 billion, more than three quarters relates to loans and advances to customers.

Table: Credit volume by size

Size in € million	**31 Mar. 2011 Credit volume**		**31 Mar. 2011 Number[1)]**	**31 Mar. 2010 Credit volume**	
Under € 5 million	4,434	14%	19,398	5,215	14%
Between € 5 million and € 10 million	2,697	8%	381	3,533	10%
Between € 10 million and € 20 million	3,741	12%	275	4,334	12%
Between €20 million and € 50 million	3,464	11%	115	4,080	11%
Over € 50 million	11,025	34%	67	10,486	29%
Sub-total	**25,361**	**79%**	**20,236**	**27,648**	**76%**
Risk transferred to third parties[2)]	6,721	21%		8,742	24%
Total	**32,081**	**100%**	**20,236**	**36,390**	**100%**

Some totals may be subject to discrepancies due to rounding differences.
1) Borrower groups in accordance with section 19 KWG
2) Hermes guarantees, indemnifications, risks transferred

The reduced volumes in the size classes up to € 50 million are due to the repayment of loans and sales of loan receivables.

The rise in the over € 50 million size class is due to investments in short-dated European government bonds. The average exposure in this class is € 165 million (previous year: € 169 million). The largest share of exposures over € 50 million relates to banks (€ 5.8 billion), the public sector (€ 3.0 billion) and portfolio investments (€ 0.7 billion).

The volume of risk transfers was reduced by € 2,021 million to € 6,721 million as a result of repayments.

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.

Table: Credit volume by type of collateral

Loan volume in € million	31 Mar. 2011 Credit volume		31 Mar. 2010 Credit volume	
Property liens and charges	5,204	16%	6,327	17%
Transfers of ownership	2,637	8%	2,446	7%
Other collateral[1)]	3,232	10%	5,523	15%
Liquid collateral[2)]	1,218	4%	-	-
Secured credit volume[3)]	**12,291**	**38%**	**14,296**	**39%**
Without collateral	13,072	41%	13,352	37%
Sub-total	**25,361**	**79%**	**27,648**	**76%**
Risk transferred to third parties[4)]	6,721	21%	8,742	24%
Total	**32,081**	**100%**	**36,390**	**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) Overnight/term deposits/derivatives (included in unsecured loans in the previous year)
3) Including credit portions beyond collateral value
4) Hermes guarantees, indemnifications, risks transferred

The decline in the secured credit volume is essentially due to loans secured by other collateral and property liens at € 2.3 billion and € 1.1 billion respectively.

As at March 2011, liquid derivatives backed by collateral agreements and the call accounts used to cover derivatives previously reported in unsecured loans were reported under “Liquid collateral” for the first time. Without this reclassification, unsecured loans would have risen from € 13.4 billion to € 14.3 billion. The largest share of unsecured loans relates to banks (€ 5.7 billion), the public sector (€ 3.4 billion) and portfolio investments (€ 0.9 billion). The unsecured loans relating to banks and the public sector predominantly include securities that are assigned to the cash portfolio and are eligible at the ECB.

As in the past, the risk for a majority of the credit portfolio has been transferred. This mainly includes synthetic securitisations, in which the KfW hedges the credit risk, and indemnifications, also predominantly used in the context of KfW programmes. Current risk transfers amount to a total of € 6.7 billion. 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 € 4.2 billion, of which € 3.5 billion accounts for loans for which the Bank has only retained first loss risks of € 13.4 million (originally € 15.3 million). Loans with a volume of € 0.7 billion relate to risk transfers, for which only the expected, and parts of the unexpected, loss in the amount of € 33 million (originally € 39 million) have been transferred. This subordination is still considered sufficient.

Geographical structure. As at 31 March 2011, the total credit volume can be broken down by regions as follows:

Table: Credit volume by region

Regions in € million	31 Mar. 2011 Credit volume		31 Mar. 2010 Credit volume	
Germany	**13,494**	**42%**	**16,258**	**45%**
Outside Germany	11,867	**37%**	**11,391**	**31%**
Western Europe	9,330	29%	8,723	24%
Eastern Europe	740	2%	687	2%
North America	1,579	5%	1,719	5%
Other	218	1%	261	1%
Sub-total	**25,361**	**79%**	**27,648**	**76%**
Risk transfers[1)]	6,721	21%	8,742	24%
Total	**32,081**	**100%**	**36,390**	**100%**

Some totals may be subject to discrepancies due to rounding differences.
1) Hermes guarantees, indemnifications, risks transferred

At € 2.8 billion, most of the decline in credit volume relates to Germany. The credit volume abroad rose slightly from € 11.4 billion to € 11.9 billion.

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

Country ratings[1)] Credit volume in € million	31 Mar. 2011 total[2)]	Country ratings				
		1-6	**7-9**	**10-12**	**13-15**	**16-19**
Western Europe	9,330	8,436	789	105	0	0
Eastern Europe	740	533	185	23	0	0
North America	1,579	1,579	0	0	0	0
Other	218	145	18	40	15	0
Total	**11,867**	**10,693**	**991**	**168**	**15**	**0**

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 collateral are considered.

90% of the credit volume attributed to countries outside Germany was assigned to the six best country risk classes, 1 to 6. In addition, risk transfers (e.g. secured by Hermes guarantees) of € 0.4 billion related to borrowers outside Germany.

The utilisation of loans in the risk classes 10 to 15 essentially relates to Greece (€ 105 million), Turkey (€ 28 million), Iran (€ 15 million) and Egypt (€ 11 million).

Within Western Europe, risks relate to the following states:

Table: Credit volume in Western Europe by risk

31 Mar. 2011 in € million	Credit volume after risk mitigation	of which state risks	of which banks	of which other counterparty risks[1)]
France	2,000	196	879	925
UK	1,726	0	696	1,030
Italy	1,679	1,161	76	443
Spain	1,493	360	397	736
Ireland	596	50	16	530
Netherlands	455	149	121	186
Switzerland	211	0	63	149
Portugal	193	49	67	77
Sweden	125	0	100	25
Greece	105	105	0	0
Other	745	166	297	282
Total	**9,330**	**2,236**	**2,711**	**4,383**

Some totals may be subject to discrepancies due to rounding differences.
1) Portfolio investments of € 338 million included in Ireland

The Bank also holds five first-to-default securities of nominally € 0.2 billion to be repaid in the event of refinanced state debtors defaulting in the form of bonds of that country. Reference debtors include Greece, Ireland, Italy and Portugal.

Since the end of 2009, the debt levels of some EU states have led to a massive loss of confidence in the European Monetary Union. To prevent this crisis of confidence from spreading further and to thereby ensure the stability of the euro, all euro states have since agreed a stability pact intended to guarantee the solvency of the EU states. The euro states that have received or applied for aid to date are Greece, Ireland and Portugal. Thanks to these support measures by the EU, the Bank does not feel that these states are exposed to acute default risks at this time.

Country risks are included 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 calculating risk by sector IKB evaluates approximately 430 sectors as part of the rating process. This procedure is based on an econometric model which incorporates both macroeconomic national and international developments and sector interrelations. The expertise of the Bank's sector specialists is used here.

Table: Credit volume by sector

Sectors in € million	31 Mar. 2011 Credit volume		31 Mar. 2010 Credit volume	
Industrial sectors	12,175	38%	13,831	38%
Mechanical engineering	1,141	4%	1,232	3%
Energy supply	1,049	3%	1,045	3%
Services	872	3%	943	3%
Metal manufacturing	750	2%	776	2%
Logistics, infrastructure operators	706	2%	743	2%
Other	7,657	24%	9,091	25%
Real estate	1,919	6%	2,731	8%
Financial sector	1,152	4%	1,354	4%
Banks	6,669	21%	7,565	21%
Public sector	3,446	11%	2,166	6%
Sub-total	**25,361**	**79%**	**27,648**	**76%**
Risk transfers[1)]	6,721	21%	8,742	24%
Total	**32,081**	**100%**	**36,390**	**100%**

Some totals may be subject to discrepancies due to rounding differences.
1) Hermes guarantees, indemnifications, risks transferred

The credit volume in the industrial sectors and the real estate area declined by € 1.7 billion and € 0.8 billion respectively. The degree of diversification in the industrial sectors is still high. No one industrial sector accounts for more than 4% of the portfolio. Almost 30% each of real estate financing relates to office and retail property. The rest is distributed almost equally between the other property types. The banking sector was down by € 0.9 billion, while the public sector increased by € 1.3 billion.

Credit rating structure. The credit volume not including internal transactions is assigned to the internal rating classes as follows:

Table: Credit volume by credit rating structure

Credit rating structure[1)] in € million	31 Mar. 2011 Credit volume		31 Mar. 2010 Credit volume	
1–4	9,981	31%	8,603	24%
5–7	4,041	13%	3,968	11%
8–10	4,808	15%	5,575	15%
11–13	2,732	9%	4,804	13%
14–15	1,643	5%	1,890	5%
Problem exposures[2)]	2,156	7%	2,808	8%
Sub-total	**25,361**	**79%**	**27,648**	**76%**
Risk transferred to third parties[3)]	6,721	21%	8,742	24%
Total	**32,081**	**100%**	**36,390**	**100%**

Some totals may be subject to discrepancies due to rounding differences.
1) Higher rating classes reflect lower creditworthiness.
2) Carrying amounts, i.e. after deducting losses from impaired financial assets (securities)
3) Hermes guarantees, indemnifications, risks transferred

The rise in the credit rating levels 1-4 is essentially due to the investments in European government bonds. The significant volume decline in the classes 11-15 is due in part to the economic recovery. Half of the volume decline is due to credit rating improvements and around 40% is due to credit repayments. Roughly 10% relates to the net figure for migrations to and recoveries from problem exposures. The drop in problem exposures relates to disposals, while the new additions to problem exposures were offset by the decline as a result of recovery and credit repayment.

Identification and management of problem exposures. The management of problem exposures is carried out in specialised management units. The aim of this special management is to take action in good time in order to maintain the company's capacity for redevelopment, in the event that these endeavours fail, to reduce the economic losses. Special attention is applied not just to non-performing loans[3] but to all exposures where, while permanent impairment is not expected, available information indicates that they require special management from units specialising in settlement or restructuring.

The following table shows an overview of the development of these problem exposures.

Table: Problem exposures[1)]

Credit volume	31 Mar. 2011 in € million	31 Mar. 2010 in € million	Change	
			in € million	in %
Impaired (non-performing loans)	1,761	2,202	-441	-20.0%
Non-impaired	487	703	-216	-30.9%
Total	**2,248**	**2,906**	**-657**	**-22.7%**
In % of credit volume not including internal transactions	7.0%	8.0%		

Some totals may be subject to discrepancies due to rounding differences.
1) Carrying amounts plus losses from impaired investment securities (31 March 2011: € 92 million; 31 March 2010: € 98 million).

The following table provides an overview of non-performing loans.

Table: Non-performing loans

Credit volume	31 Mar. 2011 in € million	31 Mar. 2010 in € million	Change	
			in € million	in %
Germany	1,173	1,573	-400	-25.4%
Outside Germany	401	425	-24	-5.6%
Impaired loans	**1,574**	**1,998**	**-424**	**-21.2%**
Securities (impaired financial assets)[1)]	187	204	-18	-8.7%
Impaired (non-performing loans), total	**1,761**	**2,202**	**-441**	**-20.0%**
In % of credit volume not including internal transactions	5.5%	6.0%		

Some totals may be subject to discrepancies due to rounding differences.
1) Carrying amounts plus losses from impaired investment securities (31 March 2011: € 92 million; 31 March 2010: € 98 million).

The decline in non-performing loans predominantly relates to German borrowers. The volume of non-performing loans for foreign borrowers declined only slightly.

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.

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

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 central division is responsible for setting value adjustments at IKB AG, 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 and IKB Private Equity, the subsidiaries themselves are responsible for determining value adjustments.

In the reporting period from 1 April 2010 to 31 March 2011, the provision for possible loan losses was € 71 million, 86% below the previous year's level of € 494 million. The significant drop related to both the Credit Products and Treasury and Investments segments. The € 73 million decline in portfolio impairments was due to the economic recovery. The improvement in the credit rating structure accounted for around 60% and the reduction of non-impaired problem exposures for around 40%. Additions to individual loan loss provisions and provisions declined by € 268 million, there was also a rise of around € 49 million in reversals of individual loan loss provisions. Direct write-downs were reduced by € 26 million. In the Treasury and Investments segment, the real estate financing sub-segment accounted for provisions for possible loan losses of € 34 million in the reporting period. Beyond the provision for possible loan losses shown, write-downs on project development properties held by the Bank of € 57 million were offset in the reporting period. These are shown in the consolidated income statement under other operating result.

Table: Provision for possible loan losses

	1 Apr. 2010 - 31 Mar. 2011 in € million	**1 Apr. 2009 - 31 Mar. 2010 in € million**	**Change**
Additions to specific impairment losses/provisions	286.4	554.6	-48%
Direct write-downs	24.7	50.5	-51%
Recoveries on loans previously written off	-12.5	-6.8	84%
Additions to/reversals of portfolio impairment losses	-72.8	1.5	
Reversal of specific impairment losses/provisions	-155.0	-105.9	46%
Provision for possible loan losses	**70.8**	**493.9**	**-86%**
Development of specific impairment losses/provisions			
Opening balance	941.0	871.3	8%
Utilisation	-317.1	-349.4	-9%
Reversal	-155.0	-105.9	46%
Reclassification	0.2	-	
Unwinding	-17.8	-24.8	-28%
Additions to specific impairment losses/provisions	286.4	554.6	-48%
Effect of changes in exchange rates	3.7	-4.8	
Total specific impairment losses/provisions	**741.4**	**941.0**	**-21%**
Portfolio impairment losses			
Opening balance	185.1	184.6	
Addition/reversal	-72.8	1.5	
Effect of changes in exchange rates	-	-1.0	
Total portfolio impairment losses	**112.3**	**185.1**	**-39%**
Total provision for possible loan losses (including provisions)	**853.7**	**1,126.1**	**-24%**

Total provisions for possible loan losses for the lending business, including portfolio impairment losses, totalled € 854 million as at 31 March 2011. The cover for impaired loans by specific impairment losses and provisions amounted to 47% and was therefore unchanged as against the start of the financial year.

Portfolio impairment losses. Portfolio impairment losses cover losses that have already been incurred but have not yet been identified individually. The Bank distinguishes between two sub-portfolios. One sub-portfolio relates to loans for which there is no objective indication of an individual impairment loss and the other to loans that have been identified as problem loans but an individual impairment loss 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 the loss event and its identification (loss identification period factor). There were no changes in methodology in the reporting year as against 31 March 2010. Compared to March 2010, the probability of default for credit rating level 15, which was raised in the previous year to adequately map expected defaults due to the crisis, was lowered again.

As at 31 March 2011, not having lowered the probability would have increased portfolio impairment losses by € 8 million. Had the economic assumptions used at the start of the year been applied as at 31 March 2011, this would have further increased portfolio impairment losses by € 29 million.

Risk reporting and risk communication. All relevant information from lending transactions is prepared in detail by the Risk Controlling central division in quarterly Group 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.

Structured credit products. The risks of these positions were reduced further over the course of the financial year. In terms of credit volume, the risks of structured credit products predominantly relate to legal risks from positions in connection with the Lehman insolvency, to economic risks from items solely referencing corporate and state risks and the retention of IKB's own securitisation. IKB now only has economic risks from investments with sub-prime content for some of the assets transferred to the special-purpose entity Rio Debt Holdings. Impairment losses on IKB's own securitisation and corporate and state investments were reversed in the financial year.

As at 31 March 2011, the portfolio investments sub-segment consists of:

- Securitisation positions with a credit volume of € 106 million (31 March 2010: € 114 million) and a nominal volume of € 187 million (31 March 2010: € 206 million) assigned to the strategic core business of the Bank and predominantly deriving from the securitisation of own credits. These assets predominantly have an external rating of sub-B or no rating.

- Three synthetic transactions with a credit volume of € 236 million (31 March 2010: € 149 million) and a nominal volume of € 270 million (31 March 2010: € 200 million) that reference corporate and state risks and have an external rating of Baa. One of these transactions with a nominal value of € 70 million was sold to IKB PE by Rio Debt Holdings in December 2010. IKB's Rio junior loan was fully repaid with the proceeds. The repayment of this asset is expected at par in June 2011.

- Securities with a credit volume of € 168 billion (31 March 2010: € 565 billion) and a nominal volume of € 893 million (31 March 2010: € 1,851 million) that were transferred to the special purpose entity Rio Debt Holdings. The sub-prime risks of IKB amount to a credit volume of € 73 million. All loans of KfW (senior), Lone Star (mezzanine) and IKB (junior loan) were repaid in the past financial year. The residual income will be divided between IKB and Lone Star. After deducting the fair value for the Lone Star equity kicker, IKB still has a share of the credit volume of € 144 million.

- Four synthetic transactions with a credit volume of € 352 million (31 March 2010: € 354 million) and a nominal value of € 332 million (31 March 2010: € 338 million) that are being wound up owing to the Lehman insolvency (one transaction has already been wound up). The risks for IKB resulting from these transactions are limited to legal risks with regard to the winding-up process and the credit quality of the collateral provided. The ratings for these assets were withdrawn.

In terms of credit volume, the actual economic risk to IKB from its portfolio investments was therefore only € 486 million as at 31 March 2011. € 106 million of this relates to the securitisation positions from IKB's core business stated first, € 236 million to the synthetic transactions stated second and € 144 million to the risk of the Rio assets stated third (€ 144 million).

The nominal volume of portfolio investments with corporate underlyings (CDOs of corporates and CLOs) declined to € 664 million (31 March 2010: € 827 million). The nominal volume of investments relating to ABS underlyings was down significantly to € 1,094 million (31 March 2010: € 1,842 million).

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).

The Bank covered its short-term liquidity requirements in the reporting period – and will continue to do so in future – by secured borrowing on the interbank money market (cash and term deposits), participation in ECB tenders and accepting customer deposits. The volume of new customer deposits also developed positively in the reporting period, now amounting to around € 3.6 billion.

Medium and long-term liquidity was generated by disposals of assets and by issuing promissory note loans guaranteed by the Deposit Protection Fund and term deposits. IKB also received funds from public assistance programmes initiated by KfW and regional development authorities, which it is using to provide financing to its medium-sized corporate clients.

The improved short and medium-term liquidity resources allowed the Bank to buy back € 500 million of its own bonds guaranteed by SoFFin early and to repay the guarantee volume accordingly.

Depending on the development of its new business, the Bank expects its liquidity requirements to amount to between € 7 billion and € 7.5 billion over the next twelve months. To refinance these requirements, the main options currently available are drawing options at the ECB, accepting liabilities guaranteed by the Deposit Protection Fund and selling balance sheet assets. A further option for the Bank lies in collateralised refinancing structures.

Liquidity planning is based on a range of assumptions as to the above and other factors which can determine liquidity, both on the assets side and the liabilities side. In the event that a number of these assumptions do not come to fruition, this may result in liquidity bottlenecks. Factors could include market developments that allow neither the sale of balance sheet assets nor the expansion of liabilities covered by the Deposit Protection Fund. Rating downgrades could also negatively influence liquidity.

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 distinguishes between the portfolios for proprietary and customer trading, the investment portfolio including the liquidity reserve and loan refinancing. The liquidity reserve constitutes investments that can be utilised at the Central Bank or in interbank business in order to generate liquidity at short notice. All portfolios are valued daily. Their risk content is measured in a present value/based value-at-risk system that forms the basis for limiting market price risks.

Interest rate risk. Interest rate risks exist in potential changes in the value of asset or liability positions in the event of shifts in the risk-free yield 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 and in credit risk refinancing.

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 and other remaining portfolio investments.

Volatility risk. Volatility risks exist in potential changes in value for option positions 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 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 using historical simulations, taking into account all relevant risk factors (interest, volatilities, exchange rates, spreads, equity prices). In order to give consideration to the specific features of all products, a complete valuation of structured interest products takes place using the last 250 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.

As part of the ongoing review of its models and methods, the Bank changed its calculations in December 2010 and no longer calculates VaR for daily monitoring for a holding period of ten days but rather – in line with market practice – for a holding period of one day. The confidence level is still 99%. Furthermore, the ongoing development of methods included taking into account the highly varied development of credit spreads observed on the capital market as a result of the European debt crisis by using a more varied measurement of credit spread VaR for government bonds.

The value-at-risk expresses the loss in value for the portfolio of the Bank over a period of one day (holding period) which has a 99% probability (confidence level) of not being exceeded. This is the second-worst scenario result of 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 “Risk-bearing capacity”).

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. With regard to the assessment of the model’s forecast quality, there were no outliers in the financial year.

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

Table: Market price risk profile

in € million	31 Mar. 2011	31 Mar. 2010[1)]
Basis point value	**-0.05**	**0.02**
Vega	**0.6**	**-1.0**
VaR – foreign currency	-2.5	-2.6
VaR – interest rate and volatility	-7.5	-12.1
VaR – spread	-41.7	-23.3
Correlation effect	7.8	10.6
VaR total	**-43.9**	**-25.9**

1) To ensure the comparability of values, the VaR figures as at 31 March 2010 were calculated retroactively using the same market price risk methods as those applied on 31 March 2011. In particular, this relates to the calculation of the credit spread risk.

The main driver of market risk is currently credit spread risk from state financing as a result of the massive spread widening observed as a result of the European debt crisis. Interest rate risks were reduced further once again.

The following table shows the development of credit spread sensitivities of securities and derivatives positions over time. The table shows the change in value per basis point of additional credit spread widening.

Table: Development of credit spread sensitivities of securities and derivatives positions

in € million	
31 Mar. 2011	-4.6
31 Dec. 2010	-5.3
30 Sept. 2010	-5.8
30 Jun. 2010	-5.8
31 Mar. 2010	-5.5

Limiting. Limiting consists of a value-at-risk limit for the Group based on a 99% confidence level and assuming a holding period of one day. The value-at-risk limit is the same as the limit for market price risk in the context of risk tolerance. Furthermore, currency risks in aggregate holdings are restricted by way of a volume limit for the open positions. No limits were exceeded in the past financial year.

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), located in the Risk Controlling division, 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.

All business units are required to report loss events which have occurred or almost occurred to Operational Risk Management. All loss events are compiled in a central loss database and examined for how they were caused and the impact they had. Ideas for improvement can be derived from this and implemented. 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. All findings are included in the quarterly risk report.

The loss volume identified in the financial year amounted to a total of € 16.5 million at Group level. Around € 10.7 million of this related to IKB AG. If individual loss amounts cannot (yet) be determined exactly, the values are based on estimates. The Bank currently feels that the greatest operating risks lie in its legal risks (see “Legal risks”). A further risk that should not be underestimated is that entailed by rising, externally driven reporting requirements and ongoing litigation, which lay claim to considerable resources in addition to day-to-day operations or project work and therefore lead to a not insubstantial amount of extra work for employees.

In addition to the regular analysis and identification of weaknesses and potential areas for optimisation in all business processes, there is a further focus on expanding the security organisation and adapting the underlying processes. Annual business impact analyses are carried out for this purpose, under the management of ORM, which analyse the specific risk profiles for the individual segments and central divisions and derive impetus for risk management.

Group-wide business continuity management is also the responsibility of Operational Risk Management, which is also kept up to date on the basis of the 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 hardcopy format in business continuity management manuals.

The quality of the contingency plans and user exercises 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.

In day-to-day business, a sample contract system based on text modules is used with which credit and collateral agreements in particular can be created. 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, the numerous legislative proposals to change regulatory law 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 as well as by using an efficient, technical infrastructure.

There are the following significant legal conflicts:

Legal proceedings due to alleged incorrect capital market information. More than 140 claims have been made against the Bank by investors in IKB securities since the start of the crisis in summer 2007. These claims relate to the alleged incorrect content of the press release issued on 20 July 2007, but partly also 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.

The legal proceedings detailed above are for a (provisional) total value of around € 14.2 million. In addition, further shareholders and investors in other IKB securities have approached the company out of court with claims for damages.

More than 120 of these suits by investors have already been rejected in the first instance by the Düsseldorf Regional Court; these decisions are legally binding in more than 90 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, different civil divisions of the Düsseldorf Higher Regional Court have already dismissed appeals in 14 cases (most recently in three cases on 12 May 2011). The civil divisions declared these cases to be not subject to review; so far, appeals against denial of leave to appeal have been filed with the Federal High Court in three cases. Further appeal rulings favouring the company have already been announced in hearings before the Düsseldorf Higher District Court. Plaintiffs were not awarded damages in any of the crucial cases.

IKB still considers the outstanding claims by investors not yet dismissed (with a remaining provisional value of around € 11.0 million) and the out-of-court claims for damages to be unfounded. Nonetheless, even after more than three years since the crisis broke out, the possibility that additional investors will claim for damages against the Bank cannot be completely ruled out. The success of these claims could increase the overall risk to which the Bank is exposed.

Other legal proceedings. On 10 March 2008, the US Financial Guaranty Insurance Company (FGIC) and its British subsidiary (together FGIC) filed claims against IKB, its (then) subsidiary IKB Credit Asset Management GmbH, Düsseldorf, Havenrock II Limited and Calyon S.A. with a New York court. In the first instance, the plaintiffs 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 were also filed against IKB. IKB held the view that the accusations set out in the court submission are unfounded.

In late August 2008, FGIC announced that FGIC and the Calyon (now Crédit Agricole Corporate & Investment Bank) 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 for the first time in late December 2008 for procedural reasons.

At the end of May 2009, the very same first instance court dismissed FGIC's application to review the judgement made in December.

At the end of November 2009, the suit was finally closed on the basis of an agreement concluded between IKB and FGIC and confirmed by a New York court. Thus, the appeal proceedings intended by FGIC in New York came to an end.

At the end of November 2009, FGIC filed proceedings against IKB at the High Court of Justice in London in connection with the Havenrock II transaction, claiming damages of more than US$ 200 million. IKB holds the view that the accusations set out in the court submission received in January 2010 are unfounded.

In March 2010, IKB therefore submitted its defence to the London court.

Furthermore, Calyon also filed an action against IKB with the High Court of Justice in London in July 2009; IKB received the particulars of the claim in August 2009. Calyon is claiming damages in the amount of more than US$ 1.6 billion. Like the FGIC proceedings, this action is also connected to the Havenrock II transaction. Among other things, Calyon is accusing IKB of fraudulent acts and breach of contract. At the end of November 2009, IKB therefore submitted its defence to the London court.

Owing to the applicable provisions of procedural law in the UK, IKB is now in disclosure proceedings for both matters. IKB is still of the opinion that the accusations made against IKB by the plaintiffs are unfounded and will defend itself against these actions.

It became known at the start of October 2009 that King County, a legal entity under public law in the US state of Washington, had filed an unspecified action with the United States District Court of the Southern District of New York against IKB and others. Also in October 2009 and at the same court, Iowa Student Loan Liquidity Corporation filed an unspecified action against IKB and others. Both actions are seeking damages for incorrect or misleading rating information on the senior notes issued by the Rhinebridge special purpose entity, to which the rating agencies had given their best credit ratings.

At the start of February 2010, IKB filed to have the suits dismissed in New York on the grounds of incompetence of the court owing to, among other things, failure to state a claim. The proceedings were dismissed by way of rulings dated 4 May and 18 May 2010. The two matters were combined on 10 June 2010. Owing to the applicable provisions of US procedural law, IKB has been in disclosure proceedings for both matters since this time. IKB is still of the opinion that the accusations made against IKB by the plaintiffs are unfounded and will defend itself against these actions.

There is a possibility that further claims for damages could be brought against IKB as a result of its activities or the activities of IKB Credit Asset Management GmbH in relation to Rhineland Funding Capital Corporation, Delaware, (RFCC) 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 RFCC, 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 has extensive duties to KfW in respect of information, disclosure, participation and action. Claims from IKB shareholders of investors in financial instruments linked to the development of IKB shares are not covered by the indemnification.

If IKB culpably violates a specific obligation in the indemnification agreement in connection with a specific claim covered by the indemnification agreement, under certain circumstances, the indemnification claim to this specific claim may be extinguished. The Board of Managing Directors 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 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 or insolvency proceedings have been instituted against the assets of IKB.

Criminal proceedings/investigation by the public prosecutors. After the Düsseldorf Department of Public Prosecution brought an action against the former Chairman of the Board of Managing Directors, Mr. Ortseifen, for market manipulation and breach of trust in particular in July 2009, the competent economic crimes chamber of the Düsseldorf Regional Court handed down a suspended sentence of ten months in July 2010.

According to the information available to the company, an appeal has been filed with the Federal High Court against this first instance ruling.

CDOs arranged by Lehman Brothers. The Bank invested in structured credit products (originally five synthetic CDOs with a total nominal volume of € 334 million and US$ 213 million) in which Lehman Brothers acted as the secured party through a special purpose entity. Following the insolvency of Lehman Brothers, the transactions concerned were terminated by the issuer on the basis of its contractual options.

In such event, the documentation provided for the liquidation of the transaction collateral and the distribution of the profits in a specific order (transaction waterfall).

Under the contractually agreed regulations, in the event of its insolvency, the swap counterparty is subordinate to the investors in the distribution of the proceeds from the transaction collateral. This regulation on seniority has since been reviewed by courts in the UK and the US in one case in which IKB was not directly involved. While courts of first and second instance in the UK have upheld the validity of this regulation, a first instance insolvency court in the US has granted a violation of basic insolvency law principles. The underlying legal dispute has since been settled out of court between the parties immediately after admission to the court of appeal. Other model proceedings are still ongoing. If the legal opinion of the US insolvency court is upheld in the model proceeding and by the higher instance US and English courts, the measurements of these exposures would have to be adjusted.

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. Furthermore, the EU Commission's ruling of 17 August 2009 on the admissibility of the extended SoFFin guarantee entails strict obligations with regard to IKB's operations, non-compliance with which could lead to material legal and economic disadvantages for the company.

Recessionary actions against resolutions by Annual General Meetings. A recessionary and revocation claim against resolutions made at the Annual General Meeting held on 28 August 2008 under item 6 of the agenda (election of the Supervisory Board) is currently still pending. The disputed resolutions were unaffected by the court of first instance. The ruling as at 31 May 2011 is not yet final.

The following actions against resolutions made at the Extraordinary General Meeting held on 25 March 2009 are currently (as at 31 May 2011) still pending:

- 12 recessionary and revocation claims regarding agenda item 1 (authorised capital),
- 12 recessionary and revocation claims regarding agenda item 2 (contingent capital increase),
- 28 recessionary and revocation claims regarding agenda items 3 and 4 (cancelling the special audit – described in section 2 – 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 Annual General Meeting) and
- 4 claims against the resolution to refuse the motion brought forward in the Annual General Meeting to vote out the Chairman of the Annual General Meeting.

The following actions against resolutions made at the Annual General Meeting held on 27 August 2009 are currently (as at 31 May 2011) still pending:

- 2 recessionary and revocation claims regarding agenda item 2 (formal discharge of the members of the Board of Managing Directors),
- 2 recessionary and revocation claims regarding agenda item 3 (formal discharge of the members of the Supervisory Board),
- 1 recessionary and revocation claim regarding agenda item 5 (election of the Supervisory Board),
- 1 recessionary and revocation claim regarding the resolutions on the rejection of the motions brought in the Annual General Meeting to postpone the formal discharge of the Board of Managing Directors and the Supervisory Board and

- 1 recessionary and revocation claim regarding the resolutions on the rejection of the motion brought in the Annual General Meeting to appoint a special auditor.

Regarding the discharge resolutions for agenda items 2 and 3, the plaintiffs have prevailed in the court of first instance in some cases. The ruling is not yet final as at 31 May 2011 as IKB has appealed.

The following actions against resolutions made at the Annual General Meeting held on 26 August 2010 are currently (as at 31 May 2011) still pending:

- 1 recessionary and revocation claim regarding agenda item 2 (formal discharge of the members of the Board of Managing Directors),
- 3 recessionary and revocation claims regarding agenda item 3 lit. a – j (formal discharge of the members of the Supervisory Board),
- 1 recessionary and revocation claim regarding agenda item 3 lit. k (formal discharge of the members of the Supervisory Board),
- 3 recessionary and revocation claims regarding agenda item 3 lit. l (formal discharge of the members of the Supervisory Board),
- 2 recessionary and revocation claims regarding agenda item 3 lit. m (formal discharge of the members of the Supervisory Board),
- 3 recessionary and revocation claims regarding agenda item 3 lit. n - q (formal discharge of the members of the Supervisory Board),
- 1 recessionary and revocation claim regarding agenda item 4 (election of the auditor) and
- 1 recessionary and revocation claim regarding agenda item 5 (election of the Supervisory Board).

Risks in connection with SoFFin conditions

One SoFFin condition requires IKB to prepare monthly, quarterly, half-yearly and annual reports presenting the financial and economic situation of IKB.

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.

Among other things, non-compliance with these obligations will result in certain legal repercussions, including punitive sanctions in the amount of up to € 25 million per infringement. For this reason, processes have been implemented to minimise operational risks of non-compliance.

The company is also required to design its remuneration systems on a sustainable and transparent manner and to gear them towards sustainable corporate development (for further conditions in this context please see “Remuneration report”).

In addition, the Board of Managing Directors is not permitted to propose dividend payments nor is the company permitted to make payments on compensation agreements out of future profits during the term of the guarantees. The repurchase of shares and proposals for a capital reduction are only permitted to strengthen regulatory equity or for restructuring purposes.

If conditions are violated, SoFFin can cancel the master agreement and, among other things, demand collateral for outstanding guarantees.

IT risk

In the area of IT risks, the focus is on measures to improve Bank-wide business continuity management, the security of computer systems and the security of the database. This includes continuously improving information security management (ISM) based on the international standard ISO 27001 and the “Baseline Protection Manual” of the Federal Office for Information Security (BSI).

System and network security are also updated in line with rising external threats on an ongoing basis. Infrastructure risks are minimised by dividing facilities between two separate data centres.

Internal service management processes for IT are based on the “IT Infrastructure Library (ITIL)” and are monitored and controlled in line with “Control Objectives for Information and Related Technology (CobiT).”

Staff training is also a key element of security precautions.

These measures are supported and verified 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.

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 organisational requirements of the KWG, regulatory requirements and the minimum BaFin requirements for compliance function and the other conduct, organisation and transparency duties arising from sections 31 et seq. of the WpHG (MaComp) passed in 2010 still have to be implemented.

The performance of compliance functions and reporting on the satisfaction of organisational requirements are implemented on the basis of a compliance map to be updated every year, which specifies all compliance functions and assigns responsibilities. Compliance functions are predominantly performed centrally.

Compliance functions are coordinated and reported on by the Compliance Board, which commenced its activities in May 2010. The Compliance Board consists of the Board of Managing Directors, the heads of the central divisions of the Bank and the employees entrusted with specific compliance functions. These are the corporate governance officers, the data protection officer, the money laundering officer and the OpRisk officer. The Compliance Board and the compliance functions are coordinated by the Chief Compliance Officer.

Specifically, the Compliance Board is responsible for the following tasks:

- holistic monitoring of all compliance functions,
- ensuring and monitoring compliance risk management and
- the multiplier function for compliance issues at the Bank.

With an annual risk inventory, which is coordinated by the Finance, Risk Controlling and Legal divisions, the intention is to ensure not just the regulatory holistic and Group-wide risk tracking and updating of threat analyses, but also comprehensive reporting (annual report of the Chief Compliance Officer) on the basis of uniform data.

According to the current threat analysis, in terms of external fraud, it is assumed that IKB has a medium threat situation, equal to that of banks of a similar size and with a comparable business model. IKB is therefore not facing any non-standard or exaggerated risk of fraud. In the reporting period, improvement measures were largely implemented for identified optimisation potential. In some cases measures have not yet been completed.

In the money laundering threat analysis, the business activities of IKB and its structural and procedural organisation do not indicate elevated risks of money laundering or terrorist financing. Owing to the extensive focus in business activities on Germany and Western Europe entailed by the new direction in policy and the stronger orientation towards consulting products, IKB is assuming that its money laundering risk has decreased further.

The measures implemented in the last reporting period to improve legitimation were largely implemented.

Overall, on account of its specific operations, IKB is exposed to substantially less risk of money laundering than banks that perform over-the-counter business and payment transactions on behalf of customers. IKB has taken and implemented appropriate protective measures based on its business activities.

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, in some cases for specific locations. This is supplemented by the Group guideline on handling conflicts of interest. In a Code of Conduct updated in the previous year, IKB 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 Group. These provide a binding frame of reference for day-to-day business.

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 and procedural requirements are in place at IKB. These are regularly checked and adjusted if necessary.

As a result of the extensive reorganisation of the Bank, there was a reorganisation of the workplace and a reduction in the number of jobs. Existing structures and deeply-rooted processes were changed and job descriptions modified. Thanks also to the clear regulations in the reconciliation of interests and the redundancy scheme and the consistently stable management structures, the reorganisation was successful without notable inefficiencies or elevated propensity to error.

The high rate of staff reduction has now stabilised at a low level. The large reduction in voluntary redundancies by employees is due partly to the labour market conditions and partly to a general stabilisation of the Bank. Feared recruitment bottlenecks materialised in only a few areas. One factor that can be considered to have reduced risk is that the Bank has succeeded in recruiting a number of highly qualified new employees and executives. Also, the new positions created under the restructuring measures have been largely filled by internal reassignments. This was not the case for only a small number of these positions, with the result that the start-up and error risks were limited – particularly in the new central divisions. Overall, the number of new appointments is back to the pre-crisis level.

Strategic risk and reputation risk

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

Due to the fact that there are no regularities as regards strategic risks, it is difficult to capture these quantitatively as special risks in an integrated system and they are therefore assessed qualitatively. Thus, they are under the close observation of the Board of Managing Directors and the Strategic Planning and Investment Management central division and are continually monitored. Additionally, this includes regularly examining the business strategy, also in the context of the strategic planning process, as well as implementing strategic initiatives and restructuring measures as a result of this. The business model of IKB is currently still restricted by the conditions of the EU Commission in specific areas. By reorienting its business model, including widening its product range for SME customers (primarily capital markets and consulting services) and by utilising customer potential more intensively, IKB is aiming to cover the needs of its customers adequately and thereby successfully position IKB on the market.

Reputation 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, rating agencies, employees and shareholders. Reputation risks frequently result from other types of risk and compound these as a result of their public impact.

A key aim of IKB is to improve its reputation once more, which has been damaged as a result of the crisis. Reputation risks at IKB are managed by the Board of Managing Directors. Responsible communications with all interest groups is a high priority in the management of reputation risks.

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. reducing the risk of a negative change in earnings performance within the business strategy agreed with the Board of Managing Directors – is the responsibility of each individual segment, central division and subsidiary. Results controlling, which is part of the financial 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 front-office managers on a monthly basis in order to be able to take countermeasures in good time. In so doing, all front-office and central divisions are provided with the information they require in good time and in full.

Participation risk

In light of the EU conditions and the reorientation of its business model, IKB has revised its investment strategy. Overall, complexity must be reduced and kept at a low level. Here, the Bank distinguishes between credit substitution and strategic investments.

In particular, credit substitution investments are investments in the Bank's product range. The Bank enters into strategic investments to generate sustainable (strategic) value added. The Bank distinguishes between primary strategic investments that are intended to increase customer and market potential and that are a part of its business model, and investments in joint ventures and other companies with the aim of supplementing the product range, tapping synergies and reaching new target customers (cooperations/joint ventures). These are supplemented by investments in companies that perform services for the Bank (outsourcing), required investments and shelf companies.

The Strategic Planning and Investment Management central division handles and coordinates the operative investment processes. The Legal, Office of the Board of Managing Directors and Compliance central division is responsible for examining and designing all matters relating to company and regulatory law and consults on the legal aspects of strategic decisions and on the performance of shareholder functions. Authority for decisions on strategic investments lies with the Board of Managing Directors as a whole. If the subject of the transaction in question accounts for more than 5% of the liable equity of IKB, the acquisition, disposal or founding of companies must be approved by the Executive Committee of the Supervisory Board.

In terms of disciplinary and technical matters, the key subsidiaries and investment companies of IKB are assigned to individual Board departments in the executive organisation chart. Disciplinary responsibility for the subsidiaries of the IKB Private Equity Group, the IKB Leasing Group, IKB Finance B.V. and IKB CC lies with Dr Wiedmann, for IKB Data GmbH, MD Capital Beteiligungsgesellschaft mbH and real estate subsidiaries with Dr Glüder and for IKB International S.A. with Mr. Schüttler. In the executive organisation chart, technical responsibility lies with the heads of the respective departments.

The investment companies are integrated into the implementation of Group-wide business and risk strategy by way of annual investment workshops headed by the Finance division, in which performance goals and risk limits are stipulated, for each significant strategic investment. The Finance division also conducts valuations of strategic investments at least annually or as required. Furthermore, regular analysis and discussion with the management of investments are held for the early detection of undesirable trends and the initiation of adequate measures. The investments affected by the conditions of the EU Commission are managed in the context of IKB's winding up projects in terms of their implementation.

An annual risk inventory is carried out to determine the key risks faced by investment companies. These risks are then analysed by Risk Controlling. All risks to investment companies classified as significant are included in Risk Controlling at Group level.

Risk reporting and risk communication. As part of operative investment controlling, the Finance central division prepares investment reports for all significant strategic investments to monitor the attainment of performance targets and compliance with risk limits.

Overall assessment of the risk situation

Overall, the total risk position of IKB improved again in the past financial year. Compared to the previous year, in which extensive provisions for possible loan losses had been required for counterparty risks, the situation has improved significantly as a result of the very good development of the general state of the economy and the resulting risk reduction in classic lending business. After the market price risk was reduced by the extensive reduction of risk positions in the 2009/10 financial year, the credit spread risk increased noticeably as a component of market price risk due to strong fluctuations in risk premiums in connection with the European public debt crisis. The risks of structured credit products, which showed considerable interest gains and recoveries in the reporting period, were further limited by the repayment of the Rio Debt Holdings loan. As at 31 March 2011 and for the forecast period, risk tolerance is ensured for both the equity provider perspective and the lender perspective.

A key challenge for IKB is sufficient financing for its planned business activities and the repayment of outstanding bonds. Given the changes in the Bank's business model, its refinancing requirements will be lower than in the past. IKB has adjusted its refinancing structure and freed itself from its dependency on unsecured bond issues. Secured refinancing on the capital market is another liquidity option for the Bank. Furthermore, the increased and more diversified deposit business with corporate clients and private customers is of growing importance for stabilising refinancing. A surge in new lending business beyond the planned scope leading to rising liquidity requirements is not expected. According to planning, and taking into account the maturing SoFFin-guaranteed bonds, liquidity is ensured with a sufficient buffer.

IKB must still comply with – partially overlapping – requirements of the European Commission for the state aid granted, the guarantees issued by SoFFin for bonds and the Deposit Protection Fund of private banks for the secured deposit volume. In material terms, the requirements of the European Commission have already been largely implemented, such that it can be assumed that they will be satisfied and therefore no longer apply by the deadline of 30 September 2011. At 10.2% for IKB AG and 11.2% for the Group, the tier 1 capital ratio – which has again risen further – still far exceeds the minimum level of 8% required by SoFFin and will presumably remain above this in the forecast period as well. Thus, in addition to complying with the maximum volume of deposits and issues, the main requirements of the Deposit Protection Fund have also been satisfied.

A crucial factor for the success of IKB is still the extent to which the initial successes with the new business model can be continued, in particular by expanding business with derivatives, customer capital market products and consulting Services. The income generated from this supplements the interest income from traditional lending business, which has increased again with higher overall margins. To date, the development of new business and the growth in net fee and commission income from customer lending and derivatives business has been in line with forecasts.

The good to very good economic performance is currently being confirmed in Germany, which means that fewer defaults are expected. Nonetheless, the economic development remains fragile, as high public debt is encumbering the markets on the one hand (EU and US) and an expansive overall monetary policy is giving rise to fears of inflation and new bubbles on the other. Thus, IKB will continue to see uncertainty on the markets and greater volatility for some time to come. Fundamentally, further new crises with unexpected default, market price and liquidity risks for the banking system – and therefore for IKB as well – cannot be ruled out. Moreover, the Bank is exposed to the legal risks described.

Based on the positive development to date, the Board of Managing Directors is assuming that IKB's restructuring will continue and can be completed in line with planning. In terms of largely satisfying the key requirements for IKB, its regulatory capital resources and risk-bearing capacity, there is still scope for the further successful implementation of the business model.

5. Material features of the internal control and risk management system with regard to the accounting process

Applicable legal provisions, accounting standards and first-time adoption

Under section 289 (5) HGB, publicly traded corporations must describe the material features of their internal control and risk management system with regard to their accounting process (ICSA) in their management report. Information is considered to be material if its omission could influence the economic decisions of users of the financial statements and other elements of accounting. Materiality cannot be generally determined and the relevance of the information to the overall assessment of the annual financial statements is taken into account in its appraisal. The requirements of German Accounting Standard (DRS) 5 of the German Accounting Standards Committee (DRSC) (comments in the management report with regard to the risk management and control system) were also complied with if applicable.

Responsibility for the ICSA

The Board of Managing Directors of IKB is responsible for setting up, developing and ensuring the functionality of adequate accounting-related internal controls and the accounting-related risk management system as well as for adapting them in line with changing general conditions. The bookkeeping and the preparation of the annual financial statements and the management report are the responsibility of the Board of Managing Directors.

The responsibility of the Supervisory Board is to monitor the effectiveness of the ICSA. The Supervisory Board has formed a Finance and Audit Committee consisting of four members to perform these activities. The Finance and Audit Committee discusses the development of the results and financial position and accounting issues regularly and on an ongoing basis and assists the Supervisory Board in the audit of the annual financial statements, on which the Chairman of the Finance and Audit Committee reports to the Supervisory Board. The Supervisory Board is also responsible for adopting the annual financial statements and issuing engagements to audit the annual and consolidated financial statements. In their meetings on 4 March 2010, the Finance and Audit Committee and the Supervisory Board familiarised themselves in depth with the ICSA on the basis of the documents submitted and the supplementary explanations of the Board of Managing Directors.

The effectiveness of the ICSA is regularly reviewed by Internal Audit. On the basis of a multiyear audit plan, the audit focuses on the functionality, effectiveness and appropriateness of the ICSA, compliance with legal and regulatory requirements and other regulations relating to the accounting process.

The Supervisory Board commissioned PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungs-gesellschaft to audit the consolidated financial statements. The responsibility of the auditor is to audit the consolidated financial statements, consisting of the consolidated statement of financial position, consolidated income statement and notes to the consolidated financial statements, including the bookkeeping and the Group management report. The audit of the separate financial statements was performed in accordance with section 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). The responsibility of the auditor is to express an opinion on the consolidated financial statements and the Group management report based on its audit. The effectiveness of the ICSA was examined primarily on a test basis within the framework of the audit.

Organisation of accounting

Accounting at IKB is essentially performed centrally in the Finance central division at the main site in Düsseldorf. Accounting for the Paris and London branches was transferred in full from the Luxembourg location to Düsseldorf in the current 2010/11 financial year. A majority of the Luxembourg branch's business was taken over by the Düsseldorf head office. The remaining activities of the Luxembourg branch will be performed by the accounting department of the rescue company formed at the Luxembourg location. The Finance central division is responsible for the preparation of the consolidated financial statements. Accounting for the subsidiaries included in the consolidated financial statements is usually performed by the Finance department under agency agreements. Accounting services are performed by external service providers for individual subsidiaries and the special-purpose entities included in the consolidated financial statements. The accounting information supplied is checked for plausibility in the financial statement preparation process and usually audited by the local auditor of the company or reviewed. The Finance central division is supported by other divisions of the Bank in the performance of tasks within the preparation of the annual financial statements. The Taxes department is responsible for processing all tax matters at the Bank, providing tax support for foreign units (foreign branches, foreign subsidiaries, foreign investment companies) of the Bank and for calculating deferred taxes in line with HGB/IFRS. Credit Risk Management and Securitisation Structure Management calculate valuation allowances and provisions in connection with lending business and valuation allowance requirements for securitisation respectively. Financial instruments that are not related to lending business are measured by Risk Controlling. The Group management report is prepared under the guidance of the Communications department with the involvement of other areas of the Bank.

Objectives and limits of the ICSA

The objective of the company's accounting-related internal controls and the risk management system based on the accounting process is to ensure the regularity and reliability of bookkeeping and the mandatory published financial statements and their components in line with the regulations of HGB and IFRS. The company's internal controls comprise principles and procedures to ensure that

- records are kept in which all transactions by the company are recorded accurately and exactly in sufficient detail,
- transactions are recorded, processed, documented and measured in line with both the legal regulations and the Articles of Association and the general or special management regulations to enable financial statements in accordance with the provisions of HGB and IFRS accounting standards and
- unauthorised acquisition, utilisation or misappropriation of company assets with significant effects on the regularity and reliability of accounting can be recognised or prevented in a timely manner.

While internal controls can provide adequate assurance, they cannot provide absolute certainty in the attainment of these objectives. On the one hand, this means that establishing internal controls is determined by the cost/benefit relationship in connection with these controls. On the other hand, even when they are fully automated or computer-aided, internal controls involve a human factor that includes the possibility of errors in the performance of activities or mistakes in estimates or when exercising discretion. Given these limitations, misstatements in the financial statements cannot be identified or prevented with absolute certainty. Furthermore, there is the risk with forecasts of the effectiveness of internal controls in future periods that existing controls will no longer be appropriate owing to changes in circumstances or that the degree of compliance with guidelines and procedures decreases.

Organisation and function

Requirements of the internal control system

The internal control system of IKB is designed in line with the requirements of the framework for internal controls passed by the Committee of Sponsoring Organisations of the Treadway Commission (COSO Framework). These requirements have also been adopted by other organisations and are therefore considered a recognised frame of reference for designing an internal control system. In addition, ICSA requirements based on MaRisk were also complied with. As regards accounting, the risk management system is also the responsibility of the Board of Managing Directors as a whole.

The fundamental basis on which the ICSA is operated is formed by the control environment under the COSO Framework. It is characterised by the attitude, problem awareness and conduct of management. The Code of Conduct for IKB employees stipulates the authorities and responsibilities held by employees and prescribes lawful and responsible conduct as a key requirement for business activities. These requirements are implemented through internal regulations and organisational measures.

The goals of the internal control system are achieved through extensive control activities. Controls are methods and measures determined in processes to identify errors in accounting. These are performed upstream, downstream or simultaneously in the process chain. The extent of controls ranges from random sampling to full review of all processes within an event. Controls can be carried out automatically (programmed controls) or manually.

As the accounting-related processes are largely handled in electronic form and using various computer systems, the Board of Managing Directors ensures that the structural and procedural organisation in accounting, the extent of controls and the design of the computer systems are appropriate to the current scope of business.

Use of IT and specifications in the internal control system

IT systems not only have to properly map accounting policies, they must also comply with the generally accepted principles of computerised accounting systems (GoBS) and the generally accepted principles of proper accounting when using information technology (IDW RS FAIT 1). By systematically selecting its systems and contractual agreements, IKB AG ensures that its systems meet these requirements at all times. This is verified by regular internal and external audits. The necessary separation of functions is ensured in the accounting systems used by IKB by only issuing the authorisations required to process tasks. Internal Audit regularly reviews the appropriateness and compliance of the authorisation concept. As part of an internal project, the existing authorisation concept was reviewed in the SAP environment and specified further. Thus, authorisation roles have been defined more narrowly to ensure that sensitive data can only be processed and viewed by a defined group of persons. The dual control principle is a component of the internal application control system. Proper operation of the systems is based on extensive system documentation and regular training.

Designing the ICSA

In the accounting system there are clear instructions on recognition, measurement and reporting and posting rules for transactions as well as for the necessary disclosures in the notes and the management report. These rules are compiled in accounting manuals that are accessible to accounting employees. There is a clearly defined process for creating and revising accounting manuals. Starting with the changes in HGB and IFRS accounting policies, the effects on IKB are examined on the basis of legal drafts and drafts of accounting standards. This ensures that requirements with a more extensive impact on accounting, processes and IT systems are implemented property and on time through the projects initiated. Changes in accounting provisions are drafted into the accounting manuals. Quality assurance of the accounting manuals by external accounting experts ensures that the changes in accounting provisions are incorporated correctly and in full. The accounting effects of new types of transactions and their presentation in accounting are prepared in new product processes and implemented into work flows, possibly with the aid of external experts. As part of an internal project, the chart of accounts of IKB AG was modified and optimised to increase transparency and traceability. In addition to improved traceability in accounting logic for third-party experts, the complexity of posting was also reduced by facilitating proper entry of business transactions by way of a unique derivation from account numbers to statement of financial position or income statement line items. In this context, the posting rules of upstream systems was revised and updated to minimise subsequent corrections in the SAP system.

The recognition of all transactions is ensured by clearly defined work flows in accounting. First-time recognition and processing are largely standardised and performed in line with the dual control principle (separate entry and approval).

The implementation of the “no accounting entries without documentation” principle and the separation of performance, approval and recording functions also ensure that only transactions that actually happened are recognised. This was also backed up technically in the current financial year in the SAP FI system, and can therefore be clearly understood by third parties using SAP protocols.

In lending business, all the life cycles of a loan, from application through review, approval and repayment, are mapped in a computer-aided sub-ledger system. Downstream reviews of entries in the systems and contract data reviews by back-office ensure that the contract data has been entered in the systems correctly and in full. Transactions are accounted for on the basis of set accounting rules for specific product types. The same procedure applies in the relevant systems to liabilities entered into for refinancing. This ensures that transactions are presented correctly and in full. They are measured using accounting rules built into the system. Impairment losses are calculated by Credit Risk Management and entered in the accounting system.

A similar process is used for the purchase and sale of securities and other financial instruments. Here, transactions are automatically copied from the trade system into the sub-ledger system. Downstream manual and computer controls ensure that data is copied to the sub-ledger system accurately and in full. In addition, the balances of bank, nostro and security accounts are regularly checked against accounting amounts. Transactions are measured using processes entered in the system. In addition, procedures are implemented that ensure that financial instruments for which prices cannot be derived from an active market can be identified. The fair value of these financial instruments is calculated using valuation models. The measurement models are reviewed for suitability internally and regularly adapted in line with changing requirements. Risk Management determines factors leading to impairment on non-current assets, calculates the amount of impairment and enters this in the systems.

There are defined – sometimes computer-aided – procedures for payment transactions, payroll accounting, asset accounting and the procurement process that ensure that transactions are entered in full (e.g. plausibility testing, adherence to the dual control principle).

Transactions are copied from the sub-ledger systems to the main ledger each day. The accuracy and completeness of the copying process are ensured by precisely defined interfaces and daily coordination between the main ledger and the sub-ledgers.

Structural and procedural organisation of the annual financial statement process

There are separate working instructions for the annual financial statement process. These are intended to ensure that the individual stages of annual financial statement work are coordinated with each other and that all necessary work steps have actually taken place. In addition to day-to-day work processes, it is ensured that transactions have been recognised in full in particular through analytical control activities, reporting procedures (especially for provisions) and by obtaining balance confirmations. Annual financial statements accounting entries are evidenced by accounting vouchers and the accounting vouchers are formally acknowledged as proof of controlling. The “no accounting entries without documentation” principle is implemented by guaranteeing the dual control principle in the system. Correct measurement is largely guaranteed by the measurement rules in the system. Please also see the accounting policies in the notes. Where necessary, measurement is performed with the assistance of external experts, e.g. for pension provisions. Current income taxes are calculated by the Taxes department. Full entry of the disclosures in the annual financial statements and the management report is guaranteed by the fact that the necessary data is clearly identified in advance, as are those responsible for providing the information. Using a set quality assurance process defined in organisational instructions and guidelines, this information is checked for plausibility, completeness and consistency from employees up to the CFO.

The procedures and measures that apply to the process of preparing and auditing the annual financial statements also apply to the process of preparing the consolidated financial statements. Condensed interim consolidated financial statements and an interim Group management report are also prepared. The Annual General Meeting decides on the basis of a proposal by the Supervisory Board whether the condensed interim consolidated financial statements and interim Group management report must be reviewed by the auditor. IFRS data from the subsidiaries for Group-level financial statements is delivered in the form of reporting packages. The specifications of the accounting manual must be complied with in their preparation. Regular internal controls are performed to ensure that the reporting packages are actually consistent with the Group’s central specifications. They are also audited or subjected to audit review at a local level.

6. Events after 31 March 2011 (Supplementary report)

The following new developments have arisen since 31 March 2011:

Status of implementation of EU conditions

IKB has also worked continuously to satisfy the EU conditions since 31 March 2011. The current status of its work is described in “Significant events in the reporting period”. On the basis of the requirements and coordination with the authorities in May, IKB is assuming that it has already implemented many of the EU requirements and that there are no material obstacles preventing the satisfaction of the requirements on time by 30 September 2011.

Changes in the Group

IKB Beteiligungen bought all shares in Movesta Development GmbH from MD Capital Beteiligungsgesellschaft mbH, which is 50% held by IKB Beteiligungen and 50% held by KfW IPEX-Bank GmbH. This was completed on 1 April 2011. IKB intends to wind up Movesta Development GmbH.

Repayment of a bond guaranteed by SoFFin

Following the buy-back and return of SoFFin guarantees of € 100 million of the SoFFin-guaranteed bond maturing on 29 April 2011, the remainder of € 0.9 billion was repaid on schedule in the past 2010/11 financial year. IKB’s SoFFin guarantee was therefore reduced to a total of € 8.6 billion.

The maturity structure of the bonds issued under SoFFin guarantees is currently as follows:

- € 1.8 billion maturing on 27 January 2012
- € 1.8 billion maturing on 13 March 2012
- € 2.0 billion maturing on 10 September 2012
- € 1.0 billion maturing on 1 February 2013
- € 2.0 billion maturing on 2 February 2015.

Current rating situation

After the end of the 2010/11 financial year, the rating agency Moody’s Investors Service downgraded IKB’s rating on 19 April 2011 – mainly as a result of the reduction in government support assumed by the agency – to long-term Ba2, negative outlook and short-term non-prime. On 13 April 2011, the agency Fitch Ratings had again confirmed the long-term rating BBB-, negative outlook and short-term rating F3.

7. Outlook

Future general economic conditions

Global economic growth is still on the rise but will decelerate. The degree of economic policy restriction is expected to increase in the emerging economies in particular to mitigate the rising inflationary trends. The recovery will continue in the industrialised nations as monetary policy – in spite of possible interest rate hikes – is still expansive and the muting after-effects of the financial crisis are slowly diminishing.

Germany is also still in an upswing and there are many indications that the expansion will remain strong in the coming months. Companies have a good order backlog. Key sentiment indicators for companies are at record levels. Rising income and growing employment should further improve the income situation for private households. In light of this, economic research institutes are anticipating in their joint economic forecast that the upturn on the economy will continue, but more moderately than in 2010. All in all, it is expected that the gross domestic product increases by 2.8% this year and 2.0% next year.

In light of the good economic performance and the increasing utilisation of production capacities, there could be a greater focus in 2011 and 2012 on capacity expansions in addition to replacement investments. For this reason, banks are expecting a further significant recovery of capital investments in the current year (2011: up 10.5%). Despite this strong momentum, however, the level of the 2008 boom year will not be seen again until 2012.

Private residential construction is also expected to gain sustained momentum. Historically low interest rates, a dearth of profitable and secure investment alternatives, rising rents and increasing employment security are likely to add momentum. Nevertheless, state investments are to be expected as the necessary budget cuts are implemented and economic programmes come to an end with the result that total investment in construction is likely to increase only slightly in 2011 and 2012 by 2.2% and 2.4% respectively.

Hopes are increasingly focussing on consumer spending. As a result of the improved employment market situation and the prospect of wage increases, the current upwards trend is likely to continue, accompanied by a sustainable recovery of private consumer spending – even though this will be muted by incipient inflation and further hikes in interest rates. After only slight increases of 0.5% on average over the past ten years, an increase of 1.2% should be possible in private consumer spending in 2011 and 2012.

Overall, thanks to strong exports and the measures for reform and increased flexibility of recent years, Germany is on a strong growth path. Assuming the global economy continues to expand unimpaired, it may be assumed that the upwards trend in exports and therefore the entire German economy will continue over the next two years. The very strong economic growth forecast for Germany by research institutes is particularly possible because both exports and domestic demand are generating impetus. Overall, the economic recovery – global and German – has been faster and stronger than expected.

The economic recovery has also taken place in the Western European countries relevant to IKB, albeit with very varied trends. Research institutes are forecasting GDP growth in 2011 of 1.7% in France and 1.1% in Italy. Despite ongoing financial market difficulties, recovery tendencies can also be observed in the UK (GDP growth in 2011: 1.3%), though this is still a long way from its former dynamic growth averaging 2.5% to 3.0%. Spain is still suffering significantly from the consequences of the domestic real estate and construction crisis and thereby the slump in the construction industry in 2010. As a result, the recovery here is relatively weak (GDP growth in 2011: 0.7%). In addition, the necessary savings measures are also squeezing public sector budgets.

Despite the favourable outlook for German industry, there are risks related to future development. Significantly weaker economic trends resulting from the necessary budget consolidation cannot be ruled out. Another fundamental risk arises for the still fragile financial and banking system. The EU debt crisis can always escalate again. In the summer of 2010, the crisis was prevented from spreading to the real economy as a result of massive support measures from the governments and central banks. However, the winter of 2008/2009 made it impressively clear just how quickly and severely loss of confidence in the capital market can damage the real global, and therefore, the German economy.

The global economic recovery has increased the focus on inflation risks. In view of the general increase in commodities prices on the fast-growing emerging markets, a further price rise cannot be ruled out. If the economic recovery in the industrial nations also picks up momentum, resulting in greater flexibility for passing on prices, together with a supportive financial policy this would lead to increased inflationary tendencies. On the booming emerging markets in particular, there are rising concerns over economic overheating and exaggerated asset prices.

The economic recovery is leading to increased demand for financial services. However, the situation is expected to remain difficult for banks and the financial markets. While the constitution of German financial institutes has improved according to the Bundesbank's financial stability report, there are still considerable pressures. The greater equity requirements under Basel III mean that banks will have to maintain significantly more and better quality equity in future. Overall, it is assumed that the consolidation pressure in the banking sector will therefore grow significantly. In light of the heightened regulatory restrictions in lending by banks and much more selective lending policies, financing funds, including both debt and equity capital, will increasingly have to be organised on the capital market. In addition, loan terms are expected to rise as refinancing costs are also set to increase, not least on account of further interest rate hikes by the ECB. Competition for short-term refinancing funds will also remain intense as banks' requirements will continue to clash with those of governments and corporate entities.

Opportunities of future development

The fundamental changes in IKB's business model have been initiated. The Bank has been recapitalised, risk management has been expanded, risks have been reduced and liquidity has been secured. This has created the basic foundations for leveraging the opportunities emerging in the current financial year, especially as credit demand should develop more dynamically in a stable overall economic environment. Above all, IKB will be able to devote more attention to customer business once it has fulfilled the EU conditions (deadline: 30 September 2011). The costs resulting from implementing the EU requirements by this deadline, which involves the commitment of a high level of resources and material costs, will gradually diminish. The SoFFin guarantee will be gradually repaid further, lowering the currently high commission expenses.

Based on its experiences of recent months, IKB believes there are good prospects for a targeted and sustainable expansion of its activities in the area of consulting, hedging and credit products. However, owing to the restructuring costs and the start-up costs for new business activities, it will still be some time before the reorganisation is also reflected positively in the income statement. A positive trend in diversification and an increase in income from new business have already been observed. The volume of new payments in the 2010/11 financial year is above the level for the same period of the previous year with improved margins. Capital market and consulting business is developing positively, driving up commission income from these activities. The complexity and pressures that arose from having a wide range of business areas and subsidiaries will be reduced further, with options for this still being examined.

IKB has created the right conditions to leverage opportunities in asset/liability management at short notice if the markets permit this and it appears economically feasible. In particular, this includes updating the debt issuance programme for unsecured refinancing, the option to transfer risks, whereby IKB can build on its many years of experience from its own securitisation activities, and the expansion of refinancing using customer deposits on the IKB direkt platform.

The planned sale of IKB by Lone Star could have various consequences for future economic development that cannot be specified in greater detail at present.

A sale could help accelerate the ongoing development of IKB's new business model. The Board of Managing Directors of IKB is therefore supporting the current sales process.

Net assets

At 15.9% and 11.2% respectively, the solvency ratio and tier 1 capital ratio of IKB AG are higher than in the previous year and significantly higher than the current legal minimum requirements. Above all, this was helped by the targeted reduction in total assets. A main control parameter used to date is the tier 1 capital ratio, which is well over 8% for IKB AG and the Group, providing an adequate buffer for unexpected, isolated events. IKB is contractually required, particularly in respect of SoFFin, to maintain minimum tier 1 capital of 8%. IKB anticipates that it will continue to achieve these minimum values. Given the planned increase in new lending business with customers, which will still be more than compensated by repayments in lending to customers, the Bank is assuming a slower decline in loans and advances to customers than in 2010/11 in the 2011/12 and 2012/13 financial years. In the forecast period, the equity and liabilities side of the balance sheet will presumably by dominated by rising retail banking deposits and declining securitised debt in particular.

Effects of Basel III

The Basel Committee's reform package raised the minimum requirement for core tier 1 capital) from 2% to 4.5% and the minimum requirement for total tier 1 capital from 4% to 6%. These requirements must be met in stages over the period from 1 January 2013 to 1 January 2015. In addition, banks are required to maintain a capital conservation buffer of 2.5%, covered by core tier 1 capital and to be gradually built up from 1 January 2016 to 1 January 2019. Furthermore, a counter-cyclical capital buffer is being introduced that will consist of core tier 1 capital or other capital to absorb losses in full. In line with respective national conditions, this buffer can be between 0% and 2.5%.

In summary, this means that a core tier 1 capital ratio of up to 9.5% is expected by the end of the implementation phase on 1 January 2019, though it remains to be seen what form the counter-cyclical capital buffer will take. To ensure these and other minimum ratios, IKB will essentially manage its total assets by reducing risk assets, transferring risk and building up reserves, such as under section 340g HGB.

The capital and liquidity resources of IKB are calculated on the basis of HGB and the applicable regulatory standards, and are currently significantly in excess of the Basel III limits not yet endorsed in EU law. As the new regulations are implemented, it will emerge which tier 1 capital ratios banks must strive for in future, which may be above the minimum specifications of international regulatory authorities.

The preparations for the implementation of Basel III – including the highly comprehensive regulations that will accompany Basel III temporarily or functionally – will give rise to high costs and complex questions of management. Ultimately, Basel III will also influence the strategies and business models of banks. The actual direction will only emerge over the course of implementation.

Liquidity situation

IKB's refinancing structure will be diversified further. The key components of this are secured financing and broader deposit business with corporate and retail clients.

The future liquidity situation is dependent on the development of new business, the extent to which customers draw on existing loan commitments and the collateral provided for derivatives business. Given the changes in the Bank's business model, its refinancing requirements will be lower than in the past. These factors have been taken into account in the Bank's liquidity scenarios.

IKB has sufficient liquidity resources until well into 2012 even without accessing capital market refinancing thanks to the issues of € 8.6 billion under the SoFFin guarantee, the planned sale of balance sheet assets and deposits by customers. With these resources, IKB would also be able to overcome temporary, unexpected liquidity requirements.

The Bank also has sufficient liquidity for the remainder of 2012 if the refinancing measures currently being eyed, some of which have already been initiated, can be implemented. These include the prolongation of customer deposits – to a greater extent through IKB direkt as well –, the placement of promissory note loans and secured refinancing on the capital market. Further asset sales are also intended.

Collateralised borrowing and the lending against securities or loan assets with the Central Bank have become important sources of refinancing for all banks. In its interbank business, the Bank is also using collateralised borrowing as an instrument to cover its liquidity requirements. Lately it has also increasingly been active in the currency area in this regard. Furthermore, IKB will continue to actively utilise programme loans and global loans from government development banks for its customers.

In light of the current ratings (Ba2/BBB- and individual rating E/E), it would make little sense economically to issue unsecured bearer bonds on the capital market. The market for unsecured bank bonds is on the verge of upheaval anyway, as the regulatory authorities (Basel III, Solvency II) will be cutting back on key investors' scope for investment. This is another reason why issuing loans is no longer as important for IKB as it was before the crisis.

According to planning, and taking into account the maturing SoFFin-guaranteed bonds, liquidity is ensured with a sufficient buffer.

Earnings performance

Although the financial and economic crisis is subsiding, uncertainty remains due to the government debt crisis in euro member states, economic developments in the US and the possibility of an economic slowdown in Germany, all of which could lead to earnings volatility in IKB's business development. There is also a degree of uncertainty concerning the current restructuring of the German banking sector.

The future earnings structure will feature a stronger share of commission income from consulting, derivatives and capital market business. With lower consolidated total assets on account of the EU requirements, net interest income will initially decline and later stabilise in the medium term as new lending business grows. The expenses of the guarantee commission owed to SoFFin will diminish.

The Group's administrative costs will be reduced further following a temporary flare-up owing to investments in infrastructure and the costs of meeting the EU conditions. To limit its refinancing costs and ensure its liquidity in the future as well, IKB will continue to diversify its refinancing structure. The key components of this are secured financing, actively using programme loans and global loans from government development banks and broader deposit business with corporate and retail clients.

The Board of Managing Directors is maintaining its objective of returning to operating profitability in the medium term – starting in the next two financial years depending on economic developments. This will also create the scope to further strengthen tier 1 capital. Furthermore, servicing the compensation agreements in a total amount of € 1,151.5 million and the value recovery rights of the hybrid investors mean that the Group and IKB AG will probably not report any, or only minimal, profit for several financial years to come.

8. 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 2010/11 financial year and presents the organisation of the remuneration systems in and for this financial year. The design of the remuneration report takes into account the regulations of the German Commercial Code and the principles of the German Corporate Governance Code.

On the basis of the Ordinance on the Supervisory Requirements for Institutions' Remuneration Systems (Remuneration Ordinance for Institutions), the Bank has performed a self-assessment and, according to this, is not a major institution within the meaning of this Ordinance. The special requirements of remuneration systems for major institutions therefore do not apply to IKB.

The remuneration system of the Board of Managing Directors

The members of the Board of Managing Directors in the 2010/11 financial year were:

Hans Jörg Schüttler (Chairman of the Board of Managing Directors),

Dr Dieter Glüder,

Claus Momburg,

Dr Michael H. Wiedmann.

The total remuneration of members of the Board of Managing Directors consists of a fixed annual basic salary, a performance-related variable remuneration and additional benefits and pension commitments that are not performance-related. There are no stock option plans or comparable remuneration components. In addition to their fixed annual salary, the members of the Board of Managing Directors Mr. Schüttler and Dr Wiedmann receive an additional gross payment of € 10,000 in lieu of any agreed pension provisions.

The Supervisory Board as a whole stipulates the total remuneration of individual members of the Board of Managing Directors at the proposal of its Executive Committee, resolves the remuneration system for the Board of Managing Directors and reviews it regularly. Total remuneration of the individual members of the Board of Managing Directors is determined by the Supervisory Board as a whole including any Group remuneration on the basis of a performance review. The criteria for the appropriateness of remuneration are the duties of the individual Board of Managing Directors member, his personal performance, the economic situation, the success and future prospects of the Group, the customariness of remuneration in terms of the peer environment and the remuneration structure for the rest of the company. The remuneration structure is geared towards sustainable corporate development. A cap on variable remuneration for the Board of Managing Directors has been agreed for extraordinary developments.

The entire Supervisory Board regularly reviews the appropriateness of the respective total remuneration.

IKB was granted an extended guarantee by SoFFin in August 2009. SoFFin imposed several conditions when granting these funds, including that the members of the Board of Managing Directors of IKB must waive payments in excess of € 500 thousand p.a. from 3 July 2009 to 31 December 2010 and that suitable agreements be put in place to ensure that any claims to subsequent payment do not affect the IKB balance sheet, i.e. that no provisions are recognised or liabilities posted in particular. All members of the Board of Managing Directors have issued corresponding waivers for the above period – also to avoid accounting effects until the end of the period agreed with SoFFin (31 December 2010). The waiver of remuneration does not affect additional benefits (e.g. car, insurance, pension instalments, telephone use). Under the agreements reached with SoFFin, subsequent payments are only permitted after the SoFFin guarantees have expired – currently this would be in 2015.

Non-performance-related remuneration components

The non-performance-related basic annual salary is paid as a monthly salary. Owing to the SoFFin conditions in connection with the guarantee, the Board of Managing Directors agreements were adjusted effective 1 July 2009. Since then, the basic annual salary of the members of the Board of Managing Directors has been € 500 thousand each.

Members of the Board of Managing Directors also receive additional benefits in the form of remuneration in kind, consisting mainly of insurance premiums and the use of a company car. As these additional benefits are a remuneration component, the individual member of the Board of Managing Directors must pay tax on them. 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 remuneration system in place in the 2010/11 financial year consists of fixed and variable components. The variable remuneration component (bonus) involves a risk element – no minimum bonus has been agreed. Thus, the bonus is not an assured remuneration concept, in terms of either its merits or its amount.

The basis for variable remuneration is the attainment of the targets agreed in writing with each active member of the Board of Managing Directors. The Supervisory Board and the members of the Board of Managing Directors have agreed only goals based on the restructuring and stabilisation of the Bank with a multi-year assessment basis and a long-term incentive effect for the coming years. The agreed goals are based on the specifications, conditions and requirements of the EU, SoFFin and the Deposit Protection Fund and are therefore linked to the strategic objectives of IKB.

The amount of variable remuneration is stipulated according to the extent to which the targets are achieved. A target bonus has been set for each member of the Board of Managing Directors for 100% attainment. This target bonus can either be increased or reduced to zero depending on actual attainment in the assessment period. Bonus caps have been agreed with all members of the Board of Managing Directors. The bonus is limited to a maximum of 200% in three cases and a maximum of 130% of the target bonus in one other case.

In order to meet the SoFFin requirements in connection with the guarantee, the members of the Board of Managing Directors in office have waived bonus payments (including the previously agreed minimum bonus) for the period from 3 July 2009 to 31 December 2010. These were the bonuses resolved at that time but not yet paid out for the 2008/09 financial year and all bonuses to be possibly granted in the period until 31 December 2010. As the basic annual salaries of members of the Board of Managing Directors of IKB have been € 500 thousand since 1 July 2009, the remuneration of the members of the Board of Managing Directors was equal to the limited remuneration agreed with SoFFin for the period from 3 July 2009 to 31 December 2010. After the end of the period agreed in the SoFFin conditions for limited remuneration, the Supervisory Board resolved subsequent payments of variable remuneration for members of the Board of Managing Directors for the financial years 2008/09 and 2009/10 on 10 March 2011. In particular, the Supervisory Board took into account the attainment of goals agreed with the members of the Board of Managing Directors over a period of several years. However, in accordance with the SoFFin conditions, the bonuses for the financial years 2008/09 and 2009/10 are only payable after the SoFFin guarantees have expired.

After the system for performance-based variable remuneration was adjusted in the 2009/10 financial year so that the bonuses for members of the Board of Managing Directors were determined taking into account sustainable corporate development as part of a multi-year analysis, the system has now been changed again. From the 2010/11 financial year, the performance-based variable remuneration of members of the Board of Managing Directors granted as part of a multi-year analysis will now be paid out on a staggered basis. If it is later found that the targets agreed with the individual members of the Board of Managing Directors were not met to the extent assumed in the financial year for which variable remuneration was granted, the Supervisory Board can, at its discretion, demand the return of portions of the bonus granted for the financial year concerned not yet due for payment in future until they fall due.

The bonuses resolved by the Supervisory Board for a financial year are therefore payable in the amount of 40% immediately after the resolution is passed by the Supervisory Board, but not before three bank working days after the adoption of the consolidated financial statements for the financial year for which they are granted. A further 30% of the bonuses is payable 21 bank working days after the adoption of the consolidated financial statements for the first financial year and the further 30% of the bonuses is payable 21 bank working days after the adoption of the consolidated financial statements for the second financial year following the financial year for which the bonus was granted. Owing to the SoFFin conditions that bonuses resolved as subsequent payments for the period in which remuneration was waived by members of the Board of Managing Directors (3 July 2009 to 31 December 2010) not be paid out before the guarantees provided by SoFFin expire – regardless of the staggered payment of bonuses – the pro rata bonuses yet to be resolved by the Supervisory Board for the first nine months of the 2010/11 financial year, namely 75% of the total bonuses for the 2010/11 financial year, will not be payable until after the SoFFin guarantees expire. Only 25% of the total bonuses yet to be determined for the 2010/11 financial year will be payable three bank working days after the adoption of the consolidated financial statements for the 2010/11 financial year. The bonuses granted to the members of the Board of Managing Directors concerned for the period up to 31 December 2010 (including the bonuses for the financial years 2008/09 and 2009/10), that will not initially be paid out on account of the agreements made in the SoFFin guarantee agreement, will be held by IKB until payable, earning interest at the respective three-month interest rate offered to IKB direkt customers. Interest will be calculated from the day after the resolution by the Supervisory Board to grant the bonuses and will be owed to the members of the Board of Managing Directors concerned on payment of the bonuses.

Given the unchanged special situation at the company, the Supervisory Board considers this form of variable remuneration for members of the Board of Managing Directors, i.e. granting a bonus for the attainment of agreed targets within a financial year – combined with an option to revise the sustainability of this attainment over a multi-year period and the option of pro rata retention of the bonus granted for the financial year in question – to be appropriate, taking into account both the interests of IKB and the legal and regulatory requirements. IKB is still in a restructuring phase. The primary goal is the continued existence of the Bank, for which it is still crucial that the conditions imposed by SoFFin, the EU Commission and the Deposit Protection Fund of private banks are complied with.

With regard to the compliance with and the implementation of the conditions of the EU, SoFFin and the Deposit Protection Fund to be guaranteed in the short term and also with regard to the fact that IKB, in its persistently difficult situation, is still dependent on the consistently good work of its current Board of Managing Directors members, the Supervisory Board has resolved the structure for variable remuneration for the members of its Board of Managing Directors described above.

Change of control

The contracts of the members of the Board of Managing Directors in office feature change of control clauses. These clauses state that each member of the Board of Managing Directors is entitled to terminate his contract to the end of the month and resign his office as from the end of his contract in the event of a change of control. The special right of termination can be exercised within six months of a change of control taking place. A change of control occurs if, within the meaning of sections 21 ff. of the *Wertpapierhandelsgesetz* (WpHG – German Securities Trading Act), a person not affiliated with LSF6 Europe within the meaning of sections 15 ff. of the *Aktiengesetz* (AktG – German Stock Corporation Act) acquires more than 50% of voting rights in the company or these shares are attributable to this party.

Payments from third parties

In the last financial year, no member of the Board of Managing Directors received payments or promises of such from a third party in respect of their function as a member of Board of Managing Directors. Furthermore, no remuneration was paid to members of the Board of Managing Directors for assuming executive functions at subsidiaries in the 2010/11 financial year.

Overview of Board of Managing Directors remuneration

Details of the remuneration of the Board of Managing Directors for the 2010/11 financial year in accordance with contractual agreements and the resolutions of the full Supervisory Board are presented in the table below.

Table: Remuneration structure of the Board of Managing Directors

Annual remuneration in € thousand	Basic salary 2010/11 FY	Pension compensation 2010/11 FY	Variable remuneration 2010/11 FY[1) (1 Apr. - 31 Dec. 10)	Variable remuneration 2010/11 FY[1) (1 Jan. - 31 Mar. 11)	Remuneration in kind/other 2010/11 FY	Total remuneration 2010/11 FY[1)
Hans Jörg Schüttler	**500.0**	**120.0**	**750.0**	**250.0**	**3.3**	**1,623.3**
Dr Dieter Glüder	**500.0**	**-**	**472.5**	**157.5**	**12.1**	**1,142.1**
Claus Momburg	**500.0**	**-**	**345.0**	**115.0**	**19.9**	**979.9**
Dr Michael H. Wiedmann	**500.0**	**120.0**	**397.5**	**132.5**	**8.7**	**1,158.7**
Total	2,000.0	240.0	1,965.0	655.0	44.0	4,904.0

1) The variable remuneration for the 2010/11 financial year has not yet been resolved by the Supervisory Board, but provisions have been recognised in the amount of the target bonuses agreed with the members of the Board of Managing Directors, i.e. a total amount of € 2,620 thousand (Mr. Schüttler € 1,000 thousand, Dr Glüder € 630 thousand, Mr. Momburg € 460 thousand and Dr Wiedmann € 530 thousand).

If and to the extent that the Supervisory Board resolves the bonuses for the 2010/11 financial year, the portion of these bonuses relating to the period from 1 April 2010 to 31 December 2010 will become payable after the expiry of the SoFFin guarantees. Only the portion relating to the period from 1 January 2011 to 31 March 2011 will be paid three bank working days after the adoption of the consolidated financial statements for the 2010/11 financial report.

After the end of the period agreed in the SoFFin conditions for limited remuneration, the Supervisory Board set the variable remuneration for the members of the Board of Managing Directors currently in office for the 2009/10 financial year at € 2,590 thousand (Mr. Schüttler € 937.5 thousand, Dr Glüder € 635 thousand, Mr. Momburg € 482.5 thousand and Dr Wiedmann € 535 thousand) and for the 2008/09 financial year – pro rata temporis for Mr. Schüttler and Dr Wiedmann – at € 1,558 thousand (Mr. Schüttler € 312.5 thousand, Dr Glüder € 650 thousand, Mr. Momburg € 550 thousand and Dr Wiedmann € 45.83 thousand) in its meeting on 10 March 2011. However, owing to the SoFFin conditions, the variable remuneration for the financial years 2008/09 and 2009/10 will not be paid until after the last SoFFin guarantees have expired. The granting of bonuses is also subject to the proviso of any instructions from the BaFin. In addition, the former member of the Board of Managing Directors Dr Reinhard Grzesik was also paid variable remuneration for his work in the period from 1 April to 3 July 2009 in the 2010/11 financial year in the amount of his contractually agreed pro rata temporis minimum bonus of € 100.75 thousand.

Payments in the event of termination of employment and pensions

As described above, all the members of the Board of Managing Directors in office on 31 March 2010 have a special right of termination for the event of a change of control. Compensation for members of the Board of Managing Directors who exercise this right has not been agreed.

On retirement, the Board of Managing Directors members Dr Glüder and Mr. Momburg have a right to a life-long pension. The pension is payable if the respective member's contract (a) ends when or after the member reaches the age of 63, (b) ends before the member reaches the age of 63 on account of long-term disability or (c) ends before the member reaches the age of 63 on the grounds of early termination or non-renewal, whereby the pension is not payable in this case if the respective member refuses an offer to renew his contract at the same or more advantageous (to the member) conditions or if the early termination or non-renewal is for good cause for which that member is responsible, limited to gross negligence or intent. The pension shall also be payable to Mr. Momburg and Dr Glüder within the meaning of the case described in (c) in the event of their contracts ending on the basis of a change of control; this does not apply, however, if the Bank exercises its own right of extraordinary termination for good cause.

In the event of the pension being payable under (c), the members of the Board of Managing Directors Dr Glüder and Mr. Momburg will receive a reduced pension as a transitional payment until they reach the age of 63. Neither Mr. Schüttler nor Dr Wiedmann is entitled to transitional payments if they leave the company.

The pension benefit paid depends on the length of service on the Board of Managing Directors. The basic entitlement amounts to 35% of pensionable income for Dr Glüder and 50% for Mr. Momburg. 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 last basic annual salary. However, in the event of their contracts being terminated early on account of a change of control and, for Dr Glüder, for the event of the Bank terminating his contract, the transitional payments will amount to at least € 150 thousand p.a. 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.

Mr. Momburg has entered an agreement to waive his contractual entitlement to transitional payments 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. This does not apply to his entitlement to transitional payment in the event of a change of control, though this entitlement only applies if his contract is not terminated for good cause.

Furthermore, Dr Glüder shall have a vested benefit in deviation from section 1b of the *Gesetz zur Verbesserung der betrieblichen Altersversorgung* (BetrAVG – German Company Pension Act) in the event of the termination of his contract on account of a change of control or at the Bank's instigation. This does not apply if IKB exercises its right to extraordinary termination of the agreement for good cause.

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. A 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 they reach the age of 18 and beyond this date for the duration of their school or professional education including national or civilian service until reaching the age of 25. 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:

Table: Pension payments for the Board of Managing Directors

in € thousand	Annual pension on retirement as at 31 Mar. 2011	Addition to pension provision as at 31 Mar. 2011 (service cost)
Dr Dieter Glüder	500*	463
Claus Momburg	500*	151

* Assuming employment until the member's 63rd birthday

The members of the Board of Managing Directors Mr. Schüttler and Dr Wiedmann are not entitled to receive pension benefits from IKB on account of different regulations.

Repayment claims of the company

Each month from May 2008 to May 2010, IKB offset pension payments owed to the former member of the Board of Managing Directors Mr. Neupel, to the extent permitted by law, against its claim for the return of the overpaid bonus for the 2006/07 financial year. The repayment claim of € 451 thousand expired with the last such transaction in May 2010. In 2008, Mr. Neupel instituted summary proceedings with the Düsseldorf Regional Court for payment of his pension benefits for the months from May to July 2008. A provisional ruling in Mr. Neupel's favour was then issued in December 2008. The company has appealed to have this ruling overturned. In other pending summary proceedings from 2010, also before the Düsseldorf Regional Court, Mr. Neupel is also suing for payment of his pension for the months August 2008 to May 2010 on account of the offsetting. A provisional ruling in Mr. Neupel's favour was also issued in this matter in December 2010. IKB has appealed to the Düsseldorf Higher Regional Court, seeking to overturn this ruling in unconditional proceedings to be heard in September 2011.

Furthermore, IKB is countersuing Mr. Neupel in both of the above disputes for compensation for the Bank's expenses for the costs of unjustified and unapproved construction work to the residential building owned by the company and rented by Mr. Neupel and for the Bank's expenses, for which Mr. Neupel is responsible, in connection with the unjustified and unapproved construction work on the residential building rented by Mr. Ortseifen, which is also owned by the Bank (€ 324 thousand in total). There was an evidentiary hearing in connection with the disputed construction work in March 2011; the date for a ruling was set as 31 May 2011.

Since May 2010, IKB has also been offsetting the pension claims of Mr. Neupel for the months of May to July 2008 for which he sued and his current pension claims against the claims for damages for the unjustified construction work. Offsetting has been suspended since April 2011 pending a ruling by the court.

The repayment of the bonus paid to Mr. Ortseifen (€ 805 thousand) is the subject of further ongoing legal proceedings. In addition, the company has sued Mr. Ortseifen and his wife for payment of back rent and to clear the residential premises rented by Mr. Ortseifen and owned by the Bank. The company is also claiming damages from Mr. Ortseifen for the expenses for unjustified and unapproved construction work to the residential building rented by Mr. Ortseifen and owned by the Bank that were paid by the company and for the Bank's expenses, for which he is responsible, in connection with unjustified and unapproved construction work to the residential building rented by Mr. Neupel and owned by the Bank. The proceedings with Mr. Ortseifen have been suspended until the criminal proceedings against Mr. Ortseifen have been concluded.

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 € 3,247 thousand (previous year: € 3,314 thousand). € 39,872 thousand was recognised for pension obligations to former members of the Board of Managing Directors and their surviving dependents (previous year: € 50,001 thousand).

In addition, as already explained above, the former member of the Board of Managing Directors Dr Reinhard Grzesik was also paid variable remuneration for his work in the period from 1 April to 3 July 2009 in the 2010/11 financial year in the amount of his contractually agreed pro rata temporis minimum bonus of € 100.75 thousand.

The remuneration system of the Supervisory Board

The remuneration of the Supervisory Board of IKB AG is regulated by Article 11 of the Articles of Association. In accordance with the legal regulations and the provisions of the German Corporate Governance Code, it takes into account the responsibility and the scope of the roles assigned to the members of the Supervisory Board as well as the financial position and success of the Group. The members of the Supervisory Board receive two variable, performance-related remuneration components in addition to their fixed remuneration. The short-term component is dependent on the amount 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 thousand for each financial year as fixed remuneration in addition to compensation for their expenses, including VAT 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. 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 is further increased for each membership in a Supervisory Board committee by 25% of the remuneration of a Supervisory Board member, and additionally for each chairmanship in a committee by 25% of the remuneration of a Supervisory Board member. This does not include members of the Nomination Committee, who do not receive any additional remuneration for their duties in accordance with the Rules of Procedure of the Supervisory Board. The additional remuneration for committee work cannot 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 financial year receive pro rata remuneration for the month or part of a 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 fixed annual remuneration of € 20 thousand 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 intended to bring the remuneration interests of the Supervisory Board in 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.

Starting from the 2010/11 financial year, the members of the Supervisory Board also have a budget of usually € 2 thousand per financial year, or a higher budget felt by the Board of Managing Directors to be appropriate, in financial support to promote further training activities. Training funds not utilised lapse at the end of each financial year.

Remuneration of the Supervisory Board

The Supervisory Board members will not receive any variable remuneration for the 2010/11 financial year on the assumption that a dividend will not be distributed as a result of the company’s circumstances.

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 agency services, in addition to their fixed remuneration.

Details on the remuneration of the Supervisory Board for the 2010/11 financial year can be found in the table below:

Table: Remuneration of the Supervisory Board

in € thousand	**Total (fixed remuneration only; variable remuneration will not be paid because no dividend is to be distributed)**
Bruno Scherrer (Chairman)	Waived
Dr Karsten von Köller (Deputy Chairman)	Waived
Stefan A. Baustert	20
Wolfgang Bouché, (until 31 Jan. 2011)	21
Olivier Brahin	Waived
Dr Lutz-Christian Funke	20
Ulrich Grillo	20
Arndt G. Kirchhoff	20
Bernd Klein (since 1 Feb. 2011)	3
Jürgen Metzger (until 26 Aug. 2010)	8
Dr Claus Nolting	Waived
Dr Thomas Rabe	20
Dr Carola Steingräber (since 26 Aug. 2010)	14
Carmen Teufel	20
Dr Andreas Tuczka	Waived
Ulrich Wernecke	25
Andreas Wittmann	20
Sub-total	**211**
Value-added tax payable on earnings (VAT)	36
Reimbursement of Supervisory Board expenses (total)	10
Total	**257**

9. Other financial information

Disclosures in accordance with section 315 (4) HGB

As at 31 March 2011, the share capital of the company amounted to € 1,621,315,228.16 comprising 633,326,261 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.

By way of a resolution of the Annual General Meeting on 27 August 2009, the Board of Managing Directors was authorised to acquire and sell treasury shares for the purpose of securities trading until 26 February 2011. 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 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 2010/11 financial year.

The Annual General Meeting on 27 August 2009 also authorised the company to acquire treasury shares of up to 10% of the share capital for purposes other than securities trading until 26 February 2011. 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 27 August 2009. The terms of the options must end no later than 26 February 2011. 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 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. These authorisations were not utilised in the 2010/11 financial year.

By way of a resolution of the Annual General Meeting on 26 August 2010, the Board of Managing Directors was authorised to acquire and sell treasury shares for the purpose of securities trading until 25 August 2015. 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 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 2010/11 financial year. The authorisation to acquire treasury shares for trading purposes granted by the Annual General Meeting on 27 August 2009 and limited until 26 February 2011 was revoked by way of resolution of the Annual General Meeting on 26 August 2010 for the period from the new authorisation coming into effect.

By way of resolution of the Annual General Meeting held on 26 August 2010, the company was also authorised to acquire treasury shares of up to 10% of the share capital for purposes other than securities trading until 25 August 2015. 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 26 August 2010. The terms of the options must end no later than 25 August 2015. 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 2010/11 financial year. The authorisation to acquire and use treasury shares in line with section 71 (1) no. 8 AktG granted by the Annual General Meeting on 27 August 2009 and limited until 26 February 2011 was revoked by way of resolution of the Annual General Meeting on 26 August 2010 for the period from the new authorisation coming into effect.

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 a total of up to € 500,000,000.00 against cash or non-cash contributions by issuing up to 195,312,500 new no-par-value bearer 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 2010/11 financial year. The authorised capital was entered in the commercial register on 3 November 2008.

By way of resolution of the Annual General Meeting of IKB AG on 28 August 2008, the Board of Managing Directors was 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 up to 48,339,843 no-par-value bearer shares in the company with a stake of up to € 123,749,998.08 in the share capital according to the relevant bond conditions. On 19 November 2008, the Board of Managing Directors of the company resolved to issue subordinate bonds with a total nominal value of up to € 123,671,070.72 with a contingent conversion obligation and contingent conversion privilege for up to 48,309,012 shares in the company from contingent capital with a shareholders' subscription right. A subsidiary of the Lone Star group, LSF6 Rio S.à.r.l., had undertaken to assume all bonds not subscribed to by other IKB AG 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.à.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 right have been met. As a result, a conversion right has existed since this time. A conversion obligation shall exist not later than on 11 April 2012, or earlier if the company falls below certain regulatory financial ratios. LSF6 Rio S.à.r.l. exercised its conversion right in full on 2 July 2009. On issuance of the subscribed shares on 14 July 2009, this increased the share capital of the company by € 123,520,896.00 to € 1,621,315,228.16. The increase in share capital was entered in the commercial register on 4 May 2010.

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 a total of up to € 247,499,996.16 against cash or non-cash contributions by issuing up to 96,679,686 new no-par-value bearer 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. This has not yet been entered in the commercial register.

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. The residual authorisation of 28 August 2008 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. Recessionary and revocation claims have been brought against these resolutions on which a verdict has not yet been reached. This has not yet been entered in the commercial register.

By way of resolution of the Annual General Meeting of 26 August 2010, the remaining contingent capital increase from the Annual General Meeting of 28 August 2008 of up to € 229,102.08 (Contingent Capital 2008) was reduced to up to € 150,174.72 divided into up to 58,662 new bearer shares with profit participation rights from the start of the financial year in which they are issued. Otherwise, the Contingent Capital 2008 remained unchanged. The reduction was entered in the commercial register on 8 November 2010.

By way of resolution of the Annual General Meeting of 26 August 2010, the Board of Managing Directors was authorised, with the approval of the Supervisory Board, to issue bearer convertible and option bonds or combinations of these instruments (referred to collectively below as "bonds"), dated or undated, on one or several occasions up to a total nominal amount of € 400,000,000.00 until 25 August 2015 and to grant the bearers of bonds conversion or option rights to up to 74,874,422 no-par-value bearer shares of the company with a pro rata amount of share capital totalling up to € 191,678,520.32 in line with the issue conditions of the bonds to be stipulated in more detail. This authorisation was not utilised in the 2010/11 financial year. The resolution was entered in the commercial register on 8 November 2010.

Since 20 July 2009, this 91.51% 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. The remaining capital is held by institutional and private investors.

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 Board of Managing Directors 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 Annual General Meeting. The resolution to change 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 German Stock Corporation Act. Changes to the Articles of Association regarding only the editorial form may be decided by the Supervisory Board.

The agreements with the 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 that take effect, change or end as a (direct) consequence of a change of control.

Report of the Board of Managing Directors in accordance with section 315 (4) HGB

In the Group management report, the Board of Managing Directors made disclosures for the company 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.

- In LSF6 Europe Financial Holdings, L.P. (Delaware), Dallas, USA, a company of the Lone Star financial investor, IKB has a main shareholder that supports a continued focus on medium and long-term corporate financing, particularly for German medium-sized enterprises, supplemented by an extended range of capital market and consulting services. In the middle of October 2010, Lone Star reported that it is seeking a strategic partner to advance the development of the Bank.

- 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 Rules of Procedure 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.

Consolidated financial statements in accordance with International Financial Reporting Standards as of 31 March 2011

Consolidated statement of comprehensive income of IKB Deutsche Industriebank AG for the period from 1 April 2010 to 31 March 2011

Consolidated income statement

in € million	Notes	1 Apr 2010 - 31 Mar 2011	1 Apr 2009 - 31 Mar 2010*
Net interest income	(24)	**139.6**	**178.5**
Interest income		1,854.9	2,002.5
Interest expenses		1,715.3	1,824.0
Provisions for possible loan losses	(25)	**70.8**	**493.9**
Net interest income after provision for possible loan losses		**68.8**	**-315.4**
Net fee and commission income	(26)	**-93.0**	**-51.5**
Fee and commission income		43.4	45.0
Fee and commission expenses		136.4	96.5
Net income from financial instruments at fair value	(27)	**71.4**	**-598.9**
Net income from investment securities	(28)	**42.3**	**159.2**
Net income from investments accounted for using the equity method	(29)	**1.6**	**-0.7**
Administrative expenses	(30)	**321.3**	**301.5**
Personnel expenses		167.2	164.2
Other administrative expenses		154.1	137.3
Other operating result	(31)	**242.9**	**164.7**
Other operating income		499.6	336.4
Other operating expenses		256.7	171.7
Operating result		**12.7**	**-944.1**
Taxes on income	(32)	-43.6	18.8
Other taxes		4.8	4.0
Consolidated net profit/loss		**51.5**	**-966.9**
Minority interests		-	0.2
Consolidated net profit/loss after minority interests		**51.5**	**-966.7**

* Figures adjusted

Earnings per share

	1 Apr 2010 - 31 Mar 2011	1 Apr 2009 - 31 Mar 2010*
Consolidated net profit/loss after minority interests (€ million)	51.5	-966.7
Average number of shares outstanding (million)	633.4	621.3
Earnings per share (€)	**0.08**	**-1.56**

* Figures adjusted

The number of no-par value shares included in calculating earnings per share did not change in the period under review. Accordingly, the average number of no-par value ordinary shares outstanding in the 2010/11 financial year was 633,384,923 (including these shares still to be converted).

Diluted earnings per share were not calculated.

Consolidated statement of total comprehensive income

in € million	1 Apr 2010 - 31 Mar 2011	1 Apr 2009 - 31 Mar 2010*
Consolidated net profit/loss	**51.5**	**-966.9**
Changes in financial assets available for sale recognised directly in equity	-38.1	37.4
Changes in financial assets available for sale recognised in profit or loss	-14.4	3.2
Changes in derivatives hedging fluctuations in future cash flows recognised directly in equity	9.2	0.8
Currency translation differences recognised directly in equity	-0.3	3.3
Changes due to actuarial gains/losses (IAS 19) recognised directly in equity	13.4	-9.5
Deferred taxes on other comprehensive income	9.4	-9.6
Other comprehensive income	**-20.7**	**25.6**
Total comprehensive income	**30.8**	**-941.3**

* Figures adjusted

The tax effects relating to the individual effects recognised directly in equity are discussed in note (65).

in € million	1 Apr 2010 - 31 Mar 2011	1 Apr 2009 - 31 Mar 2010*
Total comprehensive income attributable to		
Shareholders of IKB AG	30.8	-941.1
Minority interests	-	-0.2

* Figures adjusted

Consolidated balance sheet of IKB Deutsche Industriebank AG as of 31 March 2011

in € million	Notes	31 Mar 2011	31 Mar 2010*	31 Mar 2009**
Assets				
Cash reserve	(33)	84.8	14.9	4.2
Loans and advances to banks	(34)	2,316.2	2,518.3	2,979.5
Loans and advances to customers	(35)	20,330.9	23,665.1	27,927.9
Provisions for possible loan losses	(36)	-818.5	-1,072.2	-997.7
Assets held for trading	(37)	815.5	1,341.3	3,732.8
Investment securities	(38)	7,897.8	8,340.7	10,236.3
thereof as of 31 March 2011: € 954.4 million (31 March 2010: € 576.9 million; 31 March 2009: € 631.4 million) investment securities pledged as collateral, available for sale or reassignment by the protection purchaser				
Investments accounted for using the equity method	(39)	10.8	9.5	7.5
Intangible assets	(40)	19.3	12.9	19.1
Property, plant and equipment	(41)	167.5	179.5	256.1
Current tax assets	(42)	36.1	42.7	57.7
Deferred tax assets	(43)	190.8	233.2	256.2
Other assets	(44)	386.0	258.5	228.2
thereof inventories as of 31 March 2011: € 97.0 million; 31. March 2010: -; 31 March 2009: -				
Non-current assets held for sale	(45)	-	197.9	3.1
Total		**31,437.2**	**35,742.3**	**44,710.9**

Equity and liabilities				
Liabilities to banks	(46)	11,193.6	11,998.0	15,318.7
Liabilities to customers	(47)	7,678.2	7,517.9	5,818.8
Securitised liabilities	(48)	7,703.4	10,788.6	14,025.9
Liabilities held for trading	(49)	2,003.6	2,481.9	5,480.0
Provisions	(20, 21, 50, 51)	137.1	156.8	172.3
Current tax liabilities	(16, 52)	107.0	109.8	94.8
Deferred tax liabilities	(16, 53)	30.3	103.3	139.6
Other liabilities	(17, 54)	468.1	432.1	547.9
Liabilities in connection with assets held for sale	(18, 55)	-	2.6	-
Subordinated capital	(22, 56)	1,144.4	1,214.2	1,357.9
Equity	(23, 57)	971.5	937.1	1,755.0
Issued capital		1,621.3	1,621.3	1,497.8
Capital reserve		597.8	597.8	597.8
Retained earnings		-1,245.1	-291.2	-206.8
Currency translation reserve		-17.5	-17.2	-20.5
Revaluation surplus		-36.5	-6.9	-35.9
Minority interests		-	-	0.1
Consolidated profit/ loss		51.5	-966.7	-77.5
Total		**31,437.2**	**35,742.3**	**44,710.9**

* Figures adjusted

** See consolidated financial statements as of 31 March 2010

Consolidated statement of changes in equity

in € million	Issued capital	Capital reserve	Retained earnings		Currency translation reserve	Revaluation surplus		Net retained profits / net accumulated losses*	**Total ***	Earnings attributable to non-controlling interests	**Total equity***
			Actuarial gains/losses (IAS 19)	Other		Financial assets available for sale	Derivatives hedging fluctuations in future cash flows				
Equity as of 1 April 2009	**1,497.8**	**597.8**	**-27.1**	**-179.7**	**-20.5**	**-27.6**	**-8.3**	**-77.5**	**1,754.9**	**0.1**	**1,755.0**
Capital increase	123.5								**123.5**		**123.5**
Changes: Other				-0.2					**-0.2**	0.1	**-0.1**
Netting of consolidated net loss 1 April 2008 to 31 March 2009				-77.5				77.5	**0.0**		**0.0**
Total comprehensive income *			-6.7		3.3	28.5	0.5	-966.7	**-941.1**	-0.2	**-941.3**
Equity as of 31 March 2010	**1,621.3**	**597.8**	**-33.8**	**-257.4**	**-17.2**	**0.9**	**-7.8**	**-966.7**	**937.1**	**-**	**937.1**
Changes: Other				0.0					**0.0**		**0.0**
Changes: Basis of consolidation				3.6					**3.6**		**3.6**
Netting of consolidated net loss 1 April 2009 to 31 March 2010				-966.7				966.7	**0.0**		**0.0**
Total comprehensive income			9.2		-0.3	-35.9	6.3	51.5	**30.8**		**30.8**
Equity as of 31 March 2011	**1,621.3**	**597.8**	**-24.6**	**-1,220.5**	**-17.5**	**-35.0**	**-1.5**	**51.5**	**971.5**	**-**	**971.5**

* Figures adjusted

Cash flow statement for the period from 1 April 2010 to 31 March 2011

in € million		2010/11	2009/10 *
Consolidated net profit/loss		51.5	-966.9
Non-cash items included in consolidated net profit/loss for the year and reconciliation of net loss to cash flow from operating activities			
+/-	Write-downs, impairment, reversals of write-downs on receivables and addition to provisions for possible loan losses	83.2	500.8
+/-	Write-downs less reversals of write-downs on property, plant and equipment and investment securities	48.1	-96.7
+/-	Changes in other non-cash items (essentially changes in other provisions and certain liabilities and positive and negative fair values of derivative financial instruments)	-335.0	429.7
+/-	Gain on the disposal of investment securities	-2.3	93.8
+/-	Gain/loss on the disposal of property, plant and equipment	0.2	-12.6
+/-	Other adjustments (essentially the reclassification of interest including net income from leases and income taxes)	-155.4	-148.7
Sub-total		**-309.7**	**-200.6**
Changes in assets and liabilities from operating activities after adjustment for non-cash components			
+/-	Loans and advances to banks	202.1	-373.0
+/-	Loans and advances to customers	2,951.3	3,531.1
+/-	Assets held for trading	449.9	475.8
+/-	Other assets from operating activities	5.3	-29.2
+/-	Liabilities to banks	-801.5	-3,268.5
+/-	Liabilities to customers	660.1	1,163.3
+/-	Liabilities held for trading	-396.7	-267.9
+/-	Securitised liabilities	-2,852.6	-3,484.7
+/-	Other liabilities from operating activities	-53.8	-163.3
+	Interest received	1,114.0	1,356.9
+	Dividends received	7.0	2.6
-	Interest paid	-1,036.5	-1,252.4
+/-	Income tax	-12.7	-47.8
Cash flow from operating activities		**-73.8**	**-2,557.7**
Proceeds from the disposal of			
+	Investment securities	3,400.4	5,741.8
+	Property, plant and equipment	12.8	96.6
Payments for the acquisition of			
-	Investment securities	-3,200.1	-3,098.2
-	Property, plant and equipment	-61.3	-55.8
Effects of the changes in the scope of consolidation		8.7	-0.1
Change in cash and cash equivalents from other investment activities		7.1	0.0
Cash flow from investing activities		**167.6**	**2,684.3**
-	Repayment of subordinated capital	-23.9	-115.9
+	Issue of subordinated capital	-	-
Cash flow from financing activities		**-23.9**	**-115.9**
Cash and cash equivalents at end of the previous period		**14.9**	**4.2**
+/-	Cash flow from operating activities	-73.8	-2,557.7
+/-	Cash flow from investing activities	167.6	2,684.3
+/-	Cash flow from financing activities	-23.9	-115.9
Cash and cash equivalents at end of the period		**84.8**	**14.9**

* Figures adjusted

Principles of Group accounting

The consolidated financial statements were prepared by the Board of Managing Directors and authorised for publication on 1 June 2011. 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), Wilhelm-Bötzkes-Str. 1, 40474 Düsseldorf, Germany, for the year ended 31 March 2011 have been prepared in accordance with the International Financial Reporting Standards (IFRS) applicable under EU law 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), the International Financial Reporting Interpretation Committee (IFRIC) and the IFRS Interpretations Committee. 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 comprehensive income (two-statement approach), the statement of changes in equity, the cash flow statement and the notes to the consolidated financial statements. The segment reporting can be found in the notes.

The following individual provisions of IFRS 7 are met outside the consolidated financial statements in the risk report contained in the Group management report:

- IFRS 7.33: Qualitative disclosures on the risk arising from financial instruments
- IFRS 7.34(c): Disclosures on concentrations of risk
- IFRS 7.34 in conjunction with IFRS 7.40-42: Qualitative and quantitative disclosures on market risk
- IFRS 7.36(c): Disclosures on credit quality

Unless otherwise indicated, all amounts are stated in millions of euro (€ million). Amounts and percentages are generally rounded to one decimal place in accordance with standard commercial principles. Some totals and percentages may contain discrepancies between the various presentations due to rounding differences. The term “previous year” is used in these financial statements for disclosures of comparative figures from the prior-year period.

Overview of accounting standards

Ser. no.	Standard/Interpretation	Title	Date of publication by the IASB	Required to be applied for financial years beginning on or after the following date according to the IASB	Adoption into European law on	Adoption into European law from the start of the first financial year beginning after [date]
	Accounting standards to be applied for the first time in the 2010/11 financial year					
1	IFRS 3 / IAS 27	Business Combinations and Consolidated and Separate Financial Statements	10 January 2008	01 July 2009	03 June 2009	30 June 2009
2	IFRIC 15	Agreements for the Construction of Real Estate	03 July 2008	01 January 2009	22 July 2009	31 December 2009
3	IFRIC 16	Hedges of a Net Investment in a Foreign Operation	03 July 2008	01 October 2008	04 June 2009	30 June 2009
4	IAS 39	Financial Instruments: Recognition and Measurement of Exposures Qualifying for Hedge Accounting	31 July 2008	01 July 2009	15 September 2009	30 June 2009
5	IFRS 1	First-time Adoption of International Financial Reporting Standards - amended and revised 2008	27 November 2008	01 July 2009	25 November 2009	31 December 2009
	IFRS 1	First-time Adoption of International Financial Reporting Standards: second amendment	23 July 2009	01 January 2010	23 June 2010	31 December 2009
6	IFRIC 17	Distributions of Non-cash Assets to Owners	27 November 2008	01 July 2009	26 November 2009	31 October 2009
7	IFRIC 18	Transfers of Assets from Customers	29 January 2009	01 July 2009	27 November 2009	31 October 2009
8	AIP (2009)	Improvements to IFRS	16 April 2009	01 July 2009 / 01 January 2010	23 March 2010	31 December 2009
9	IFRS 2	Group Cash-Settled Share-Based Payment Transactions	18 June 2009	01 January 2010	23 March 2010	31 December 2009
10	IAS 32	Financial Instruments: Presentation: Classification of Subscription Rights and Similar Rights	08 October 2009	01 February 2010	23 December 2009	31 January 2010
	Accounting standards to be applied in the coming 2011/12 financial year					
11	IAS 24	Related Party Disclosures	04 November 2009	01 January 2011	19 July 2010	31 December 2010
12	IFRIC 14	Prepayments of a Minimum Funding Requirement	26 November 2009	01 January 2011	19 July 2010	31 December 2010
13	IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	26 November 2009	01 July 2010	23 July 2010	30 June 2010
14	IFRS 1 / IFRS 7	First-time Adoption of International Financial Reporting Standards: revision in conjunction with the amendments to IFRS 7	28 January 2010	01 July 2010	30 June 2010	30 June 2010
15	AIP (2010)	Improvements to IFRS	06 May 2010	01 July 2010 / 01 January 2011	19 February 2011	31 December 2010
	Standards published by the IASB but not yet adopted into EU law					
16	IFRS 9	Financial Instruments: Classification and Measurement for Financial Assets	12 November 2009 / 28 October 2010	01 January 2013		
17	IFRS 7	Financial Instruments: Disclosures - Transfers of Financial Assets	07 October 2010	01 July 2011		
18	IFRS 1	Severe Hyperinflation and Rectifying Fixed Transition Dates	20 December 2010	01 July 2011		
19	IAS 12	Deferred Taxes: Recovery of Underlying Assets	20 December 2010	01 January 2012		
20	IFRS 10	Consolidated Financial Statements	12 May 2011	01 January 2013		
21	IFRS 11	Joint Arrangements	12 May 2011	01 January 2013		
22	IFRS 12	Disclosure of Interests in Other Entities	12 May 2011	01 January 2013		
23	IFRS 13	Fair Value Measurement	12 May 2011	01 January 2013		

Over recent years, the International Accounting Standards Board (IASB) has published a number of amendments to standards. The following table provides a chronological overview of these amendments in order of their publication date.

Accounting standards applied for the first time in the consolidated financial statements

These consolidated financial statements are based on standards and interpretations that are mandatory within the European Union for the financial year.

1) While the application of the purchase method to business combinations was developed further in the revised IFRS 3 “Business Combinations”, the modified version of IAS 27 “Consolidated and Separate Financial Statements” contains in particular 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 in 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 of the recognised net assets of the subsidiary is offset in equity under retained earnings. However, sales of shares resulting in a loss of control are recognised in profit and loss. The amendments are not currently significant for IKB.

2) IFRIC 15 governs the recognition of revenue generated from the construction and sale of real estate. This may come under the scope of either IAS 11 “Construction Contracts” or IAS 18 “Revenue". The time when the revenue is recognised – either on completion of the real estate or in line with the percentage of completion – also depends on this allocation. The amendments do not currently have any significant effects for IKB.

3) The interpretation IFRIC 16, which deals with hedges of net investments in a foreign operation, is not relevant to IKB.

4) The amendment to IAS 39 “Financial Instruments: Recognition and Measurement – Eligible Hedged Items” relates to the hedging of inflation risk and the designation of options as hedging instruments at their intrinsic or fair value. The amendments do not have any effects for IKB.

5) The standard IFRS 1 includes regulations on the first-time adoption of International Financial Reporting Standards and therefore is not relevant to IKB.

6) The interpretation IFRIC 17 deals with accounting for distributions of non-cash assets and is not currently relevant to IKB.

7) The interpretation IFRIC 18, which deals with transfers of assets from customers, is not relevant to IKB.

8) As a result of the “Improvements to IFRS” amendment standard published in April 2009, a number of changes to existing standards were implemented with the general aim of remedying inconsistencies within or between existing standards or clarifying the wording of the standards. The amendments did not have any significant effects for IKB.

9) The amendments to the standard IFRS 2 include clarifying regulations on share-based payment. This standard is not currently relevant to IKB.

10) As a result of the amendments to IAS 32 “Classification of Rights Issues and Similar Rights”, a clarification was made to accounting for rights issues for the purchase of a fixed number of equity instruments denominated in a currency other than the functional currency. If issued proportionally to the existing shareholders within the same class of capital, these rights issues are to be reported as equity rather than as a liability. The amendments are not currently relevant to IKB.

Accounting standards to be applied in future

The following section discusses the standards and interpretations published by the IASB and adopted by the European Union during the past financial year.

11) The amendments implemented in IAS 24 relate particularly to the definition of related parties. Another key focus of the revision was the introduction of a relief provision for entities under the control, joint control or significant influence of the government (government-related entities). As a result of the modification of the definition of related parties, IKB’s group of related parties to which the disclosures relate may expand due to its current major shareholder.

12) The amendment to IFRIC 14 “Prepayments of a Minimum Funding Requirement” relates to the accounting treatment of pension claims. The amendment relates to entities whose pension schemes stipulate minimum funding requirements and which make prepayments of the minimum funding. The amendment means that entities are now permitted to recognise the benefit of such prepayments as an asset. The amendments would not currently be relevant to IKB.

13) IFRIC 19 “Extinguishing Financial Liabilities with Equity Instruments” applies when an entity issues equity instruments to extinguish all or part of a financial obligation. Accordingly, the liability is fully or partially derecognised to the extent that it is fully or partially extinguished with equity instruments. The equity instruments issued are measured directly at fair value if this can be reliably determined. If the fair value cannot be reliably determined directly, it is determined indirectly on the basis of the liability extinguished. Any difference between the carrying amount of the financial liability extinguished and the

fair value of the equity instrument issued is recognised in profit or loss. The amendments would not currently be significant for IKB.

14) The revision of the standard IFRS 1 in conjunction with the amendments to IFRS 7 are not relevant to IKB.

15) In addition, further amendments to existing IFRS standards were implemented as part of the “Annual Improvements Project” in May 2010. These amendments generally consisted of remedying inconsistencies within the individual standards or between existing standards or adjusting the wording on the basis of consequential amendments. The majority of the amendments are applicable for financial years beginning on or after 1 January 2011.

Standards published by the IASB but not yet endorsed in EU law

The following standards and interpretations were published by the IASB but had not been endorsed in EU law as of 31 March 2011. The amendments to the standards and interpretations, which are expected to be implemented from the date on which they are required to be applied, could affect IKB’s accounting practice.

16) The provisions of IFRS 9 “Financial Instruments” are intended to improve the comprehensibility of the financial statements with regard to the classification and measurement of financial instruments. The previous classification of financial assets into four categories in accordance with IAS 39 is superseded by two measurement categories (measurement at amortised cost and measurement at fair value). On initial recognition, financial assets are allocated to one of the two categories based on their respective business model and contractual cash flows. The financial instruments are measured at fair value at the time of addition, taking any transaction costs into account. Subsequent measurement is based on amortised cost or fair value depending on the initial classification of the respective instrument. According to the current status of the standard, the regulations of IFRS 9 are applicable for financial years beginning on or after 1 January 2013.

    In addition, provisions on the treatment of financial liabilities were published and adopted in the standard on 28 October 2010. The amendments chiefly relate to financial liabilities for which an entity has exercised the fair value option. The part of changes in fair value resulting from own credit risk will be recognised under other comprehensive income rather than in the income statement as before. However, all other changes in fair value are still to be reported in the income statement. The new provisions allow for reporting of gains and losses due to changes in an entity’s own creditworthiness to be avoided under certain conditions. According to the current status of the standard, the supplementary regulations of IFRS 9 are applicable for financial years beginning on or after 1 January 2013.

17) On 7 October 2010, the IASB published amendments to IFRS 7 “Financial Instruments: Disclosures” as part of the “Derecognition of financial assets” project. The regulations on derecognition under IAS 39 will remain unchanged. The new provisions stipulate additional disclosure requirements for financial assets that are transferred but not derecognised or not fully derecognised. The relationship between these assets and the associated liabilities should be set out in such cases. For transferred and derecognised financial assets, the type and possible risks from continuing involvement exposure must also be disclosed in the notes. The amended disclosure requirements are applicable for financial years beginning on or after 1 July 2011.

18) In contrast, the amendment to IFRS 1 "Severe Hyperinflation and Rectifying Fixed Transition Dates" published by the IASB on 20 December 2011 is not relevant to IKB.

19) In the amendment “Deferred Taxes: Recovery of Underlying Assets”, the IASB published amendments to IAS 12 “Income Taxes” which are to be applied for the first time for financial years beginning on or after 1 January 2012. The amendment to IAS 12 emphasises that recovery of the carrying amount of an asset covered by the scope of IAS 40 takes place through sale rather than through use. The new regulation relates solely to investment property as defined in IAS 40.

20) On 12 May 2011, the IASB published a uniform consolidation model for all companies in IFRS 10 “Consolidated Financial Statements”, which supersedes the consolidation guidelines of IAS 27

"Consolidated and Separate Financial Statements in Accordance with IFRS" and SIC 12 "Consolidation – Special Purpose Entities". Under the new regulations, consolidation is required when a parent company receives variable returns from a subsidiary and can directly influence the subsidiary's activities, meaning that it has a significant influence on these returns. The new regulations in this standard are applicable for financial years beginning on or after 1 January 2013.

21) IFRS 11 "Joint Arrangements", published on 12 May 2011, supersedes the existing IAS 31 "Interests in Joint Ventures". The new standard defines two types of joint arrangements: joint operations and joint ventures. The difference is that in the case of joint operations (e.g. a joint project) the operators have rights to assets and liabilities held jointly, whereas joint ventures grant the venturers rights to the net assets or earnings only. Entities participating in joint operations therefore recognise their interest on the basis of direct rights and obligations instead of on the basis of their participation in the joint arrangement. For joint ventures, equity accounting is mandatory, meaning that the previous option of proportionate consolidation no longer applies. The standard also stipulates regulations for entities that are participating in a joint arrangement but do not exercise joint control. This standard is applicable for financial years beginning on or after 1 January 2013.

22) IFRS 12 "Disclosure of Interests in Other Entities", also published on 12 May 2011, specifies the disclosures required for entities applying the new standards IFRS 10 and IFRS 11. IFRS 12 requires disclosures that enable users of the financial statements to evaluate the type, risks and financial effects associated with the investment in other entities. With the publication of the standard, associated amendments to IAS 27 and IAS 28 were also announced. The amended disclosure requirements are applicable for financial years beginning on or after 1 January 2013.

23) With IFRS 13 "Fair Value Measurement", the IASB issued a standard that replaces the existing regulations on measuring fair value in the individual current IFRS pronouncements with a single standard. In addition, extensive disclosures on the method used to determine fair value are required. This standard is applicable for financial years beginning on or after 1 January 2013.

Special matters

Aleanta GmbH

Aleanta was included in the interim consolidated financial statements for the first time as at 30 September 2010. The corporate purpose of Aleanta is to acquire, hold and sell equity interests in other entities. The company resulted from the division of parts of the assets of IKB Beteiligungen GmbH, Düsseldorf (IKB Beteiligungen). In accordance with the division plan and the approval resolution by the shareholders' meeting, both from 9 July 2010, Aleanta was established by way of division for new foundation through transfer of the assets of IKB Beteiligungen GmbH, Düsseldorf (transferring entity) to Aleanta. The assets transferred included the equity investment in Erste Equity Suporta GmbH, Düsseldorf (Erste Equity Suporta) and IKB Beteiligungen's distribution claim from the capital reserve of Erste Equity Suporta. In return, IKB Deutsche Industriebank AG, Düsseldorf (IKB AG) was granted shares in Aleanta (acquiring entity). The transfer date under commercial law is 1 April 2010. As part of the division, the existing profit transfer agreement between Erste Equity Suporta and IKB Beteiligungen is also transferred to Aleanta. The division became effective with its entry in the commercial register of the transferring entity on 25 August 2010. The difference between the carrying amount of the assets transferred and the share capital was added to the capital reserve of Aleanta. By way of agreement dated 28 May 2010, IKB Struktur GmbH, Düsseldorf (IKB Struktur) acquired all shares in a company from a business partner. Exercising its contractual substitution right, IKB Struktur transferred its rights and obligations from the purchase agreement to Aleanta on 25 August 2010. The agreement was implemented on 30 August 2010 (disposition transaction). The name of the acquired company was subsequently changed to Olessa GmbH, Düsseldorf (Olessa). The agreement on the merger of Olessa with Aleanta was concluded as at 30 September 2010. The merger was submitted to the register court of the transferring entity as at 9 November 2010 for entry and was entered in the commercial register on 11 November 2010. The entry at the acquiring entity took place as at 17 November 2010. The purchase price for all shares amounted to € 74.8 million. Bank balances of € 81.9 million were acquired and tax provisions of € 27.0 million assumed. The difference between the purchase price and the fair value of the assets acquired in the amount of € 19.9 million recognised as an expense. The tax provisions acquired were reversed as part of the fiscal entity.

End of accounting in line with IFRS 5 / transition to full consolidation

In the consolidated financial statements as at 31 March 2010, the equity investment in Tempelhofer Hafen GmbH, Düsseldorf, was accounted for as a non-current asset held for sale in line with IFRS 5, after IKB indirectly increased its interest in Tempelhofer Hafen GmbH, Düsseldorf, from the previous level of 50.0% to 94.9% through the acquisition 89.8% of the shares in Projektbeteiligung TH GmbH & Co. KG, Düsseldorf, with effect from 24 March 2010, thus gaining control over the company. The purpose of the company is the acquisition, project planning, development, construction, leasing and administration of a plot of land. This classification in line with IFRS 5 was based on the existing contract on the sale of the company as at the balance sheet date, which was to be executed in July 2010. As the purchase agreement was reversed due to a contractually agreed right of rescission on the part of the buyer and new sale negotiations are not yet sufficiently concrete, the criteria for classification in line with IFRS 5 no longer exist as at the balance sheet date. The company was accounted for and measured as at 31 March 2011 in line with IFRS 3.

Investments in investment funds

As a component of liquidity provisioning, IKB invested in two investment funds structured as umbrella funds during the current financial year, each of which can launch independent sub-funds under a joint issue document. Partner Fonds Europa Renten, Luxembourg, consists of two independent sub-funds with a fair value of € 778.5 million as at the balance sheet date. Partner Fonds Euro Bonds, Luxembourg, initially consists of only one sub-fund with a fair value of € 29.8 million as at the balance sheet date. Both funds were included in the consolidated financial statements as special purpose entities.

Changes in line with IAS 8

These consolidated 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 24 June 2010:

(a) Changes in estimates

(aa) Measurement of fair values for loans and advances to customers

Fair values for loans and advances to customers are determined using the spread from the total of funding, administrative cost, risk and cost of equity margins, as explicit market prices are not available. The definition of the funding and administrative costs included was altered as at 31 March 2011. The funding costs are now based on the refinancing costs of comparable banks. Recognition of the administrative cost margin was adjusted to IKB's new organisational structure. The valuation model was also brought in line with Basel II parameters.

As at 31 March 2011, the model adjustments resulted in an increase in the fair value of loans and advances to customers of € 198.5 million.

(ab) Change in estimate for Rio Debt Holdings (Ireland)

The fundamental valuation of the US RMBS bonds held at Rio Debt Holdings Ltd., Dublin, is carried out on the basis of a discounted cash flow method. In addition to the relevant parameters for calculating the future portfolio performance, yield curves are required for calculating the forward rates for cash flow generation and also for discounting the interest and principal repayment cash flows for the respective bond investment. In the original RMBS model, interest rates and forecasts from the data providers Intex and Bloomberg were used to calculate prices. As part of the continuous refinement of assumptions and in order to achieve greater independence and transparency, the Bank has changed over to using only internal interest rate forecasts to calculate fundamental values.

This change results in fundamental values that are approximately USD 1.5 million lower than the values based on the old calculation.

(ac) Measurement of CMBS transactions

In the measurement of CMBS transactions, impairment was previously derived in simplified form from the fair value of the assets. As at the current reporting date, a fundamental valuation of the securities took place for the first time. A present value of discounted cash flows of the loans underlying the securities is used for this. The loan-level analysis performed for this purpose takes into account the available information on the loan and property characteristics and calculates an expected loss, taking into consideration the inferred property value less outstanding credit volume. The spread of the security is applied for discounting purposes.

As of 31 March 2011, the adjustments to the parameters resulted in a change in value of € -4.7 million.

(ad) Measurement of CDOs of corporate transactions in the loans and receivables category

The measurement of collateralised debt obligations, which primarily reference securities with business risks, was refined as at the balance sheet date. In contrast to the previous method, the correlation of the reference securities in the portfolio is taken into account explicitly and the number of defaults is calculated stochastically. The change serves to improve the quality of the measurement method. The value is determined using a fundamental valuation which is based on a standard Monte Carlo simulation including rating-based default rates and correlation parameters. Consistent historical default rates of the rating agencies are referred to when calculating the expected defaults. Correlation assumptions are aligned with well-known market participants.

As at 31 March 2011, the model adjustments did not result in any changes in value.

(ae) Measurement of CDOs of ABS transactions in the loans and receivables category

In the measurement of CDOs of ABS transactions in the loans and receivables category, impairment was previously derived in simplified form from the fair value of the assets. For collateralised debt obligations referencing ABS securities with subprime shares, a present value is calculated on the basis of forecast cash flows for the first time this financial year. To do so, the cash flows for several default scenarios of the referenced ABS securities are estimated. The rankings in the CDO contract ("waterfall") are explicitly taken into consideration. Valuations for the different default scenarios are obtained by means of discounting the expected cash flows with the coupon of the respective tranche invested in.

As of 31 March 2011, the adjustments to the parameters resulted in changes totalling € 14.7 million.

(af) Measurement of CMS funding trust hedges

In the context of a model review, the Bank changed over to the replication approach, whereby the CMS coupons are derived directly from the interest rate and volatility data observable on the capital market, in order to optimise the calculation of the CMS swap coupons, particularly in the case of long-running transactions. Previously, the CMS coupons had been calculated approximately using a Hull-White one-factor model. The CMS swaption is still valued using a Hull-White one-factor model, but this is now calibrated to the CMS coupons with a new calculation method.

As of 31 March 2011, the altered measurement method resulted in a changeover effect of € -7.2 million.

(ag) CVA measurement of derivatives

In the current financial year, the method for measuring derivatives whose default risk is not covered by collateral agreements was optimised further. This relates in particular to interest rate and currency derivatives concluded with customers. These products are offered to a greater extent as part of the new strategic focus. For this reason, the Bank has further developed the method for calculating credit valuation adjustments (CVA) and applied it to the relevant derivatives. The creditworthiness of the contracting party is thus included mathematically in the fair value of the financial instruments. In the method applied, the potential default amount is weighted according to probability and calculated over the life of the derivative. To do so, estimates of the probability of default of the contracting party and the expected losses given default are derived from the Bank's internal models. This change in estimates represents a refinement of the method previously applied and did not result in any significant changes in the fair values at the date of transition.

(ah) 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 sub-portfolio relates to loans for which there is no objective indication of an individual impairment, and the other relates to loans that have been identified as problem loans but for which an individual loan loss provision was not considered necessary as a result of their collateralisation and/or cash flow expectation.

The loss estimate is calculated on the basis of historical data and expert assessments. The time delay until an incurred 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). There were no changes in the method in the year under review as against 31 March 2010. In comparison to March 2010, the probability of default for rating class 15, which had been increased in the previous year to reflect adequately expected credit defaults due to the crisis, was lowered again.

If this probability of default had not been lowered, the level of portfolio allowances would have been € 8 million higher as at 31 March 2011. In addition, if the economic assumptions applied at the beginning of the financial year had still been used as at 31 March 2011, the level of portfolio allowances would have been € 29 million higher.

(b) Correction of errors

As a result of the incorrect recognition of minority interests for a property company intended for sale, the other operating income reported in the consolidated financial statements as at 31 March 2010 was € 7.2 million too low. The correction leads to an increase in other operating income from € 329.2 million to € 336.4 million and an increase in non-current assets held for sale from € 190.7 million to € 197.9 million for the 2009/10 financial year. As a result, the consolidated net loss decreases from € -974.1 million to € -966.9 million and consolidated total comprehensive income decreases from € -948.5 million to € -941.3 million. Equity increases from € 929.9 million to € 937.1 million, while earnings per share decrease from € -1.57 to € -1.56.

In the case of disclosures in the notes with incorrect prior-year figures, please refer to the corresponding explanations in the footnotes under the relevant tables/in the text.

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 companies with a different reporting date of 31 December 2010 are stated in the list of shareholdings (note (82)). In the case of foreign leasing companies, the different reporting date as compared to IKB AG is due to the requirements of national reporting obligations and company law provisions. The second group of companies geared its different reporting date towards the special features of real estate business. As the difference in reporting dates between the parent company and the subsidiaries is no more than three months and the effects are not significant, no interim financial statements are prepared. Adjustments for significant effects in the transition period from 31 December 2010 to 31 March 2011 were recognised if material.

(2) Management estimates and assessments

The financial information provided is based partially on judgments and assumptions by the management on future developments and on past experience. These influence the measurement of assets and liabilities and the expenses and income included in the statement of comprehensive income. 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 more extensive additional estimates and assumptions with a significant influence on valuation and involving considerable uncertainty 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 on an active market or valuation models. A financial instrument is regarded as quoted on an active market if quoted prices are easily and regularly available from an exchange, dealer, broker, industry group, pricing service or a regulatory agency and these prices reflect current and regularly occurring market transactions at arm's length conditions. 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 on active markets. Assumptions and estimates, such as those for expected market risks, model risks and credit risks, are applied 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 fact and explains its effects. Financial instruments whose fair value is calculated using initial parameters that are not fully based on observable market parameters are discussed separately in note (62) (Level classification).

Determination of amortised cost

Estimates and assumptions must also be applied in determining amortised cost. The determination of 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 to be accounted for at present value. The present value is determined by way of a reassessment of the underlying interest and principal cash flow discounted using the original return on the instrument, i.e. the effective interest rate at the issue date (IAS 39 AG8). Estimation uncertainty arises in particular with regard to the amount and timing of the cash flows.

Calculation of impairment

Financial assets at amortised cost and investment securities classified under IFRS as available-for-sale financial assets are examined for objective indications of impairment at regular intervals. Estimation uncertainty arises in particular with regard to the amount and timing of the cash flows.

For the impairment of loans and advances to customers and banks classified under IFRS as loans and receivables, the objective indications of possible impairment taken into consideration include the increased probability of the debtor initiating insolvency proceedings, payments being in arrears by more than 90 days, restructuring measures or other negative developments. Estimation uncertainty arises in particular with regard to the amount and timing of the cash flows. Portfolio allowances cover losses that have already been incurred but have not yet been identified individually. The loss estimate is calculated on the basis of historical data and expert assessments. Rating class-related probabilities of default and collateral-related loss assumptions are applied. An economic factor is also applied in order to reflect economic expectations. The time delay until a loss event 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).

Determination of deferred tax assets

Deferred tax assets and liabilities result from the temporary difference between the IFRS carrying amounts and the tax carrying amounts of assets, liabilities and tax 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 taxable profit to be generated by the individual Group entities in future. The estimates made by the management are based on historical data and planning forecasts.

Determination of provisions for pensions and other provisions

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 probably 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 as a provision is the best possible estimate by management of the expenditure required to fulfil the obligation.

Retirement benefits for active and former employees are based on defined benefit plans. In accordance with IAS 19.54, corresponding provisions are recognised that reflect the present value of the defined benefit obligation in line with the projected unit credit method less the fair value of the plan assets. Estimates of demographic data, expected increases in future salaries and benefit levels and employee turnover probabilities are applied in determining the present value of pension obligations and obligations for partial and early retirement and anniversaries.

The development of plan assets is also presented using simulation models on the basis of parameter variations.

(3) Scope of consolidation

In addition to the parent company, a total of 30 German companies (31 March 2010: 30; 31 March 2009: 27) and 17 foreign companies (31 March 2010: 17; 31 March 2009: 17) are included in the consolidated financial statements of IKB as of 31 March 2011 in accordance with IAS 27. IKB AG holds the majority of the voting rights in these companies.

The consolidated financial statements also include one associate in accordance with IAS 28 (31 March 2010: one; 31 March 2009: one) and one joint venture in accordance with IAS 31 (31 March 2010: one; 31 March 2009: one). The interests in both companies are consolidated using the equity method.

In accordance with SIC 12, the consolidated financial statements include no German special purpose entities (31 March 2010: none; 31 March 2009: one) and seven foreign special purpose entities (31 March 2010: four; 31 March 2009: six).

The consolidated companies are listed in note (81).

There were the following changes in the scope of consolidation as of 31 March 2011:

Aleanta GmbH, Düsseldorf (Aleanta) was included in the interim consolidated financial statements for the first time as at 30 September 2010. The corporate purpose of Aleanta is to acquire, hold and sell equity interests in other entities. In relation to this, please refer to the explanations in the section “Special matters”.

94.9% of the interest in the limited partnership IKB Grundstücks GmbH & Co. Objekt Degerloch KG, Düsseldorf, was sold as at 31 July 2010. Due to the loss of control, the company was deconsolidated accordingly. The assets of this company chiefly comprise land and buildings. With proceeds from the sale amounting to € 2.7 million, the deconsolidation led to a loss of € 0.9 million.

The special purpose entity Partner Fonds Europa Renten, Luxembourg, was included in consolidation for the first time in December 2010. This fund is structured as an umbrella fund and comprises two independent, reinvesting sub-funds under a joint issue document. Investments in these newly launched investment funds are used to invest the Bank’s surplus liquidity.

Istop 1 GmbH, Istop 2 GmbH, Istop 4 GmbH and Istop 5 GmbH, all based in Düsseldorf, were included in consolidation for the first time as at 31 December 2010. The purpose of the newly established companies is to acquire, hold and sell equity interests in other entities and to manage their own assets.

The company assets including all assets and liabilities of ICCO Grundstücks-Vermietungsgesellschaft mbH & Co. KG, Düsseldorf, were accrued to the sole limited partner IMAS Grundstücks-Vermietungsgesellschaft mbH, Düsseldorf, as a result of the withdrawal of the general partner ICCO Grundstücks-Vermietungsgesellschaft mbH, Düsseldorf. This had no effect on the consolidated financial statements. ICCO Grundstücks-Vermietungsgesellschaft mbH & Co. KG, Düsseldorf, was liquidated as a result of the withdrawal of ICCO GmbH with effect from midnight on 31 December 2010. The entry was registered with the commercial register on 11 January 2011 and took place on 24 January 2011.

As a result of the withdrawal of the sole general partner, ISOS Grundstücks-Vermietungsgesellschaft mbH, Düsseldorf, the company assets including all assets and liabilities of ISOS Grundstücks-Vermietungsgesellschaft mbH & Co. KG, Düsseldorf, were transferred to the sole limited partner IMAS Grundstücks-Vermietungsgesellschaft mbH, Düsseldorf, by way of accrual. This had no effect on the consolidated financial statements. The withdrawal became effective as of midnight on 31 December 2010. ISOS Grundstücks-Vermietungsgesellschaft mbH & Co. KG, Düsseldorf, was thus liquidated. The entry was registered with the commercial register on 11 January 2011 and took place on 18 January 2011.

IKB Grundstücks GmbH, Düsseldorf, the sole general partner of IKB Grundstücks GmbH & Co. Objekt Uerdinger Straße KG, Düsseldorf, withdrew from the company with effect from midnight on 31 December 2010. As a result of the withdrawal, the company assets including all assets and liabilities were accrued to the sole limited partner IKB AG and the company was accordingly liquidated. This was entered in the commercial register on 27 January 2011. This had no effect on the consolidated financial statements.

The legal form of IKB Immobilien Management GmbH, Düsseldorf, was converted to IKB Immobilien Management GmbH & Co. KG, Düsseldorf, with effect from 1 January 2011. This was entered in the commercial register on 25 March 2011. With the withdrawal of the sole general partner, Restruktur 2 GmbH, Düsseldorf, the entire company assets including all assets and liabilities were accrued to the sole limited partner IKB AG. This was entered in the register as at 12 April 2011. The company was thus liquidated. This had no effect on the consolidated financial statements.

For reasons of materiality, Equity Fund GmbH, Düsseldorf, was included in consolidation by way of full consolidation for the first time with effect from 31 March 2011. The purpose of this self-established company is to acquire, hold and sell equity interests, securities and financial instruments.

The special purpose entity Partner Fonds Euro Bonds, Luxembourg, was included in consolidation for the first time as at 31 March 2011. This fund is structured as an umbrella fund which initially comprises only one sub-fund. Investments in this newly launched investment fund, which can be liquidated at short notice, are an integral part of the Bank's liquidity provisioning.

Projektbeteiligung TH GmbH & Co. KG, Düsseldorf, was included in consolidation for the first time with effect from 31 March 2011. The purpose of the company is participation as a limited partner in Tempelhofer Hafen GmbH, Düsseldorf.

(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 further review of the appropriate measurement of the 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 interests in 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. At subsequent reporting dates, the carrying amount is increased or reduced by the Group's interest in the profit or loss of the companies (including amounts taken directly to equity).

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

In accordance with IAS 28.1 in conjunction with IAS 39, direct investments of IKB Private Equity GmbH and IKB Equity Capital Fund GmbH are carried at fair value and reported in 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 acquisition 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).

Financial statements of foreign entities not prepared in the functional currency (the Euro) must be translated at the balance sheet date in accordance with the functional currency concept. 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 plus any incidental costs of acquisition at the time of addition, providing that they are not recognised at fair value through profit or loss. In case of recognition at fair value through profit or loss, the incidental costs of acquisition are recognised in profit or loss at the date of addition. The date of initial recognition 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.

All financial assets and liabilities must also be assigned to an IFRS 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 provisions of IAS 39 as follows:

(a) 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 in the IFRS category of financial assets 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 also 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:

- accounting mismatches are avoided or substantially reduced as a result,
- the financial instrument contains one or more embedded derivatives or
- 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. The corresponding interest is recognised in net interest income.

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 unless they are recognised at fair value through profit or loss.

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 is at fair value. In cases where the fair value of equity instruments cannot be reliably measured, subsequent measurement is at acquisition 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.

(b) 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 in the IFRS category of financial liabilities 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. The present value is determined by way of a reassessment of the underlying interest and principal cash flows discounted using the original return on the instrument (effective interest rate at 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. The present value changes due to the passage of time (unwinding) even if expectations regarding the underlying interest and principal cash flows remain unchanged. This unwinding expense is reported in interest expenses.

This method applies to the following other financial liabilities:

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

- subordinated liabilities, profit participation rights and silent partnerships/preferred shares reported under subordinated capital.

(c) Measurement policies

General

The fair value for financial instruments traded in an active market can be derived from the (quoted) market price of identical instruments 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 similar market transactions available, suitable valuation models (such as the discounted cash flow method and option pricing models, e.g. the Black-Scholes model) are used to determine the fair value. Among other things, information on yield curves and volatility factors directly observed on the market are included in the valuation models. For more complex financial instruments and financial instruments that are considered to be unique on account of their specific structure and conditions, valuation models reflecting these characteristics are applied depending on the extent to which they are relevant for the respective financial instrument or class of financial instruments. In particular, these models involve assumptions on correlations, default rates and expected losses and other parameters that cannot be directly observed on the market in full. If interest rate derivatives have long-running CMS structures, the mean reversion used in the model, which also cannot be observed, is stressed positively and negatively in order to calculate corresponding fair value deltas for these items.

The fair value of customer derivatives is determined taking into account the credit valuation adjustment (CVA), which is used to account for counterparty default risks when measuring derivatives. The key input factor for calculating the CVA is the customer's probability of default, which is derived from the internal IKB rating and the remaining term of the derivative. Since the internal rating was prepared on the basis of information that is not available on the market, the fair value of the derivative is estimated under stressed rating assumptions. To do so, IKB has determined the average rating and average remaining term of the customer derivative portfolio. Using this information, the credit spread difference between the average rating and the rating level immediately below this is calculated for the given average remaining term. All credit spread curves are then shifted once each in a positive and in a negative direction and the resulting changes in fair value are reported as sensitivity of the derivative's fair value to its rating.

Calculations based on mid-market prices are adjusted to reflect the bid price (asset-side items) or the asking price (liability-side items) respectively. For sufficiently liquid securities with no directly observable bid or asking price, half of the average bid/asking price range of the securities held in IKB's portfolio is deducted from (asset-side items) or added to (liability-side items) the mid-market rate applied. In the case of derivatives, unsecured derivatives are identified by way of risk analysis. Calculations for such derivatives are also adjusted to reflect the respective bid or asking price (IAS 39 AG 72 ff).

Overview of valuation methods

Loans and advances to customers and banks carried at amortised cost. The fair values of loans and advances to customers and banks reported at amortised cost as determined for reporting in the notes are 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.

Cash reserves and current loans and advances and liabilities. The fair value is not calculated separately for cash reserves, current loans and advances or liabilities where the carrying amount represents a reasonable approximation of fair value.

Financial assets at fair value through profit or loss. For financial assets at fair value through profit or loss, the values calculated using the procedures described above and below were applied as the fair values.

Financial assets at amortised cost. Securities assigned to the loans and receivables category were examined to determine whether there were grounds for impairment 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. If the grounds for impairment no longer apply, the impairment is reversed accordingly.

Liabilities to banks and customers. The fair value of liabilities to banks and customers is, as a matter of principle, 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 measured using models which apply 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 promissory note loans held by banks, since the guarantee fund generally provides cover. Spreads derived from current transactions are applied in discounting global loans.

Profit participation rights and Tier I issues (silent partnership contributions/preferred shares). Profit participation rights and Tier I issues in the fair value option are initially valued at market prices. Unlisted transactions are measured using a discounted cash flow model. Profit participation rights and Tier I transactions measured at amortised cost are recognised at their present value at each balance sheet date. This is calculated using an estimate of the expected interest and principal cash flows discounted using the original yield (IAS 39 AG8).

Portfolio investments

Securities are carried at a fair value of zero if IKB does not expect to receive either interest or principal payments in future based on fundamental analyses.

Measurement of asset-backed securities. If there is a price from an external data provider for the respective securities that has been verified using suitable methods, this is used to calculate the fair value of asset-backed securities (ABS). 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 collateralised debt obligations referencing ABS securities with subprime shares. For securities measured at fair value, a present value is calculated on the basis of forecast cash flows. To do so, cash flows 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. 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 and losses will be assigned to the lowest-ranking tranche. In a subsequent step, the individual CDO portfolios 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.

When measuring collateralised debt obligations at amortised cost which reference ABS securities with subprime shares, a present value is calculated on the basis of forecast cash flows. To do so, the cash flows for several default scenarios of the referenced ABS securities are estimated. The rankings in the CDO contract ("waterfall") are explicitly taken into consideration. The fair value for the different default scenarios is obtained by means of discounting the expected cash flows with the coupon of the respective tranche invested in.

The default behaviour of the referenced ABS securities is estimated in a standard Monte Carlo simulation including rating-based default rates and correlation parameters. Consistent historical default rates are referred to when calculating the expected defaults. Correlation assumptions are aligned with well-known market participants. The previously determined scenario prices are now weighted by probability, taking into account the default behaviour, so that the final price can be derived.

Measurement of CDO portfolios primarily referencing securities with business risks (CDO of corporates). The measurement of CDO portfolios recognised at fair value is based on the valuation methods typically used by market participants for these structures (copula model). If CDOs reference other CDOs (CDO^2), these are initially combined to form 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.

The amount of impairment on corporate CDO securities measured at amortised cost is calculated on the basis of a fundamental valuation. This is based on a standard market Monte Carlo simulation including rating-based default rates and correlation parameters. Consistent historical default rates are referred to when calculating the expected defaults. Correlation assumptions are aligned with well-known market participants.

Measurement of collateralised loan obligations (CLO). Impairment losses are calculated using a fundamental value model, which primarily covers the assumed probabilities of default for the credit ratings, the timing of defaults during the term of a transaction and, in particular, the special structural features of a transaction with regard to the priority of payments ("waterfall structures") for the securities invested. In order to forecast future cash flows, the expected cumulative default rate for the respective securitised credit portfolio is first determined. As a matter of principle, the expected loss per borrower is calculated on the basis of the default rates resulting from the models of the rating agencies. The default rates for borrowers with certain critical characteristics were also increased (notching). Impairment is calculated as the present value of the expected cash flows discounted using the effective interest rate.

Measurement of RMBS transactions. Impairment losses on the RMBS transactions sold to the special purpose entity Rio Debt Holdings (Ireland) Ltd. are calculated using a fundamental valuation method allowing a detailed loss allocation of the underlying credit portfolio according to the underlying types of loan or obligor, the timing of the credit defaults and the respective severity of losses. In addition, prepayments are parameterised. The fundamental value of the securities is the present value of the discounted expected cash flows taking into account the waterfall structures of the respective transaction. The spread of the respective security is applied for discounting the cash flows. Key input parameters are forecast on the basis of freely available market expectations, for example regarding interest rate and house price developments. The correlations were verified using a regression analysis. The calculation of fair value is described in the paragraph on the measurement of asset-backed securities.

Measurement of CMBS transactions. The new fundamental value of the securities is the present value of the discounted cash flows of the loans underlying the transactions. The loan-level analysis takes into account the current performance data and the assumptions of other market participants with regard to future rent developments and investors' current return expectations regarding the loan and property characteristics. On this basis, an expected loss is calculated taking into consideration the inferred property value less outstanding credit volume. The spread of the security is applied for discounting purposes. The calculation of fair value is described in the paragraph on the measurement of asset-backed securities.

(d) Hedge accounting

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 financial hedges using 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 fundamental 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 underlyings. 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. Derivatives that are hedging instruments in an effective fair flow hedge are carried at fair value and reported under positive/negative fair values of derivative hedging instruments in assets/liabilities held for trading.

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.

Cash flow 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 taken directly to equity in a separate item in the revaluation surplus, “derivatives hedging fluctuations in future cash flows”. The ineffective portion of the gain or loss on remeasurement is recognised in the income statement under the result from hedge 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.

(e) 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, the instruments cannot be separated. The instrument is then recognised using the same method as the host contract. If there is not a close association between the derivative and the host contract, 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 IFRS category of financial instruments at fair value through profit or loss. 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.

(f) Financial guarantees

In accordance with IAS 39, a financial guarantee is a contract that obligates the guarantor to make specified payments. These payments reimburse the holders for a loss incurred 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 under 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.

(g) Securities repurchase agreements

Securities repurchase agreements are combinations of securities spots and futures (sale and 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 on a pro rata basis.

(h) 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 contractual rights to the cash flows 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 continue to be reported in line with the extent of the continuing exposure.

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

(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
	Derivative financial instruments recognised at fair value through profit or loss
	Non-current assets held for sale
	Fair value option
	Loans and advances to banks
	Loans and advances to customers
	Investment securities
Hedging derivatives	*Assets held for trading*
Fair value in equity	**Available for sale**
	Investment securities
	Non-current assets held for sale
Amortised cost	**Loans and receivables**
	Loans and advances to banks
	Loans and advances to customers (including hedge fair value adjustments)
	Investment securities
	Non-current assets held for sale
Receivables from finance leases	*Loans and advances to customers*
Other financial instruments not covered by 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
	Derivative financial instruments recognised at fair value through profit or loss
	Negative fair values of non-current assets held for sale
	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 IAS 39 holding categories for the corresponding balance sheet items. 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 Provisions for possible loan losses section.

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 incidental to ownership to the lessee. Under 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 acquisition 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 put 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.

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 acquisition 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 of the financed property 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 at least once per quarter. Debtors are examined for any financial difficulties.

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. Loans are tested for impairment if one of the following criteria is met: existing impairment, insolvency, arrears of 90 days or more, 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 between the occurrence of a loss event and the time when it is identified or becomes known is taken into account by portfolio-oriented parameters (loss identification period factor).

For impaired financial instruments classified as loans and receivables, 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.

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.

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 promissory note loans and bonds that the Bank intends to place on the market, are allocated to these items.

Please refer to note (6) for information on the procedure for determining the fair value of assets held for trading. 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

Investment securities include all bonds and other fixed-income securities, equities and other non-fixed income securities and other investments not held for trading.

Financial instruments for which there is no 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 the resulting gains or losses are 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 equity instruments cannot be reliably determined, they are recognised at acquisition cost. Investments recognised at acquisition 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 IFRS category “financial assets available for sale” are reported in the revaluation surplus under equity. Gains and losses are only recognised in profit or loss under net income from investment securities when the holdings are realised, e.g. when the instruments are sold or an impairment loss is recognised. In accordance with IAS 39.59, investment securities must be examined for objective evidence of whether losses occurred after their initial recognition resulting in a reduction in the cash flows. For example, permanent or material impairment is considered to have occurred in the case of loss events, breach of contract or increased probability of default. In addition, there is objective evidence of impairment if the fair value falls significantly below acquisition cost over a considerable period of time. In this case, the remeasurement gains and losses are no longer reported in the revaluation surplus under equity, but are instead reported in net income from investment securities.

Impairment losses recognised in profit or loss for equity instruments in the IFSR category “financial assets available for sale” may not be reversed to profit or loss prior to realisation. Reversals of impairment losses for equity instruments in this category are taken directly to equity.

By contrast, if the fair value of a debt instrument in the IFRS category “financial assets available for sale” increases in a subsequent period and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed and the amount of the reversal is recognised in profit or loss up to a maximum of the amortised cost of the item.

If there is objective evidence that an investment security recognised at amortised cost is impaired, the amount of the impairment loss is the difference between the carrying amount and the present value of the expected cash flows. If the indications of impairment no longer apply at a future reporting date, the impairment loss is reversed up to a maximum of the amortised cost of the item.

The net gain or loss on remeasurement of holdings for which the fair value option was exercised is taken directly to the income statement under net income from financial instruments at fair value. The corresponding interest is reported in interest income.

(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. If intangible assets constitute qualifying assets within the meaning of IAS 23, the attributable borrowing costs are included in the calculation of cost.

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 is measured at cost less cumulative depreciation in accordance with the standard useful life. In the case of self-constructed property, plant and equipment, the attributable borrowing costs are included in the calculation of 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 as the lessor are reported under property, plant and equipment.

Leased items are recognised at acquisition cost less depreciation over the contractual useful life, taking the contractual residual value into account. Impairment losses are also recognised in the event of permanent impairment.

Operating leases can result from part amortisation agreements and puttable agreements where a residual value is taken into account. The residual value is realised at the end of the agreement resulting from the sale or sub-leasing of the leased item. 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 item 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 more than 50% likely that the entity will generate sufficient tax income in the coming years to use the respective loss carryforward.

Deferred taxes are not discounted. Deferred taxes are calculated on the basis of the applicable tax rates at the balance sheet date. 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 profit or loss 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.

Receivables from leasing transactions primarily relate to leasing transactions that cannot be clearly classified until the terms and conditions of the lease are complete. Accordingly, advance payments are reported under receivables from leasing transactions as the lease is not classified as an operating or finance lease until the agreement is concluded.

Activities in connection with real estate project development are reported under inventories. In accordance with IAS 2.9, inventories are measured at the lower of cost and net realisable value. Cost is calculated in line with IAS 2.10 ff., while net realisable value is calculated in line with IAS 2.28 ff. The cost of the inventories is determined through specific allocation of the cost of individual items.

(18) Non-current assets held for sale/liabilities in connection with groups of assets held for sale

A non-current asset is classified as held for sale if it is available for immediate sale in its present condition, an active programme to locate a buyer has been initiated and its sale is highly probable within the next twelve months since the decision to sell it. The asset available for sale is reported in a separate balance sheet item, “non-current assets held for sale”. The liabilities of a disposal group classified as held for sale are also presented separately. Measurement at the reporting date is based on a comparison of the current carrying amount with the fair value less costs to sell. If the assets intended for sale constitute financial instruments, measurement is performed in accordance with IAS 39.

(19) 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.

(20) Provisions for pensions and similar obligations

Provisions are recognised for pension commitments to employees of IKB AG and the subsidiaries IKB Leasing GmbH, IKB Data GmbH, IKB Private Equity 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 the 1994 plan, 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 social security contribution ceiling, 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 2006 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 2006 pension plan applies to employees hired at IKB AG, IKB Data GmbH, IKB Private Equity GmbH and IKB Leasing 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, with biometric probabilities taken into account using the 2005G Heubeck mortality tables.

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 and accounting policies on which the original pension opinions were based and from 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 Private Equity GmbH and IKB Data GmbH.

In the past, the pension obligations from the 1979 and 1994 pension fund plans, the assets hedging deferred compensation obligations and early retirement obligations and the deferred income accounts scheme assets were already spun off. The assets for the 2006 pension fund plan were similarly spun off at the start of the 2008/09 financial year. Under Under contractual trust arrangements (CTAs), IKB AG and the subsidiaries involved separated the assets necessary to meet pension claims from their other company assets and transferred them 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.

(21) Other provisions

In accordance with IAS 37, 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. Unwinding effects are reported in net interest income.

(22) 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 for subordinated liabilities; interest is due and paid irrespective of the Bank's net profit or loss for the year.

Profit participation certificates

Profit participation certificates fully participate in the loss of the Company. Interest payments are only made if the Company reports net income for the year or net retained profits. 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 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.

If IKB AG posts net accumulated losses, the preferred shares only participate in the subsequent financial year if payment is not made.

(23) Equity

Issued capital

This item includes IKB AG’s share capital less the nominal amount of any treasury shares held.

Capital reserve

The capital reserve comprises the amount of the proceeds from the issuance of shares which exceeds the nominal value. Gains or losses from any transactions involving treasury shares are also offset directly in equity against capital reserve.

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. The item also includes the cumulative consolidated net retained profits/net accumulated losses from previous years.

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 surplus contains the net gains or losses from remeasurement of financial assets available for sale; the measurement effects of cash flow hedges are also disclosed 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 consolidated income statement

(24) 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.

in € million	**2010/11**	**2009/10***
Interest income from derivatives	659.4	590.3
Interest income from fair value option financial instruments	74.4	117.0
Interest income from securities held for trading	2.8	1.6
Total interest income from financial assets measured at fair value through profit or loss	**736.6**	**708.9**
Interest income from lending and money market transactions	986.0	1,117.0
Interest income from fixed and floating-rate securities	125.1	171.6
Income from equity investments	4.8	3.9
Dividends	2.4	1.0
Total interest income from other categories	**1,118.3**	**1,293.6**
Total interest income	**1,854.9**	**2,002.5**
Interest expenses for derivatives	688.0	654.1
Amortisation from discontinued hedges IFRS 1 IG 60A	46.0	65.0
Interest expenses for fair value option financial liabilities	318.9	313.8
Total interest expenses from financial liabilities measured at fair value through profit or loss	**1,052.9**	**1,032.9**
Interest expenses for securitised liabilities	32.6	122.3
Interest expenses for other liabilities	538.6	563.4
Interest expenses for subordinated capital	30.1	44.5
Similar expenses to interest expenses including interest expenses for pension obligations	61.1	60.9
Total interest expenses from other categories	**662.4**	**791.1**
Total interest expenses	**1,715.3**	**1,824.0**
Net interest income	**139.6**	**178.5**

* Figures adjusted

€ 19.9 million was reclassified from interest income from securities held for trading to interest income from lending and money market transactions due to incorrect disclosure. As a result, interest income from securities held for trading declined from € 21.5 million to € 1.6 million and interest income from lending and money market transactions increased from € 1,097.2 million to € 1,117.0 million.

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 € 30.1 million (previous year: € 39.0 million). Interest expenses include unwinding effects of € 59.0 million (previous year: € 55.0 million) from the measurement of IKB's own liabilities in accordance with IAS 39 AG8. Interest effects from macro hedge accounting reduced net interest income by € 17.3 million (previous year: € 11.2 million).

The adjustment from fair value hedges as part of initial recognition under IFRS in accordance with IFRS 1.IG 60A was fully amortised in the year under review.

(25) Provision for possible loan losses

2010/11 in € million	Amortised costs		Receivables from finance leases	Provisions for off-balance sheet transactions	Total
	Loans and advances to customers	Investment securities	Loans and advances to customers		
Additions to specific impairment losses/provisions	264.8	-	10.5	11.1	286.4
Direct write-downs	24.7	-	-	-	24.7
Recoveries on loans previously written off	12.5	-	-	-	12.5
Additions to (+)/reversals of (-) portfolio allowances	-73.8	-	1.0	-	-72.8
Reversal of specific valuation allowances/provisions	118.1	-	13.3	23.6	155.0
Provisions for possible loan losses	**85.1**	**-**	**-1.8**	**-12.5**	**70.8**
Additions to (+)/reversal of (-) impairment on investment securities (net income from investment securities)	-	-31.9	-	-	-31.9
Total	**85.1**	**-31.9**	**-1.8**	**-12.5**	**38.9**

2009/10 in € million	Amortised costs		Receivables from finance leases	Provisions for off-balance sheet transactions	Total
	Loans and advances to customers	Investment securities	Loans and advances to customers		
Additions to specific impairment losses/provisions	517.9	-	14.4	22.3	554.6
Direct write-downs	50.5	-	-	-	50.5
Recoveries on loans previously written off	6.8	-	-	-	6.8
Additions to (+)/reversals of (-) portfolio allowances	0.4	-	1.1	-	1.5
Reversal of specific valuation allowances/provisions	84.0	-	11.1	10.8	105.9
Provisions for possible loan losses	**478.0**	**-**	**4.4**	**11.5**	**493.9**
Additions to (+)/reversal of (-) impairment on investment securities (net income from investment securities)	-	-128.2	-	-	-128.2
Total	**478.0**	**-128.2**	**4.4**	**11.5**	**365.7**

(26) Net fee and commission income

in € million	2010/11	2009/10
Net fee and commission income from lending business	30.7	24.8
Net fee and commission income from securitisation	-1.3	1.8
Net fee and commission expense for liquidity generation	-126.2	-76.7
Other	3.8	-1.4
Total	**-93.0**	**-51.5**

The item "commission expenses for liquidity generation" contains the guarantee fees paid to SoFFin in connection with the guaranteed bonds.

(27) Net income from financial instruments at fair value

in € million	2010/11	2009/10
Net trading result	33.4	61.6
Net result from fair value option	48.4	-648.4
Hedging result	-10.4	-12.1
Total	**71.4**	**-598.9**

The positive effects in net trading income primarily relate to the derivative result of € 53.4 million (previous year: € 39.3 million) and the securities trading result of € 0.4 million (previous year: € 18.8 million), and are offset by the negative currency result of € 20.3 million (previous year: positive result of € 1.5 million).

In the previous year, the derivatives result included valuations attributable to foreign currency effects. For improved presentation of this economic connection, these foreign currency effects will therefore be reported under the currency result. The figure stated for the previous year is therefore adjusted by € 22.4 million for the derivative result and by € -22.4 million for the currency result. Overall net trading income remains the same.

There are currency expenses of € 82.2 million from financial instruments not measured at fair value. These expenses include all spot rate-based matters from transactions not recognised at fair value, including cash flows from derivative financial instruments to date. This disclosure in accordance with IAS 21.52a is not significant for IKB, as the currency position is not managed on the basis of the categorisation of financial instruments and the net income from hedging transactions which is also attributable to these transactions is not included in the above expenses.

The use of the fair value option relates to some of the investments in international credit portfolios, European government and bank bonds held for liquidity provisioning, 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 to different effects from the measurement of the above financial instruments. Of this figure, around € -177 million (previous year: € 84 million) relates to fair value losses on long-term investments and derivatives from hedging swaps, € 47 million (previous year: € 137 million) to net fair value gains on portfolio investments and € -10 million (previous year: € -10 million) to impairment losses on direct investments of the IKB Private Equity Group. The fair value losses relating to long-term investments are mainly influenced by the development of risk premiums for government and bank bonds for refinancing purposes as a result of the sovereign debt crisis in the euro zone.

Liabilities for which the fair value option was exercised resulted in rating-driven income of € 187.7 million within net income from financial instruments at fair value (previous year: expenses of € 858.9 million) in the year under review due to the widening of the IKB credit spread. Until the planned repayment of these financial instruments, net income from financial instruments at fair value will continue to be affected by potential changes in credit spreads in future periods. The rating-driven changes in the fair value of own issues are broken down among the following balance sheet items:

in € million	Cumulative change in fair values due to changes in default risks		Change in fair values in the period due to changes in default risks	
	31 Mar 2011	31 Mar 2010	1 Apr 2010 - 31 Mar 2011	1 Apr 2009 - 31 Mar 2010
Liabilities to banks	18.5	24.1	-0.5	-22.3
Liabilities to customers	492.6	379.6	176.6	-534.3
Securitised liabilities	0.2	17.4	-19.1	-140.4
Subordinated capital	423.3	486.8	30.7	-161.9
Total	**934.6**	**907.9**	**187.7**	**-858.9**

The result from fair value hedges is composed of the result from hedged items of € 18.1 million (previous year: € 89.5 million) and from hedging derivatives of € -28.5 million (previous year: € -101.6 million). Cash flow hedges did not make a contribution to earnings.

(28) Net income from investment securities

in € million	2010/11	2009/10
Net income/loss from securities	43.3	161.7
Net loss from investments and shares in affiliated companies	-1.0	-2.5
Total	**42.3**	**159.2**

Net income from investment securities includes net reversals of impairment losses in the amount of € 31.9 million (previous year: € 128.2 million) on securities in the IAS 39 loans and receivables category. The sale of investment securities resulted in net income of € 11.4 million (previous year: € 33.6 million).

Impairment of € 2.0 million (previous year: € 2.5 million) was recognised in profit and loss for investments. The sale of investments resulted in income of € 1.0 million (previous year: no value).

(29) Net income from investments accounted for using the equity method

in € million	2010/11	2009/10
Linde Leasing GmbH	1.7	1.2
MD Capital Beteiligungsgesellschaft mbH	-0.1	-1.0
Movesta Lease and Finance GmbH	-	-0.9
Total	**1.6**	**-0.7**

(30) Administrative expenses

in € million	2010/11	2009/10
Personnel expenses	167.2	164.2
Other administrative expenses	141.7	121.4
Write-downs on office and operating equipment, real estate and intangible assets	12.4	15.9
Total	**321.3**	**301.5**

The individual expense categories break down as follows:

Personnel expenses

in € million	2010/11	2009/10
Wages and salaries	137.6	132.4
Social security contributions	17.7	18.2
Expenses for pensions and other benefits	11.9	13.6
Total	**167.2**	**164.2**

Statutory pension premiums amounted to € 10.3 million (previous year: € 10.4 million).

The expenses for pensions and other benefits include the current service cost and insolvency protection contributions to PSVaG.

Other administrative expenses

in € million	2010/11	2009/10
Advisory fees	37.0	25.4
IT costs	28.0	22.5
Other administrative expenses (incl. audit expenses)	18.9	14.8
Occupancy expenses	18.1	19.7
Mandatory contributions, miscellaneous administrative expenses and company law expenses	16.6	16.9
Workstation costs	13.0	12.3
Travel expenses and vehicle costs	7.6	7.6
Advertising, marketing and representation costs	2.5	2.2
Total other administrative expenses	**141.7**	**121.4**

Other administrative expenses include expenses for consulting and other services for managing the crisis totalling € 20.3 million (previous year: € 12.8 million).

The item “mandatory contributions, miscellaneous administrative expenses” primarily contains expenses for contributions to the Deposit Protection Fund in the amount of € 13.1 million (previous year: € 13.7 million).

Of the audit expenses included in other administrative expenses, the following expenses relate to German auditors:

in € million	2010/11	2009/10
Audit of financial statements	5.4	3.3
Other assurance services	0.8	1.3
Tax advisory services	0.1	-
Other services	1.3	0.5
Total	**7.6**	**5.1**

Administrative expenses also include write-downs on operating and office equipment, real estate and intangible assets:

in € million	2010/11	2009/10
Operating and office equipment	5.5	7.0
Real estate used for bank operations	-	0.5
Intangible assets	6.9	8.4
Total	**12.4**	**15.9**

(31) Other operating result

in € million	2010/11	2009/10 *
Other operating income	499.6	336.4
Income from the remeasurement of compensation from future profits and hybrid financial instruments	322.2	127.0
Income from operating leases	118.7	120.1
Income from project development activities	6.4	-
Repurchase of own issues	1.2	25.5
Cost allocations	6.7	6.1
Reversals of provisions/write-downs on other receivables	16.8	14.3
Income for buildings not used for banking purposes	2.1	3.4
Income from the sale of non-financial assets	0.5	13.4
Remaining other operating income	25.0	26.6
Other operating expenses	256.7	171.7
Expenses for derecognition of difference	19.9	-
Expenses for the remeasurement of compensation from future profits and hybrid financial instruments	1.7	-
Expenses for operating leases	114.9	117.3
Impairment losses from the remeasurement of inventories	57.3	-
Restructuring expenses	3.4	6.4
Settlement of portfolio investments	8.0	7.0
Expenses for buildings not used for banking purposes (including depreciation)	5.3	4.7
Additions to provisions/write-downs on other receivables	9.9	26.5
Voluntary social benefits (including donations)	1.5	1.8
Expenses from the sale of non-financial assets	0.1	0.4
Repurchase of own issues	10.0	0.4
Remaining other operating expenses	24.7	7.2
Total	**242.9**	**164.7**

* Figures adjusted

- The restructuring expenses reported separately in the previous year are contained in other operating expenses in the amount of € 6.4 million.
- Other operating income includes the amendment to IAS 8 (see changes in accordance with IAS 8(b): correction of errors).
- In the previous year, settlement of portfolio investments and repurchase of own issues were included in miscellaneous other operating expenses.

The expenses from the derecognition of a difference result from the difference between the purchase price for shares and the fair value of the net asset acquired. Details on this can be found in the section “Aleanta GmbH” under “Special matters”.

Impairment losses from the measurement of inventories relate solely to amounts offset against the cost of a property in the reporting period.

Measurement of liabilities in accordance with IAS 39 AG8 led to a remeasurement gain of € 320 million (previous year: € 127 million) in other operating result. Measurement is based on IKB’s income planning and capital planning. Due to the expected increase in regulatory capital requirements, increased profit retention to strengthen capital was expected as compared to the previous years. This change in planning led to lower present values being recognised in the IAS 39 AG8 valuation. Income from the remeasurement of compensation from future profits and hybrid financial instruments (IAS 39 AG8) is explained in note (47) “Liabilities to customers” and note (56) “Subordinated capital”.

(32) Taxes on income

in € million	2010/11	2009/10
Current income taxes	-22.4	38.4
for the current year	1.6	42.3
from prior years	-24.0	-3.9
Deferred taxes	-21.2	-19.6
Total	**-43.6**	**18.8**

Current income taxes primarily relate to taxes in Germany. Based on the Group's operating result for 2010/11 and taking trade tax into account, tax expenses of € 2.5 million (previous year: tax income of € 297.1 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:

in € million	2010/11	2009/10*
Profit/loss before taxes	7.9	-948.1
Applicable tax rate (%)	**31.3**	**31.3**
Expected income taxes	2.5	-297.1
Tax effects	-	-
from prior years	-4.4	-4.0
from tax rate changes	2.1	-
from differences between tax rates in Germany and abroad	2.9	-20.4
from tax-free income	-13.0	-2.3
from non-deductible expenses	47.1	16.1
from unrecognised deferred taxes	-135.7	340.9
from changes in permanent effects of an accounting nature	39.0	-20.6
from other differences	15.9	6.2
Taxes on income	**-43.6**	**18.8**

* 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: 15.5%). In total, this is equivalent to a domestic income tax rate of 31.3% (previous year: 31.3%).

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 tax effect of € -135.7 million (previous year: € 340.9 million) from the change in unrecognised deferred taxes primarily relates to temporary differences in the German tax group.

Notes on the consolidated balance sheet (assets)

(33) Cash reserve

in € million	31 Mar 2011	31 Mar 2010
Cash in hand	0.1	0.1
Balances with central banks	84.6	14.7
Other	0.1	0.1
Total	**84.8**	**14.9**

As of the balance sheet date, € 84.3 million (previous year: € 14.4 million) of balances at central banks related to balances at Deutsche Bundesbank.

(34) Loans and advances to banks

in € million	31 Mar 2011	31 Mar 2010
Loans and advances to banks (remaining term up to 1 year)	2,248.3	2,399.0
Loans and advances to banks (remaining term 1-5 years)	56.3	85.5
Loans and advances to banks (remaining term more than 5 years)	11.6	33.8
Total	**2,316.2**	**2,518.3**

(35) Loans and advances to customers

in € million	31 Mar 2011	31 Mar 2010
Loans and advances to customers (remaining term up to 1 year)	3,821.0	4,434.7
Loans and advances to customers (remaining term 1-5 years)	9,700.0	10,928.0
Loans and advances to customers (remaining term more than 5 years)	4,920.3	6,485.0
Finance lease receivables	1,889.6	1,817.4
Total	**20,330.9**	**23,665.1**

The decrease in loans and advances to customers is primarily attributable to the reduction in loans in certain areas (e.g. Real Estate Finance) due to the EU requirements.

Due to the full amortisation, loans and advances to customers no longer include any hedge adjustments from the transition to IFRS in accordance with IFRS 1.IG 60A (previous year: € 46.0 million).

The carrying amount of loans and advances to customers includes hedge adjustments from hedged items in the amount of € 108.3 million (previous year: € 177.5 million).

(36) Provision for possible loan losses

in € million	Impairment		Portfolio allowances	Provisions for off-balance sheet transactions	**Total**
	Amortised cost	Receivables from finance leases			
	Loans and advances to customers	Loans and advances to customers			
Opening balance (1 April 2010)	877.0	10.1	185.1	53.9	**1,126.1**
Utilisation	311.2	0.0	0.0	5.9	**317.1**
Reversal	118.1	13.3	76.8	23.6	**231.8**
Unwinding	17.7	0.0	0.0	0.1	**17.8**
Addition	264.8	10.5	4.0	11.1	**290.4**
Reclassification	0.0	0.2	0.0	0.0	**0.2**
Effects of exchange rate changes	3.8	0.1	0.0	-0.2	**3.7**
Closing balance (31 March 2011)	**698.6**	**7.6**	**112.3**	**35.2**	**853.7**
less provisions	-	-	-	35.2	**35.2**
Provisions for possible loan losses reported as of 31 March 2011	**698.6**	**7.6**	**112.3**	**0.0**	**818.5**

in € million	Impairment		Portfolio allowances	Provisions for off-balance sheet transactions	**Total**
	Amortised cost	Receivables from finance leases			
	Loans and advances to customers	Loans and advances to customers			
Opening balance (1 April 2009)	806.4	6.7	184.6	58.2	**1,055.9**
Utilisation	334.0	0.0	0.0	15.4	**349.4**
Reversal	84.0	11.1	21.6	10.8	**127.5**
Unwinding	24.4	0.0	0.0	0.4	**24.8**
Addition	517.9	14.4	23.1	22.3	**577.7**
Effects of exchange rate changes	-4.9	0.1	-1.0	0.0	**-5.8**
Closing balance (31 March 2010)	**877.0**	**10.1**	**185.1**	**53.9**	**1,126.1**
less provisions	-	-	-	53.9	**53.9**
Provisions for possible loan losses reported as of 31 March 2010	**877.0**	**10.1**	**185.1**	**0.0**	**1,072.2**

Special provisions for possible loan losses and provisions for off-balance sheet transactions are recognised in order to hedge against identifiable risks in the Bank's lending business.

As at 31 March 2011, provisions for possible loan losses in the form of individual impairments and provisions amounted to € 741.4 million (previous year: € 941.0 million).

In addition, any further risks which have occurred but not yet been identified and which are not covered by individual write-downs are accounted for by way of portfolio impairments. Portfolio impairments amounted to € 112.3 million as of 31 March 2011 (previous year: € 185.1 million).

Risk provisions for credit risks by customer group are as follows:

in € million	Specific impairment losses, provisions (loans and receivables) and portfolio impairment losses		Utilisation of specific impairment losses and provisions		Provision for possible loan losses (income statement)	
	31 Mar 2011	31 Mar 2010	2010/11	2009/10	2010/11	2009/10
German customers	**581.5**	**743.5**	**246.3**	**190.7**	**112.5**	**346.3**
Production	255.9	297.9	161.7	77.3	37.4	150.3
Trade	28.9	36.9	12.8	6.4	2.8	21.8
Services	286.2	381.9	69.1	97.6	72.5	160.4
Transport	2.3	5.0	2.7	8.4	0.1	0.1
Other	8.2	21.8	0.0	1.0	-0.3	13.7
Foreign customers	**151.1**	**192.8**	**70.8**	**158.7**	**27.3**	**141.5**
Production	54.6	96.3	26.8	110.4	-8.3	66.0
Trade	30.5	18.5	2.0	7.3	15.0	11.7
Services	42.6	31.8	40.5	36.8	19.7	32.2
Transport	7.2	15.8	0.0	4.0	-0.5	16.2
Other	16.2	30.4	1.6	0.2	1.4	15.4
Portfolio investment	**8.8**	**4.7**	**0.0**	**0.0**	**3.8**	**4.6**
Portfolio impairment losses	**112.3**	**185.1**	**0.0**	**0.0**	**-72.8**	**1.5**
Total	**853.7**	**1,126.1**	**317.1**	**349.4**	**70.8**	**493.9**

Key figures for the provision for possible loan losses:

in %	2010/11	2009/10
Addition ratio	0.2	1.7
Default ratio	1.1	1.4
Risk ratio	2.7	3.9

The key figures for the provision for possible loan losses are defined as follows:

Addition ratio = net valuation allowances (additions less reversals of impairment losses and provisions for commercial loans and country loans and global valuation allowances plus the balance of direct write-downs and recoveries on loans previously written off) in relation to total credit volume.

Default ratio = defaults (utilisation of impairment losses and provisions for commercial loans and country loans plus the balance of direct write-downs and recoveries on loans previously written off) in relation to total credit volume.

Risk ratio = valuation allowances and provisions (balance of valuation allowances and provisions for counterparty risks from commercial loans, country risks and global valuation allowances) in relation to total credit volume.

(37) Assets held for trading

in € million	31 Mar 2011	31 Mar 2010
Bonds and other fixed-income securities	-	94.8
Promissory note bonds carried as trading assets	32.2	38.1
Derivatives with positive fair values	598.0	941.3
Derivatives with positive fair values on fair value option financial instruments	157.5	237.5
Hedging derivatives with positive fair values	27.8	29.6
Total	**815.5**	**1,341.3**

The securities carried under assets held for trading in the previous year were fully marketable and listed.

The decrease in bonds and other fixed-income securities is due to maturities.

(38) Investment securities

Investment securities include the following items:

in € million	31 Mar 2011	31 Mar 2010
Bonds and other fixed-income securities	7,792.8	8,207.2
Investments	104.8	133.3
of which in banks	0.3	0.3
Shares in affiliated companies	0.2	0.2
Total	**7,897.8**	**8,340.7**

The change in bonds and other fixed-income securities primarily resulted from maturities, sales and remeasurement effects.

Investment securities can be broken down into the following holding categories defined in IAS 39:

in € million	31 Mar 2011	31 Mar 2010
Fair value option investment securities	**2,296.7**	**2,758.7**
Bonds and other fixed-income securities	2,207.6	2,643.0
Investments	89.1	115.7
Financial assets available for sale	**2,746.3**	**1,594.9**
Bonds and other fixed-income securities	2,730.4	1,577.1
Shares in affiliated companies	0.2	0.2
Investments	15.7	17.6
of which carried at amortised cost	15.5	17.3
Loans and receivables	**2,854.8**	**3,987.1**
Bonds and other fixed-income securities	2,854.8	3,987.1
Total	**7,897.8**	**8,340.7**

The carrying amount of all negotiable securities reported under investment securities breaks down as follows:

31 March 2011 in € million	Total negotiable	listed	non-negotiable
Bonds and other fixed-income securities	6,997.6	6,859.3	138.3
Investments	23.1	-	23.1

31 March 2010 in € million	Total negotiable	listed	non-negotiable
Bonds and other fixed-income securities	7,832.3	7,793.2	39.1
Investments	54.8	11.2	43.6

As of 31 March 2011, the Company did not hold any marketable shares in unconsolidated subsidiaries (previous year: none).

(39) Investments accounted for using the equity method

in € million	31 Mar 2011	31 Mar 2010
Linde Leasing GmbH	9.9	8.5
MD Capital Beteiligungsgesellschaft mbH	0.9	1.0
Total	**10.8**	**9.5**

See note (29) for information on net income from investments accounted for using the equity method.

Impairment testing on investments accounted for using the equity method did not identify any need for impairment (previous year: € 1 million).

(40) Intangible assets

Intangible assets include internally generated software in the amount of € 3.4 million (previous year: € 3.9 million).

(41) Property, plant and equipment

in € million	31 Mar 2011	31 Mar 2010
Operating lease assets	138.9	141.7
Land and buildings including advance payments and assets under construction	12.1	20.6
Operating and office equipment	16.5	17.2
Total	**167.5**	**179.5**

The decrease in land and buildings is primarily attributable to the sale and associated deconsolidation of a subsidiary.

(42) Current tax assets

in € million	31 Mar 2011	31 Mar 2010*
Germany	28.3	24.8
Outside Germany	7.8	17.9
Total	**36.1**	**42.7**

* Figures adjusted

Tax assets of foreign branches amounting to € 9.5 million were allocated to foreign business.

(43) Deferred tax assets

Deferred tax assets relate to the following items:

in € million	31 Mar 2011	31 Mar 2010
Loans and advances to customers/provision for possible loan losses	30.7	159.5
Assets held for trading	34.4	6.3
Investment securities	266.4	304.5
Property, plant and equipment	1.4	3.2
Loss carryforwards	48.5	26.2
Liabilities to banks	12.5	45.0
Liabilities held for trading	284.6	375.0
Pension provisions	13.8	22.8
Subordinated capital	1.9	9.1
Other balance sheet items	50.9	86.4
Sub-total	**745.1**	**1,038.0**
Netting against deferred tax liabilities	-554.3	-804.8
Total	**190.8**	**233.2**

Deferred tax assets and liabilities were offset in accordance with IAS 12 within tax groups and companies on the basis of maturities.

Deferred tax assets recognised on the basis of planning amount to € 142.0 million in Germany (previous year: € 107.7 million) and € 19.2 million outside Germany (previous year: € 21.9 million). These are expected to be utilisable in future based on planning and the restructuring measures implemented.

No deferred tax assets were recognised for temporary differences of € 751.1 million (previous year: € 1,069.1 million).

In total, € 1,085.8 million (previous year: € 841.1 million) in corporation tax loss carryforwards and € 998.6 million (previous year: € 769.1 million) of trade tax loss carryforwards were not recognised. Details can be found in the following table:

in € million	31 Mar 2011	31 Mar 2010
Corporate income tax – loss carryforwards unrecognised as of the reporting date	**1,085.8**	**841.1**
of which expired in 2009/10		-
of which expired in 2010/11		-
of which expired in 2011/12		-
of which expired in 2012/13	0.1	0.2
of which expired in 2013/14	0.9	0.7
of which expired in 2014/15	-	-
of which expired in 2015/16	1.0	
of which expiring after 2015/16	0.3	-
of which may be carried forward for an unlimited period	1,083.5	840.2
Trade tax – loss carryforwards unrecognised as of the reporting date	**998.6**	**769.1**
of which may be carried forward for an unlimited period	998.6	769.1

(44)Other assets

in € million	31 Mar 2011	31 Mar 2010
Receivables from leasing transactions	105.1	104.6
Trade receivables	89.8	54.5
Deferred items	37.3	36.0
Inventories	97.0	-
Other receivables	56.8	63.4
Total	**386.0**	**258.5**

The carrying amount of one property is reported under inventories, as this land with unfinished buildings which was acquired as part of full consolidation is intended to be sold. For further information, please see note (31).

(45) Non-current assets held for sale

In the previous year, the item “non-current assets held for sale” primarily consisted of a company intended for sale. As the sale did not take place due to a contractually agreed right of rescission, the criteria for qualification in line with IFRS 5 are no longer met as at 31 March 2011 and the company is fully consolidated as at the balance sheet date.

In the previous year, this item also included loans and receivables to customers held for sale in the amount of € 54.7 million, which were sold in the current financial year.

Notes on the consolidated balance sheet (equity and liabilities)

(46) Liabilities to banks

in € million	31 Mar 2011	31 Mar 2010
Liabilities to banks (remaining term up to 1 year)	3,561.2	3,744.4
Liabilities to banks (remaining term 1-5 years)	5,411.6	5,282.6
Liabilities to banks (remaining term more than 5 years)	2,220.8	2,971.0
Total	**11,193.6**	**11,998.0**

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 decrease results primarily from the lower level of borrowings on the interbank market and the decrease in individual refinancing committed to a specific purpose.

(47) Liabilities to customers

in € million	31 Mar 2011	31 Mar 2010
Liabilities to customers (remaining term up to 1 year)	4,106.4	3,279.9
Liabilities to customers (remaining term 1-5 years)	1,181.6	1,420.7
Liabilities to customers (remaining term more than 5 years)	2,390.2	2,817.3
Total	**7,678.2**	**7,517.9**

The loans with debt waivers and compensation from future profits measured in accordance with IAS 39 AG8 and reported in this item are measured at their present value at each reporting date. This is calculated using an estimate of the expected interest and principal cash flows discounted using the original yield. The carrying amount was € 320.1 million (previous year: € 548.0 million). This decrease in the carrying amount of the liabilities with a remaining term of more than five years is attributable to unwinding expenses (increase in carrying amount) of € 52.1 million (previous year: € 49.1 million) and a remeasurement gain (decrease in carrying amount) of € 280.0 million (previous year: € 49.9 million).

(48) Securitised liabilities

in € million	31 Mar 2011	31 Mar 2010
Bonds issued (remaining term up to 1 year)	5,473.6	2,753.6
Bonds issued (remaining term 1-5 years)	2,202.5	7,972.5
Bonds issued (remaining term more than 5 years)	27.3	62.5
Total	**7,703.4**	**10,788.6**

The change in securitised liabilities is primarily due to repayments of € 3.1 billion (31 March 2010: € 6.4 billion).

Securitised liabilities include changes in value of € 6.8 million (previous year: € 10.6 million) from hedged items.

(49) Liabilities held for trading

in € million	31 Mar 2011	31 Mar 2010
Derivatives with negative fair values	1,593.4	1,971.6
Derivatives with negative fair values on fair value option financial instruments	297.4	320.0
Hedging derivatives with negative fair values	112.8	190.3
Total	**2,003.6**	**2,481.9**

(50) 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 (20)).

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 Mar 2011	31 Mar 2010	31 Mar 2009	31 Mar 2008	31 Mar 2007
Pension obligations (defined benefit obligation)	243.9	260.5	223.4	204.9	218.6
- fair value of plan assets	239.3	237.3	206.8	206.5	215.9
= Excess (+)/deficit (-)	-4.6	-23.2	-16.6	1.6	-2.7
recognised as an asset	1.8	1.0	0.1	5.1	0.0
recognised as a liability	6.4	24.2	16.7	3.5	2.7

The defined benefit obligation for pension obligations amounted to € 243.9 million as of 31 March 2011 (previous year: € 260.5 million). Of this figure, € 241.7 million (previous year: € 258.6 million) related to obligations covered by funds and € 2.2 million (previous year: € 1.9 million) to obligations not covered by funds.

As of the balance sheet date, the covered obligations are covered almost in full by the assets in the CTAs. The change in comparison to the previous year is due among other things to the decrease in the obligation resulting from the change in the discount rate. 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 € 6.4 million as of 31 March 2011 (previous year: € 24.2 million).

Pension obligations developed as follows in the last two financial years:

in € million	2010/11	2009/10
Opening balance of pension obligations as of 1 April	**260.5**	**223.4**
Pension payments	11.0	11.1
Employee contributions	0.1	0.4
Additions	19.8	19.8
of which current service cost	8.9	6.7
of which future service cost	-2.4	0.0
of which interest cost	13.3	13.1
-/+ actuarial gains and losses	-25.5	28.0
Closing balance of pension obligations as of 31 March	**243.9**	**260.5**
Plan assets under IAS 19	239.3	237.3
Net balance sheet position as of 31 March	**-4.6**	**-23.2**

The total pension expense consists of the following components:

in € million	2010/11	2009/10
Current service cost	8.9	6.7
Past service cost	-2.4	0.0
Interest expense	13.3	13.1
Plan income	-12.6	-10.9
Pension expenses	**7.2**	**8.9**

As of 31 March 2011, pension obligations have a total value of € 243.9 million (previous year: € 260.5 million). The decrease in pension obligations as against the previous year is essentially due to actuarial gains of € 25.5 million (previous year: actuarial losses of € 28.0 million), € -1.7 million of which (previous year: € 2.4 million) relate to changes in holdings. The main factor causing the actuarial gains in obligations was the increase in the interest rate.

As of the balance sheet date, the total actuarial gains arising in the financial year (offset against gains on plan assets) amounted to € 13.5 million (previous year: loss of € 9.5 million).

The development of actuarial gains/losses taken directly to equity in the past financial year are as follows:

in € million	Pension obligations	Plan assets	Total
Cumulative gains/losses recognised in the condensed statement of comprehensive income as of 31 March 2005	**16.6**	**0.0**	**16.6**
-/+ actuarial gains and losses	19.0	0.0	19.0
of which changes to actuarial parameters and calculation bases	14.0	0.0	14.0
of which adjustments due to inventory changes	5.0	0.0	5.0
Cumulative gains/losses recognised in the condensed statement of comprehensive income as of 31 March 2006	**35.6**	**0.0**	**35.6**
-/+ actuarial gains and losses	-20.3	0.0	-20.3
of which changes to actuarial parameters and calculation bases	-21.9	0.0	-21.9
of which adjustments due to inventory changes	1.6	0.0	1.6
Cumulative gains/losses recognised in the condensed statement of comprehensive income as of 31 March 2007	**15.3**	**0.0**	**15.3**
-/+ actuarial gains and losses	-24.2	21.5	-2.7
of which changes to actuarial parameters and calculation bases	-31.6	0.0	-31.6
of which adjustments due to inventory changes	7.4	0.0	7.4
Cumulative gains/losses recognised in the condensed statement of comprehensive income as of 31 march 2008	**-8.9**	**21.5**	**12.6**
-/+ actuarial gains and losses	14.4	12.8	27.2
of which changes to actuarial parameters and calculation bases	9.1	0.0	9.1
of which adjustments due to inventory changes	5.3	0.0	5.3
Cumulative gains/losses recognised in the condensed statement of comprehensive income as of 31 March 2009	**5.5**	**34.3**	**39.8**
-/+ actuarial gains and losses	28.0	-18.5	9.5
of which changes to actuarial parameters and calculation bases	25.6	0.0	25.6
of which adjustments due to inventory changes	2.4	0.0	2.4
Cumulative gains/losses recognised in the condensed statement of comprehensive income as of 31 March 2010	**33.5**	**15.8**	**49.3**
-/+ actuarial gains and losses	-25.5	12.0	-13.5
of which changes to actuarial parameters and calculation bases	-23.8	0.0	-23.8
of which adjustments due to inventory changes	-1.7	0.0	-1.7
Cumulative gains/losses recognised in the condensed statement of comprehensive income as of 31 March 2011	**8.0**	**27.8**	**35.8**

The plan assets offsetting the obligations developed as follows in the last two financial years:

in € million	2010/11	2009/10
Opening balance of plan assets as of 1 April	**237.3**	**206.8**
Expected return on plan assets	12.6	10.9
-/+ actuarial gains and losses	-12.0	18.5
IKB contribution additions	1.3	0.7
Employee contributions	0.1	0.4
Pension payments	0.0	0.0
Closing balance of plan assets as of 31 March	**239.3**	**237.3**

The plan assets generated a gain of € 2.0 million in the 2010/11 financial year (previous year: gain of € 29.4 million). This relates to reversals of impairment losses and reinvestments of CTA distributions, which were higher than forecast.

Plan assets broke down as follows on the current and last reporting date:

in %	31 Mar 2011	31 Mar 2010
Cash and cash equivalents	5.9	6.0
Shares	10.3	22.5
Fixed-income securities	66.7	67.3
Real estate	17.0	4.1
Other	0.1	0.1

Calculations were based on the following actuarial assumptions:

	31 Mar 2011	31 Mar 2010
Discount rate	5.75	5.25
Forecast increase in pensionable remuneration	3.00	3.00
Forecast rate of pension increases (including inflation)	2.00	2.25
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; rather, 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 projected unit credit 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 2011/12 financial year. The expected pension payments amount to € 12.6 million (previous year: € 12.0 million).

With all other assumptions remaining unchanged, a change of 25 basis points in the interest rate would have led to a change in pension obligations of € 8.5 million (previous year: € 10.0 million).

(51) Other provisions

in € million	Opening balance as of 1 April 2010	Utilisation	Reversal	Addition	Unwinding	Reclassific-ation	Effects of exchange rate changes	Closing balance as of 31 March 2011
Risks for possible loan losses	53.9	5.9	23.6	11.1	0.1	-	-0.2	35.2
Provisions for interest on taxes	13.7	-	-	4.8	-	-	-	18.5
Provisions for anniversary bonuses	3.8	0.3	-	0.2	-	-	-	3.7
Tax provisions not including income tax	3.6	2.6	0.6	3.3	-	-	-	3.7
Litigation and recourse claims	13.9	13.3	0.1	3.6	-	-0.3	-	3.8
Restructuring	26.3	9.3	2.8	3.6	-	-0.3	-	17.5
Miscellaneous	17.4	5.8	11.6	48.3	-	-	-	48.3
Total	**132.6**	**37.2**	**38.7**	**74.9**	**0.1**	**-0.6**	**-0.2**	**130.7**

Provisions for anniversary bonuses were calculated in the same way as pension obligations using actuarial opinions from independent actuaries and the interest rate stated in note (50).

Risks for possible loan losses include the provision for risks relating to off-balance sheet items such as guarantees.

In light of a market environment that remains uncertain and the restructuring situation at IKB, the Bank is exposed to legal risks that it seeks to hedge against by recognising provisions for litigation and recourse claims as well as restructuring provisions.

The decrease in restructuring provisions was primarily due to the implementation of the headcount reduction measures.

The other provisions include additions of € 14.0 million for project development activities and provisions for rent obligations in the amount of € 8.0 million.

In accordance with IAS 37.91, the Bank chose not to make the disclosures in line with IAS 37.86 f. for the provisions mentioned for reasons of practicability.

(52) Current tax liabilities

Current tax liabilities break down as follows:

in € million	31 Mar 2011	31 Mar 2010*
Germany	102.9	109.0
Outside Germany	4.1	0.8
Total	**107.0**	**109.8**

*Figures adjusted: tax liabilities of foreign branches amounting to € 0.3 million were allocated to foreign business.

(53) Deferred tax liabilities

Deferred tax liabilities relate to the following:

in € million	31 Mar 2011	31 Mar 2010
Loans and advances to customers/provision for possible loan losses	68.5	176.6
Assets held for trading	95.2	332.8
Investment securities	27.3	26.0
Property, plant and equipment	9.2	6.7
Liabilities	166.8	99.8
Liabilities held for trading	28.5	5.4
Pension provisions	8.2	0.3
Other liabilities	22.4	43.1
Subordinated capital	140.9	133.1
Other balance sheet items	17.6	84.3
Sub-total	**584.6**	**908.1**
Netting against deferred tax assets	-554.3	-804.8
Total	**30.3**	**103.3**

Deferred tax assets and liabilities were offset in accordance with IAS 12 within tax groups and companies on the basis of maturities.

(54) Other liabilities

in € million	31 Mar 2011	31 Mar 2010
Trade payables	128.6	93.4
Deferred items	30.9	16.0
Restructuring liabilities	1.0	1.5
Other liabilities	307.6	321.2
Total	**468.1**	**432.1**

Other liabilities include an ABS transaction under which lease receivables were sold to an unconsolidated special purpose entity. However, the ABS transaction did not result in derecognition, meaning that IKB still reports lease receivables of € 212.0 million (previous year: € 276.8 million) as well as a liability to the buyer under other liabilities.

(55) Liabilities in connection with assets held for sale

In the previous year, the item “liabilities in connection with assets held for sale” included obligations of € 2.6 million from a subsidiary intended for sale.

(56) Subordinated capital

in € million	31 Mar 2011	31 Mar 2010
Subordinated liabilities	889.4	908.4
Profit participation certificates	65.7	76.5
Silent partnership contributions/preferred shares	189.3	229.3
Total	**1,144.4**	**1,214.2**

Subordinated capital includes subordinated liabilities, profit participation rights, silent partnerships and preferred shares classified as other financial liabilities and measured in accordance with IAS 39 AG8 at amortised cost at each balance sheet date. In the event of changes in expectations with regard to payments, a new present value is calculated using the original effective interest rate and the valuation effect is recognised immediately in profit or loss. This procedure led to a change in present value in both the year under review and the previous year. The effects are summarised in the following table:

in € million	Unwinding (interest expense)	Changes in present value (other operating income)	Unwinding (interest expense)	Changes in present value (other operating income)
	2010/11		2009/10	
Subordinated liabilities	-2.8	32.1	-0.3	74.6
Profit participation certificates	-1.5	-1.7	-2.2	2.5
Silent partnership contributions/preferred shares	-2.6	10.1	-3.4	0.0
Total	**-6.9**	**40.5**	**-5.9**	**77.1**

Expenses are shown with a minus sign.

As well as the effects of the application of IAS 39 AG8, the changes in the carrying amounts are primarily due to rating- and interest-driven changes in the fair values of the holdings measured using the fair value option.

Subordinated liabilities

€ 383.9 million (previous year: € 3.2 million) of subordinated liabilities mature in less than two years. As in the previous year, there was no Tier III capital as defined in section 10 KWG (HGB).

As of 31 March 2011, there were the following significant subordinated liabilities in excess of € 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 January 2017
2008/2009	101.5	EUR	12.00	27 November 2018

In the 2010/11 financial year, interest expenses for subordinated liabilities amounted to € 35.6 million (previous year: € 48.6 million), including unwinding expenses of € 2.8 million (previous year: € 0.3 million).

Revaluation (IAS 39 AG8) resulted in income of € 32.1 million (previous year: € 74.6 million), which is reported under other operating income (note (31)).

Profit participation certificates

in € million	31 Mar 2011	31 Mar 2010
Total	**65.7**	**76.5**
of which: section 10 KWG requirements	29.5	45.4
of which: within two years	36.2	31.1

The profit participation capital breaks down as follows:

Year of issue	Original nominal amount in € million	Currency	Interest rate in %	Maturity
2001/2002	100.0	EUR	6.50	31 Mar 2012
2001/2002	74.5	EUR	6.55	31 Mar 2012
2004/2005	30.0	EUR	4.50	31 Mar 2015
2005/2006	150.0	EUR	3.86	31 Mar 2015
2006/2007	50.0	EUR	4.70	31 Mar 2017
2007/2008	70.0	EUR	5.63	31 Mar 2017

Unwinding expenses amounted to € 1.5 million (previous year: € 2.2 million).

Revaluation (IAS 39 AG8) resulted in expenses of € 1.7 million (previous year: income of € 2.5 million).

Silent partnership contributions/preferred shares

The carrying amount of silent partnership contributions/preferred shares was € 189.3 million as of 31 March 2011 (previous year: € 229.3 million). This includes preferred shares with a carrying amount of € 128.7 million (previous year: € 141.8 million) that were issued by two US subsidiaries formed for this purpose, and silent partnership contributions with a carrying amount after loss participation of € 60.6 million (previous year: € 87.5 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 results from unwinding and amounted to € 2.6 million for the Group (previous year: € 3.4 million). See note (6) b (Financial liabilities) for information on the loss participation.

Revaluation (IAS 39 AG8) impacted earnings in the amount of € 10.1 million in the year under review (previous year: € 0.0 million).

(57) Equity

in € million	31 Mar 2011	31 Mar 2010 *
Issued capital	1,621.3	1,621.3
Capital reserve	597.8	597.8
Retained earnings	-1,245.1	-291.2
Currency translation reserve	-17.5	-17.2
Revaluation surplus	-36.5	-6.9
Consolidated profit/loss	51.5	-966.7
Total	**971.5**	**937.1**

* Figures adjusted

No treasury shares were held in the 2010/11 financial year, nor were there any additions or disposals of the same.

No employee shares were issued in the year under review.

Authorisations to acquire treasury shares

By a resolution of the Annual General Meeting on 27 August 2009, the Board of Managing Directors was authorised to acquire and sell treasury shares for the purpose of securities trading until 26 February 2011. The amount of shares acquired for this purpose may not exceed 5% of the share capital at the end of any one day. Together with the treasury shares acquired for other reasons held by the Company or assigned to it in accordance with sections 71a ff. AktG, the treasury shares acquired on the basis of this authorisation may not exceed 10% of the share capital at any time. This authorisation was not utilised in the 2010/11 financial year.

At the Annual General Meeting held on 27 August 2009, the Company was also authorised to acquire treasury shares of up to 10% of the share capital for purposes other than securities trading until 26 February 2011. 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 27 August 2009. The terms of the options must end by 26 February 2011 at the latest. 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 utilised in the 2010/11 financial year.

By a resolution of the Annual General Meeting on 26 August 2010, the Board of Managing Directors was authorised to acquire and sell treasury shares for the purpose of securities trading until 25 August 2015. The amount of shares acquired for this purpose may not exceed 5% of the share capital at the end of any one day. Together with the treasury shares acquired for other reasons held by the Company or assigned to it in accordance with sections 71a ff. AktG, the treasury shares acquired on the basis of this authorisation may not exceed 10% of the share capital at any time. This authorisation was not utilised in the 2010/11 financial year. The authorisation to acquire treasury shares for the purpose of securities trading granted by the Annual General Meeting on 27 August 2009 and limited until 26 February 2011 was revoked by way of resolution of the Annual General Meeting on 26 August 2010 for the period from the new authorisation coming into effect.

By a resolution of the Annual General Meeting held on 26 August 2010, the Company was authorised to acquire treasury shares of up to 10% of the share capital for purposes other than securities trading until the end of 25 August 2015. 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 26 August 2010. The terms of the options must end by 25 August 2015 at the latest. 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 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. This authorisation was not utilised in the 2010/11 financial year. The authorisation to acquire and use treasury shares in line with section 71 (1) no. 8 AktG granted by the Annual General Meeting on 27 August 2009 and limited until 26 February 2011 was revoked by way of resolution of the Annual General Meeting on 26 August 2010 for the period from the new authorisation coming into effect.

Contingent capital

By way of resolution of the Annual General Meeting of IKB AG on 28 August 2008, the Board of Managing Directors was authorised to issue convertible and/or 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 up to 48,339,843 no-par value bearer shares in the Company with a stake of up to € 123,749,998.08 in the share capital according to the relevant bond conditions. On 19 November 2008, the Board of Managing Directors of the Company resolved to issue subordinated bonds with a total nominal value of up to € 123,671,070.72 with a contingent conversion obligation and contingent conversion right for up to 48,309,012 shares in the Company from contingent capital with a shareholders' subscription right. A subsidiary of the Lone Star group, LSF6 Rio S.à.r.l., had undertaken to assume all bonds not subscribed to by other IKB AG 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.à.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 right have been met. As a result, a conversion right has existed since this time. A conversion obligation shall exist not later than on 11 April 2012, or earlier if the Company falls below certain regulatory financial ratios. LSF6 Rio S.à.r.l. exercised its conversion right in full on 2 July 2009. On issuance of the subscribed shares on 14 July 2009, this increased the share capital of the Company by € 123,520,896.00 to € 1,621,315,228.16. The increase in the share capital was entered in the commercial register on 4 May 2010.

By way of a 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 profit participation certificates or bonds conversion or option rights to shares in the Company with a stake of up to € 618,749,990.40 in the share capital according to the relevant bond conditions. The residual authorisation to issue convertible and/or option bonds of up to € 776,328,929.28 from 28 August 2008 was revoked by way of resolution of the Extraordinary General Meeting on 25 March 2009. Actions for annulment have been brought against these resolutions on which a verdict has not yet been reached. The resolution has not yet been entered in the commercial register.

By way of resolution of the Annual General Meeting on 26 August 2010, the share capital contingently increased by up to € 229,102.08 (Contingent Capital 2008) still existing from the resolution of the Annual General Meeting on 28 August 2008 was lowered to a maximum of € 150,174.72, comprising up to 58,662 new no-par value bearer shares with an entitlement to profits starting from the beginning of the financial year in which they are issued. Otherwise, the Contingent Capital 2008 remained unchanged. The reduction was entered in the commercial register on 8 November 2010.

By way of resolution of the Annual General Meeting on 26 August 2010, the Board of Managing Directors was authorised, with the approval of the Supervisory Board, to issue bearer convertible and/or option bonds or combinations of these instruments (referred to together as "bonds" hereafter) with a total nominal value of up to € 400,000,000 on one or several occasions, with or without a limited term in each case, until 25 August 2015, and to grant the bearers of bonds conversion or option rights to subscribe to a maximum of 74,874,422 no-par value bearer shares of the Company with a proportionate amount of the share capital of up to € 191,678,520.32 in total in accordance with the terms of issue of the bonds. This authorisation was not utilised in the 2010/11 financial year. The resolution was entered in the commercial register on 8 November 2010.

Authorised capital

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 a total of up to € 500,000,000.00 against cash or non-cash contributions by issuing up to 195,312,500 new no-par value bearer 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 2010/11 financial year. The authorised capital was entered in the commercial register on 3 November 2008.

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 a total of up to € 247,499,996.16 against cash or non-cash contributions by issuing up to 96,679,686 new no-par value bearer shares until 24 March 2014. With the approval of the Supervisory Board, the statutory subscription rights of shareholders can be disapplied under this authorisation. Actions for annulment have been brought against this resolution on which a verdict has not yet been reached. The resolution has not yet been entered in the commercial register.

Retained earnings

See statement of changes in equity

Revaluation surplus

in € million	2010/11	2009/10
Opening balance as of 1 April	-6.9	-35.9
Unrealised gains/losses from investment securities available for sale	-38.1	37.4
Reclassifications to the income statement due to investment securities available for sale	-14.4	3.2
Unrealised gains/losses on derivatives hedging fluctuations in future cash flows: Unrealised gains/losses for the period before taxes	9.2	0.8
Deferred taxes	13.6	-12.4
Closing balance as of 31 March	**-36.5**	**-6.9**

As of 31 March 2011, the revaluation surplus included carrying amounts of € -2.2 million from effective cash flow hedges (previous year: € -11.4 million).

The corresponding tax effects are discussed in note (65).

Capital management process / regulatory indicators

IKB's capital management process 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). The SoFFin agreement dated 18 August 2009 stipulates that a Tier I capital ratio of 8% must be maintained at group level.

On the basis of the regulatory equity, a forecast of the changes in equity components and risk-weighted assets and the resulting equity ratios is prepared and reported to the Board of Managing Directors each week. The aim of capital management is to achieve and maintain the equity ratio targeted by the Board of Managing Directors, which is significantly higher than the requirements of the SoFFin agreement. Capital management is integrated in the overall management of the Bank.

A summary of the equity components of the IKB Group can be found in the following table:

in € million	31 Mar 2011	31 Mar 2010
Capital charge for credit risk	16,776	19,265
Capital charge for market risk	663	313
Capital charge for operational risk	782	1,100
Total of positions for which capital charges are required	**18,221**	**20,678**
Tier I capital	**2,120**	**2,257**
Issued capital	2,007	2,835
Other reserves	3,982	3,096
Minority interests	0	0
Other	913	912
Deductible items	-4,782	-4,586
Tier II capital	**919**	**1,030**
Unrealised reserves in investment securities and real estate	0	0
Profit participation certificates	40	51
Other long-term subordinated liabilities, if eligible according to BIZ	943	993
Other	-64	-14
Deductible items	-149	-216
Total liable equity	**2,890**	**3,071**
Tier III capital	0	0
Eligible own funds	**2,890**	**3,071**
Tier I capital ratio	**11.2%**	**10.4%**
Total capital ratio	**15.9%**	**14.9%**

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 issued 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.

Since 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 consolidated cash flow statement

(58) 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 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 cash flows 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 cash-related 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

(59) Segment reporting

Segment reporting is based on the internal income statement, which forms part of IKB's management information system. The presentation is based on the internal management reporting that is used by the full Board of Managing Directors as the chief operating decision-maker (CODM) to assess the performance of the segments and to allocate resources. Segment reporting is prepared in accordance with IFRS 8.

Segment reporting is in line with the Bank's product units. Segment information is presented to show each segment as an independent enterprise responsible for its own earnings and with the required capital resources.

Segmentation

Since 1 April 2010, reporting takes place on the basis of a product-oriented approach with the following business segments:

- Credit Products
- Advisory and Capital Markets
- Treasury and Investments
- Head Office/Consolidation

The **Credit Products segment** contains the earnings components and asset items from the Bank's lending business. This includes regular loans and public programme loans, transactions of the IKB Leasing Group and the mezzanine financing for companies by the subsidiary IKB Private Equity GmbH. Gains and losses from collateralised loan obligations are also allocated to this segment.

The **Advisory and Capital Markets segment** firstly comprises the Bank's advisory activities in the fields of M&A, structuring, restructuring, structure/income optimisation and private equity. Secondly, the Capital Markets sub-segment offers capital market solutions for equity and debt capital, risk management solutions in the area of customer derivatives, the management of deposits from institutional and private investors and the structuring of own securitisation transactions, as well as advisory services and structuring for third-party securitisation transactions.

The **Treasury and Investments segment** contains the earnings components resulting from Treasury's investment decisions within the scope of asset-liability management. The segment also includes structured investments such as bonds and promissory note loans, the Bank's portfolio investments, which represent the Bank's investments in securitisation products including first loss pieces, and the Bank's proprietary trading activities. In the segment reporting by product, which was published for information purposes in the 2009/10 Annual Report for the first time, proprietary trading activities were reported in the Consultancy and Capital Markets segment. The impact on earnings resulting from the reclassification is not material for the earnings performance of the segments. Credit exposures that are no longer included in the strategic portfolio and assets of the Bank not related to customers and managed as investments are also assigned to the Treasury and Investments segment. These portfolios are intended to be reduced while protecting equity by way of active portfolio management.

Segment results and key figures

Income and expenses are allocated to the segments 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 segments on a theoretical basis. In accordance with IFRS 8.23, this is presented as a net amount rather than as separate items for interest income and interest expense. The segments are regarded as independent entities with their own capital resources. Capital is allocated based on risk-weighted assets (in accordance with the standard Basel II approach) with an equity ratio of 8%, 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 reported carrying amount of the provision for possible loan losses in the segments 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 segments. Project costs are allocated to the segments if the projects were directly attributable to them. Administrative expenses for projects and corporate functions incurred for company law and regulatory reasons are allocated to the Head Office/Consolidation segment.

The performance of a segment is indicated by its operating result. The results are also measured on the basis of their return on equity and cost/income ratio. The return on equity is the ratio of the operating result to the average allocated equity, while the cost/income ratio is calculated as the ratio of administrative expenses to the earnings items reported not including the provision for possible loan losses.

Segment reporting

in € million	Credit Products		Advisory and Capital Markets		Treasury and Investments		Head Office/Consolidation		Total	
	1 Apr 2010 - 31 Mar 2011	1 Apr 2009 - 31 Mar 2010*	1 Apr 2010 - 31 Mar 2011	1 Apr 2009 - 31 Mar 2010*	1 Apr 2010 - 31 Mar 2011	1 Apr 2009 - 31 Mar 2010*	1 Apr 2010 - 31 Mar 2011	1 Apr 2009 - 31 Mar 2010*	1 Apr 2010 - 31 Mar 2011	1 Apr 2009 - 31 Mar 2010*
Net interest income	199.5	216.6	2.9	0.0	56.5	123.3	-119.3	-161.4	139.6	178.5
Provisions for possible loan losses	19.2	248.2	0.0	0.0	48.8	245.7	2.8	0.0	70.8	493.9
Net interest income after provision for possible loan losses	**180.3**	**-31.6**	**2.9**	**0.0**	**7.7**	**-122.4**	**-122.1**	**-161.4**	**68.8**	**-315.4**
Net fee and commission income	19.5	19.0	8.3	3.7	-122.6	-75.2	1.8	1.0	-93.0	-51.5
Net income from financial instruments at fair value	-2.1	-3.0	23.3	11.0	-114.5	262.8	164.7	-869.7	71.4	-598.9
Net income from investment securities	0.0	0.0	0.0	0.0	42.7	161.1	-0.4	-1.9	42.3	159.2
Net income from investments accounted for using the equity method	1.7	1.2	0.0	0.0	0.0	0.0	-0.1	-1.9	1.6	-0.7
Administrative expenses	117.8	159.2	70.8	11.0	58.5	71.8	74.2	59.5	321.3	301.5
Other operating result	8.1	-11.8	3.0	2.8	-65.3	19.4	297.1	154.3	242.9	164.7
Operating result	**89.7**	**-185.4**	**-33.3**	**6.5**	**-310.5**	**173.9**	**266.8**	**-939.1**	**12.7**	**-944.1**
Cost/income ratio in %	52.0	71.8	188.8	62.9	-28.8	14.6	-	-	79.4	-202.8
Return on equity in %	15.5	-31.2	0.0	0.0	-48.3	23.2	-	-	1.4	-53.8
Average allocated equity	578	594	0	0	643	753	-284	408	937	1,755
Credit volume *	15,431	16,991	0	29	16,592	18,925	58	445	32,081	36,390
Volume of new business *	3,477	2,637	0	0	235	359	0	0	3,712	2,996

* Figures adjusted

Head Office/Consolidation reconciliation

Within the reconciliation, the earnings and assets allocated to the segments on the basis of the internal reporting systems are reconciled to the consolidated financial statements. IKB's earnings are influenced by extraordinary factors that cannot be controlled by the operating units and for which they cannot be held responsible. In particular, these extraordinary factors include accounting effects from the rating-driven measurement of liabilities, the measurement of liabilities in accordance with IAS 39 AG8 and the amortisation of adjustments for realised hedged items in accordance with IFRS 1 IG 60A.

The "Consolidation" column is used to present the effects of methodological differences between management reporting and the consolidated financial statements as well as intra-Group consolidation matters separately for each item.

in € million	Other		Consolidation		Head Office/Consolidation	
	1 Apr 2010 - 31 Mar 2011	1 Apr 2009 - 31 Mar 2010*	1 Apr 2010 - 31 Mar 2011	1 Apr 2009 - 31 Mar 2010*	1 Apr 2010 - 31 Mar 2011	1 Apr 2009 - 31 Mar 2010*
Net interest income	-84.4	-118.3	-34.9	-43.1	-119.3	-161.4
Provisions for possible loan losses	2.8	0.0	0.0	0.0	2.8	0.0
Net interest income after provision for possible loan losses	**-87.2**	**-118.3**	**-34.9**	**-43.1**	**-122.1**	**-161.4**
Net fee and commission income	1.2	0.0	0.6	1.0	1.8	1.0
Net income from financial instruments at fair value	187.7	-858.9	-23.0	-10.8	164.7	-869.7
Net income from investment securities	-0.4	-1.9	0.0	0.0	-0.4	-1.9
Net income from investments accounted for using the equity method	-0.1	-1.9	0.0	0.0	-0.1	-1.9
Administrative expenses	74.2	59.5	0.0	0.0	74.2	59.5
Other operating result	296.6	154.0	0.5	0.3	297.1	154.3
Operating result	**323.6**	**-886.5**	**-56.8**	**-52.6**	**266.8**	**-939.1**
Credit volume *	0	0	58	445	58	445

* Figures adjusted

Results by geographical market

The allocation of income, expenditure and credit volumes is based on the domicile of the respective facility or Group company.

in € million	Germany		Rest of Europe		Americas		Total	
	1 Apr 2010 - 31 Mar 2011	1 Apr 2009 - 31 Mar 2010*	1 Apr 2010 - 31 Mar 2011	1 Apr 2009 - 31 Mar 2010*	1 Apr 2010 - 31 Mar 2011	1 Apr 2009 - 31 Mar 2010*	1 Apr 2010 - 31 Mar 2011	1 Apr 2009 - 31 Mar 2010*
Net interest income	79.0	64.3	54.4	110.4	6.2	3.8	139.6	178.5
Provisions for possible loan losses	22.8	360.3	48.0	111.8	0.0	21.8	70.8	493.9
Net interest income after provision for possible loan losses	**56.2**	**-296.0**	**6.4**	**-1.4**	**6.2**	**-18.0**	**68.8**	**-315.4**
Net fee and commission income	-98.1	-56.0	4.3	4.3	0.8	0.2	-93.0	-51.5
Net income from financial instruments at fair value	87.1	-619.2	-20.8	113.0	5.1	-92.7	71.4	-598.9
Net income from investment securities	-8.6	-6.0	50.9	156.4	0.0	8.8	42.3	159.2
Net income from investments accounted for using the equity method	1.6	-0.7	0.0	0.0	0.0	0.0	1.6	-0.7
Administrative expenses	276.9	254.1	44.4	44.0	0.0	3.4	321.3	301.5
Other operating result	191.4	170.1	41.3	-3.0	10.2	-2.4	242.9	164.7
Operating result	**-47.3**	**-1,061.9**	**37.7**	**225.3**	**22.3**	**-107.5**	**12.7**	**-944.1**
Credit volume *	28,223	29,030	3,851	7,359	7	1	32,081	36,390

* Figures adjusted

Notes on financial instruments

(60) Income according to holding category and reconciliation to the income statement

31 March 2011 in € million	IAS 39 category					Receivables from finance leases	Off-balance sheet transactions	Result from financial instruments covered by 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	**888.1**	**45.3**	**-13.2**	**-303.1**	**-603.5**	**128.9**	**-**	**142.5**	**-2.9**	**139.6**
Interest income	888.1	45.3	658.9	77.7	-	145.5	-	1,815.5	39.4	**1,854.9**
Interest expenses	-	-	672.1	380.8	603.5	16.6	-	1,673.0	42.3	**1,715.3**
Net fee and commission income	**38.4**	**-**	**-0.4**	**-0.5**	**-130.1**	**-0.1**	**-**	**-92.7**	**-0.3**	**-93.0**
Fee and commission income	42.1	-	0.0	0.0	0.0	0.0	-	42.1	1.3	**43.4**
Fee and commission expenses	3.7	-	0.4	0.5	130.1	0.1	-	134.8	1.6	**136.4**
Net gains/losses	**-56.5**	**13.6**	**-157.0**	**210.5**	**322.5**	**1.9**	**-**	**335.0**	**-49.2**	**285.8**
Net income from financial instruments at fair value	-	-	-157.0	228.4	-	-	-	71.4	-	**71.4**
Net income from investment securities	28.7	13.6	-	-	.	-	-	42.3	-	**42.3**
Provisions for possible loan losses	85.2	-	-	-	-	-1.9	-	83.3	-12.5	**70.8**
Other operating result	-	-	-	-17.9	322.5	-	-	304.6	-61.7	**242.9**
Total	**870.0**	**58.9**	**-170.6**	**-93.1**	**-411.1**	**130.7**	**-**	**384.8**	**-52.4**	**332.4**

31 March 2010 in € million	IAS 39 category					Receivables from finance leases	Off-balance sheet transactions	Result from financial instruments covered 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	**1,055.8**	**43.2**	**-52.2**	**-272.5**	**-725.8**	**129.8**	**-**	**178.3**	**0.2**	**178.5**
Interest income	1,055.8	43.2	580.0	128.1	-	147.5	-	1,954.6	47.9	**2,002.5**
Interest expenses	-	-	632.2	400.6	725.8	17.7	-	1,776.3	47.7	**1,824.0**
Net fee and commission income	**8.8**	**-**	**0.2**	**-0.5**	**0.0**	**-0.1**	**-**	**8.4**	**-59.9**	**-51.5**
Fee and commission income	12.3	-	0.2	0.0	0.0	0.0	-	12.5	32.5	**45.0**
Fee and commission expenses	3.5	-	-	0.5	0.0	0.1	-	4.1	92.4	**96.5**
Net gains/losses	**-323.0**	**4.2**	**135.2**	**-727.4**	**144.8**	**-4.4**	**-**	**-770.6**	**1.7**	**-768.9**
Net income from financial instruments at fair value	-	-	135.2	-734.1	-	-	-	-598.9	-	**-598.9**
Net income from investment securities	155.0	4.2	-	-	.	-	-	159.2	-	**159.2**
Provisions for possible loan losses	478.0	-	-	-	-	4.4	-	482.4	11.5	**493.9**
Other operating result	-	-	-	6.7	144.8	-	-	151.5	13.2	**164.7**
Total	**741.6**	**47.4**	**83.2**	**-1,000.4**	**-581.0**	**125.3**	**-**	**-583.9**	**-58.0**	**-641.9**

* Figures adjusted

The reconciliation to the income statement includes income and expense that is not covered by the scope of IFRS 7.

The income from investment securities reported in net profit and/or loss includes gains and losses from the disposal and valuation of investment securities. In addition to disposal and remeasurement gains, net income from financial instruments at fair value also includes interest income from hedged items and hedging transactions in the amount of € -5.9 million (previous year: € -2.7 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 net profit and/or loss, but instead is disclosed in interest income for all IAS 39 holding categories.

(61) Classification of financial instruments in accordance with IFRS 7

The following table contains the carrying amounts of the Bank's financial instruments (before deduction of risk provisions) in accordance with the IFRS 7 reporting classes:

The cash reserve is presented in the balance sheet and is not included in the IFRS 7 presentation below.

IFRS 7 reporting categories for financial instruments in € million	31 Mar 2011	31 Mar 2010
Assets		
Fair value through profit or loss		
Held for trading	**787.7**	**1,311.7**
Assets held for trading	630.2	1,074.2
Derivative financial instruments recognised at fair value through profit or loss	157.5	237.5
Fair value option	**2,296.7**	**2,758.7**
Investment securities	2,296.7	2,758.7
Hedging derivatives		
Assets held for trading	27.8	29.6
Fair value in equity		
Available for sale	**2,746.4**	**1,594.9**
Investment securities	2,746.4	1,594.9
Carried at amortised cost		
Loans and receivables	**23,612.1**	**28,407.8**
Loans and advances to banks	2,316.2	2,518.3
Loans and advances to customers (including hedge fair value adjustments)	18,441.2	21,847.7
Investment securities	2,854.7	3,987.1
Non-current assets held for sale	0.0	54.7
Receivables from finance leases		
Loans and advances to customers	1,889.7	1,817.4
Other financial instruments not covered by IFRS 7		
Investments accounted for using the equity method	10.8	9.5
Total	**31,371.2**	**35,929.6**
Equity and liabilities		
Fair value through profit or loss		
Held for trading	**1,890.8**	**2,291.6**
Liabilities held for trading	1,593.4	1,971.6
Derivative financial instruments recognised at fair value through profit or loss	297.4	320.0
Fair value option	**9,479.5**	**10,914.8**
Liabilities to banks	653.0	946.6
Liabilities to customers	1,610.0	1,885.7
Securitised liabilities	6,896.5	7,739.1
Subordinated capital	320.0	343.4
Hedging derivatives		
Liabilities held for trading	112.8	190.3
Carried at amortised cost		
Other financial liabilities	**18,240.1**	**20,603.9**
Liabilities to banks	10,540.6	11,051.4
Liabilities to customers	6,068.2	5,632.2
Securitised liabilities	806.9	3,049.5
Subordinated capital	824.4	870.8
Total	**29,723.2**	**34,000.6**
Off-balance sheet transactions		
Contingent liabilities	496.5	628.4
Other obligations	1,664.2	2,265.7
Total	**2,160.7**	**2,894.1**

(62) Fair value of financial assets and liabilities

Comparison of fair values and the corresponding carrying amounts:

	31 Mar 2011	31 Mar 2010	31 Mar 2011	31 Mar 2010	31 Mar 2011	31 Mar 2010
Assets						
Loans and receivables	**22,417.1**	**26,769.7**	**22,913.5**	**27,530.8**	**-496.4**	**-761.1**
Loans and advances to banks	2,316.1	2,518.2	2,316.2	2,518.3	-0.1	-0.1
*Loans and advances to customers (including hedge fair value adjustments) * / ****	17,412.1	20,236.2	17,742.6	20,970.7	-330.5	-734.5
Investment securities	2,688.9	3,960.6	2,854.7	3,987.1	-165.8	-26.5
Non-current assets held for sale	-	54.7	-	54.7	-	0.0
Finance lease receivables	**1,882.1**	**1,807.3**	**1,882.1**	**1,807.3**	**0.0**	**0.0**
*Loans and advances to customers **	1,882.1	1,807.3	1,882.1	1,807.3	0.0	0.0
Assets after provision for possible loan losses	**24,299.2**	**28,577.0**	**24,795.6**	**29,338.1**	**-496.4**	**-761.1**
Equity and liabilities						
Other financial liabilities	**18,352.2**	**20,680.2**	**18,240.1**	**20,603.9**	**112.1**	**76.3**
*Liabilities to banks ***	10,585.2	11,302.7	10,540.6	11,051.4	44.6	251.3
Liabilities to customers	6,337.1	5,780.3	6,068.2	5,632.2	268.9	148.1
Securitised liabilities (including hedge fair value adjustments)	780.8	2,964.2	806.9	3,049.5	-26.1	-85.3
Subordinated capital	649.1	633.0	824.4	870.8	-175.3	-237.8
Equity and liabilities	**18,352.2**	**20,680.2**	**18,240.1**	**20,603.9**	**112.1**	**76.3**

* The carrying amount of loans and advances to customers is shown net of impairment in the amount of € 706.2 million (31 March 2010: € 887.1 million).

** The fair value was adjusted by € 270.9 million as of 31 March 2010, from € 11,031.8 million to € 11,302.7 million, due to incorrect disclosure.

*** Applying the change in estimates (see changes in accordance with IAS 8 (aa)), the fair value as of 31 March 2010 would have increased by € 251.0 million, from € 20,236.2 million to € 20,487.2 million, and the difference would have decreased by € 251.0 million, from € -734.5 million to € -483.5 million.

Level classification

IFRS 7 "Enhanced Disclosures on Financial Instruments" defines a three-level hierarchy (Levels 1 to 3) for the measurement methods used to determine fair value for the disclosures in the notes. The following section discusses the fundamental criteria for distinguishing between the individual level hierarchies to which financial instruments at fair value are allocated:

Level 1. Level 1 includes unadjusted quoted prices on active markets that can be applied by an entity for identical assets and liabilities at the measurement date.

A financial instrument is regarded as quoted on an active market if quoted prices are easily and regularly available from an exchange, dealer, broker, industry group, pricing service or a regulatory agency and these prices reflect current and regularly occurring market transactions at arm's length conditions.

An entity must also have access to the market on the respective measurement date. An active market is one on which transactions occur with sufficient frequency and in a sufficient volume to allow permanent price information to be available.

At IKB, the Level 1 hierarchy is primarily used to report corporate and government bonds. The assessment as to whether securities are traded on an active market is performed on a daily basis using a statistical analysis of prices obtained from various market participants. Instruments whose price information is provided by selected pricing services are also allocated to Level 1.

Level 2. Level 2 includes all financial instruments whose fair values can be derived from similar financial instruments on active markets, either directly or directly, or which are measured using valuation models whose input parameters are significant and are taken from active markets. Fair values calculated using DCF procedures or option models whose input parameters are derived from active markets are also reported in Level 2. At IKB, Level 2 includes all instruments that cannot be allocated to Level 1 or Level 3.

Level 3. Financial instruments for which no fair values can be observed on active markets are measured using valuation models. If measurement parameters have a significant influence on determining the fair value and these input factors cannot be observed, the fair values of these instruments are allocated to Level 3. The fair value must be determined from the perspective of knowledgeable, willing and independent market participants, meaning that significant unobservable input parameters must reflect the assumptions made by market participants in pricing, including risk assumptions.

For all instruments for which unobservable market data is applied in measurement, the significance of the influence of the unobservable market data in relation to observable market data is examined (IFRS 7.27A (c)). The key decision-making criterion with respect to significance is the sensitivity of the fair value to changes in unobservable input parameters in relation to its sensitivity to changes in observable input parameters. This procedure serves to fulfil the requirement that instruments are only classified as Level 3 when unobservable parameters have a significant influence on measurement.

The following table shows the allocation of financial instruments at fair value to the three different level hierarchies:

in € million	Level 1		Level 2		Level 3		Total	
	31 Mar 2011	31 Mar 2010	31 Mar 2011	31 Mar 2010	31 Mar 2011	31 Mar 2010	31 Mar 2011	31 Mar 2010
Assets								
Fair value through profit or loss								
Held for trading	**-**	**75.0**	**554.8**	**1,236.7**	**232.9**	**-**	**787.7**	**1,311.7**
Assets held for trading	-	75.0	554.8	1,236.7	232.9	-	787.7	1,311.7
Fair value option	**1,401.2**	**1,630.1**	**683.4**	**868.2**	**212.1**	**260.4**	**2,296.7**	**2,758.7**
Investment securities	1,401.2	1,630.1	683.4	868.2	212.1	260.4	2,296.7	2,758.7
Hedging derivatives								
Assets held for trading	-	-	27.8	29.6	-	-	27.8	29.6
Fair value in equity								
Available for sale	**2,303.4**	**1,496.9**	**427.0**	**80.2**	**-**	**-**	**2,730.4**	**1,577.1**
Investment securities	2,303.4	1,496.9	427.0	80.2	-	-	2,730.4	1,577.1
Total	**3,704.6**	**3,202.0**	**1,693.0**	**2,214.7**	**445.0**	**260.4**	**5,842.6**	**5,677.1**
Equity and liabilities								
Fair value through profit or loss								
Held for trading	**-**	**7.1**	**1,808.6**	**2,284.5**	**82.2**	**-**	**1,890.8**	**2,291.6**
Liabilities held for trading	-	7.1	1,808.6	2,284.5	82.2	-	1,890.8	2,291.6
Fair value option	**6,643.2**	**7,285.4**	**2,812.7**	**3,333.3**	**23.6**	**296.1**	**9,479.5**	**10,914.8**
Liabilities to banks	-	-	653.0	823.8	-	122.8	653.0	946.6
Liabilities to customers	-	-	1,586.4	1,712.4	23.6	173.3	1,610.0	1,885.7
Securitised liabilities	6,604.3	7,210.6	292.2	528.5	-	-	6,896.5	7,739.1
Subordinated capital	38.9	74.8	281.1	268.6	-	-	320.0	343.4
Hedging derivatives								
Liabilities held for trading	-	-	112.8	190.3	-	-	112.8	190.3
Total	**6,643.2**	**7,292.5**	**4,734.1**	**5,808.1**	**105.8**	**296.1**	**11,483.1**	**13,396.7**

Investments in equity instruments with no quoted market price on an active market are deducted from investment securities reported at fair value directly in equity.

Information on level transfers within the fair value hierarchy

A quarterly comparison of all transactions carried at fair value at the start and the end of the respective quarter is performed in order to identify those transactions for which level transfers have taken place. In the case of level transfers during the quarter, the values at the end of the period are applied as the addition and disposal amounts.

Transfers between the individual levels during the financial year are shown in the following table:

in € million	Addition Level 1				Addition Level 2				Addition Level 3			
	Disposal Level 2		Disposal Level 3		Disposal Level 1		Disposal Level 3		Disposal Level 1		Disposal Level 2	
	31 Mar 2011	31 Mar 2010	31 Mar 2011	31 Mar 2010	31 Mar 2011	31 Mar 2010	31 Mar 2011	31 Mar 2010	31 Mar 2011	31 Mar 2010	31 Mar 2011	31 Mar 2010
Assets												
Fair value through profit or loss												
Held for trading	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**380.8**	**-**
Assets held for trading	-	-	-	-	-	-	-	-	-	-	380.8	-
Fair value option	**42.9**	**5.4**	**5.0**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Investment securities	42.9	5.4	5.0	-	-	-	-	-	-	-	-	-
Fair value in equity												
Available for sale	**-**	**47.5**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Investment securities	-	47.5	-	-	-	-	-	-	-	-	-	-
Total	**42.9**	**52.9**	**5.0**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**380.8**	**-**
Equity and liabilities												
Fair value through profit or loss												
Held for trading	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**111.7**	**-**
Liabilities held for trading	-	-	-	-	-	-	-	-	-	-	111.7	-
Fair value option	**32.7**	**-**	**-**	**-**	**60.6**	**21.5**	**-**	**-**	**-**	**-**	**-**	**-**
Subordinated capital	32.7	-	-	-	60.6	21.5	-	-	-	-	-	-
Total	**32.7**	**-**	**-**	**-**	**60.6**	**21.5**	**-**	**-**	**-**	**-**	**111.7**	**-**

For information on the additions to Level 3 relating to the measurement of derivatives of specified interest rate structures and to derivatives without collateral agreements, please refer to the explanations in the section "Changes in accordance with IAS 8 (a) Changes in Accounting Estimates (af) und (ag)". The additions to Level 3 from derivatives without collateral agreements amount to € 380.8 million for assets held for trading and € 69.3 million for liabilities held for trading. The rest of the Level 3 additions (liabilities held for trading) result from derivatives of specified interest rate structures in the amount of € 42.4 million.

Reconciliation of Level 3 transactions

The following table shows all changes in Level 3 financial instruments during the year under review.

in € million	Opening balance			Total amount of gains/losses		Not including deferred interest						Closing balance			
	Including deferred interest	Deferred interest	Not including deferred interest	Income statement	Other income	Purchases	Sales	Issues	Settlements	Transfers to Level 3	Transfers from Level 3	Not including deferred interest	Deferred interest	Including deferred interest	Gains/losses on financial instruments held as at end of reporting period
	1 Apr 2010			1 Apr 2010 - 31 Mar 2011		31 Mar 2011						31 March 2011			1 Apr 2010 - 31 Mar 2011
Assets															
Fair value through profit or loss															
Held for trading	**-**	**-**	**-**	**-161.6**	**-**	**-**	**-**	**-**	**-1.3**	**380.8**	**-**	**217.9**	**15.0**	**232.9**	**1.1**
Assets held for trading	-	-	-	-161.6	-	-	-	-	-1.3	380.8	-	217.9	15.0	232.9	1.1
Fair value option	**260.4**	**0.4**	**260.0**	**-35.0**	**-**	**1.1**	**-9.4**	**-**	**-**	**-**	**-5.0**	**211.7**	**0.4**	**212.1**	**-31.4**
Investment securities	260.4	0.4	260.0	-35.0	-	1.1	-9.4	-	-	-	-5.0	211.7	0.4	212.1	-31.4
Total	**260.4**	**0.4**	**260.0**	**-196.6**	**-**	**1.1**	**-9.4**	**-**	**-1.3**	**380.8**	**-5.0**	**429.6**	**15.4**	**445.0**	**-30.3**
Equity and liabilities															
Fair value through profit or loss															
Held for trading	**-**	**-**	**-**	**-20.9**	**-**	**-**	**-**	**-**	**-7.8**	**111.7**	**-**	**83.0**	**-0.8**	**82.2**	**-33.5**
Liabilities held for trading	-	-	-	-20.9	-	-	-	-	-7.8	111.7	-	83.0	-0.8	82.2	-33.5
Fair value option	**296.1**	**15.6**	**280.5**	**-**	**-**	**-**	**-**	**-**	**-256.9**	**-**	**-**	**23.6**	**-**	**23.6**	**-25.6**
Liabilities to banks	122.8	0.6	122.2	-	-	-	-	-	-122.2	-	-	-	-	-	-
Liabilities to customers	173.3	15.0	158.3	-	-	-	-	-	-134.7	-	-	23.6	-	23.6	-25.6
Liabilities held for trading	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total	**296.1**	**15.6**	**280.5**	**-20.9**	**-**	**-**	**-**	**-**	**-264.7**	**111.7**	**-**	**106.6**	**-0.8**	**105.8**	**-59.1**

in € million	Opening balance			Total amount of gains/losses		Not including deferred interest						Closing balance			
	Including deferred interest	Deferred interest	Not including deferred interest	Income statement	Other income	Purchases	Sales	Issues	Settlements	Transfers to Level 3	Transfers from Level 3	Not including deferred interest	Deferred interest	Including deferred interest	Gains/losses on financial instruments held as at end of reporting period
	1 Apr 2009			1 Apr 2009 - 31 Mar 2010		31 Mar 2010						31 March 2010			1 Apr 2009 - 31 Mar 2010
Assets															
Fair value through profit or loss															
Fair value option	**254.5**	**1.0**	**253.5**	**17.0**	**-**	**5.6**	**-16.1**	**-**	**-**	**-**	**-**	**260.0**	**0.4**	**260.4**	**-29.4**
Investment securities	254.5	1.0	253.5	17.0	-	5.6	-16.1	-	-	-	-	260.0	0.4	260.4	-29.4
Total	**254.5**	**1.0**	**253.5**	**17.0**	**-**	**5.6**	**-16.1**	**-**	**-**	**-**	**-**	**260.0**	**0.4**	**260.4**	**-29.4**
Equity and liabilities															
Fair value through profit or loss															
Fair value option	**478.3**	**9.2**	**469.1**	**154.0**	**-**	**-**	**-**	**-**	**-342.6**	**-**	**-**	**280.5**	**15.6**	**296.1**	**96.3**
Liabilities to banks	392.6	6.5	386.1	78.7	-	-	-	-	-342.6	-	-	122.2	0.6	122.8	23.7
Liabilities to customers	85.7	2.7	83.0	75.3	-	-	-	-	-	-	-	158.3	15.0	173.3	72.6
Total	**478.3**	**9.2**	**469.1**	**154.0**	**-**	**-**	**-**	**-**	**-342.6**	**-**	**-**	**280.5**	**15.6**	**296.1**	**96.3**

The income statement column is used solely for remeasurement gains and gains on disposal as well as the amortisation of debt instruments allocated to the “financial assets available for sale” category. By contrast, accrued and deferred interest is not included.

In the current financial year, the method for measuring derivatives whose default risk is not covered by collateral agreements was optimised further. In this context, the Bank has further developed the method for calculating credit valuation adjustments and applied it to the relevant derivatives. Under the new method, these derivatives were classified as Level 3 instruments in the current financial year (previously Level 2).

Sensitivity analysis for Level 3 transactions

Due to the degree of uncertainty to which valuation models are subject, the parameters not observable on the market were varied for Level 3 transactions. The variation analysis of input parameters not observable on the market was performed on the basis of potential alternative assumptions at the balance sheet date and resulted in a range of fair values calculated using these positive and negative variations in input parameters.

The fair values of some of IKB’s credit derivatives are determined to a large extent by parameters that are not observable on the market. In accordance with IFRS 7.27B (e), model input parameters should be changed to reflect suitable potential alternatives. IKB only performs stress testing for those parameters that are not directly observable on the market. Stress testing is not performed for those parameters that are directly observable on the market, as a change in the yield curve, for example, would directly contradict the available market information at the measurement date and hence would not constitute a suitable potential alternative.

The parameters not observable on the market relate to correlations and liquidity spreads, credit spreads calculated from internal ratings for measuring unsecured derivatives, and certain unobservable parameters of standard market interest rate structure models. The use of possible alternative assumptions in relation to the parameters not observable on the market as at 31 March 2011 would lead in total to a € 7.0 million increase or a €- 7.9 million decrease in the fair value.

The following table provides an overview of the changes in the fair value of Level 3 transactions in response to the aforementioned parameter variations, with the transactions shown at product level.

in € million	Positive change		Negative change	
	31 Mar 2011	31 Mar 2010	31 Mar 2011	31 Mar 2010
Private equity transactions	6.5	5.7	- 6.5	- 5.8
Instruments with credit derivative components	**2.5**	**8.8**	**- 2.6**	**- 5.5**
First-to-default bonds	2.5	4.4	- 2.6	- 3.7
Portfolio investments	-	4.4	-	- 1.8
Derivatives without cash collateral	- 2.3	-	1.6	-
Unobservable parameters in yield structure models	0.3	-	- 0.4	-
Total	**7.0**	**14.5**	**- 7.9**	**- 11.3**

The parameter observed is the credit spread. In the event of a positive shift in the credit spread (i.e. the credit spread increases), the customer's credit rating deteriorates and there is a negative effect on the fair value. In the event of a negative shift in the credit spread, there is accordingly a positive effect on the fair value.

There were no transactions resulting in a difference between the transaction price and the fair value calculated on a model basis in the year under review.

The difference between the carrying amount of financial liabilities at fair value and the redemption amount was € -746.1 million (previous year: € -479.9 million) and resulted from the following balance sheet items:

in € million	Carrying amount		Difference between carrying amount and repayment amount on maturity	
	31 Mar 2011	31 Mar 2010	31 Mar 2011	31 Mar 2010
Liabilities to banks	653.0	946.6	18.0	34.3
Liabilities to customers	1,610.0	1,885.7	-448.7	-239.2
Securitised liabilities	6,896.4	7,739.1	92.0	197.5
Subordinated capital	320.0	343.4	-407.4	-472.5
Total	**9,479.4**	**10,914.8**	**-746.1**	**-479.9**

(63) Derivatives

IKB enters into forward transactions, which are mainly used to control and limit interest rate, credit and currency risks.

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 measurement of financial instruments is shown in note (6).

The following table shows a breakdown of derivatives:

in € million	Nominal amount		Fair value					
			Positive		Negative		Total	
	31 Mar 2011	31 Mar 2010	31 Mar 2011	31 Mar 2010	31 Mar 2011	31 Mar 2010	31 Mar 2011	31 Mar 2010
Interest rate derivatives	**57,353.7**	**48,237.6**	**673.3**	**1,114.6**	**1,881.0**	**2,350.2**	**-1,207.7**	**-1,235.6**
Remaining term up to one year			243.0	289.1	212.2	320.9	30.8	-31.8
Remaining term between one and five years			166.0	322.0	295.7	465.4	-129.7	-143.4
Remaining term more than five years			264.3	503.5	1,373.1	1,563.9	-1,108.8	-1,060.4
Credit derivatives	**194.1**	**602.1**	**0.2**	**15.5**	**8.5**	**13.6**	**-8.3**	**1.9**
Remaining term up to one year			-	2.1	-	2.1	-	-
Remaining term between one and five years			0.2	12.9	8.5	11.3	-8.3	1.6
Remaining term more than five years			-	0.5	-	0.2	-	0.3
Currency derivatives	**2,190.8**	**3,041.9**	**109.9**	**78.3**	**114.1**	**118.1**	**-4.2**	**-39.8**
Remaining term up to one year			21.1	36.8	9.4	58.1	11.7	-21.3
Remaining term between one and five years			45.6	17.5	85.8	50.3	-40.2	-32.8
Remaining term more than five years			43.2	24.0	18.9	9.7	24.3	14.3
Total	**59,738.6**	**51,881.6**	**783.4**	**1,208.4**	**2,003.6**	**2,481.9**	**-1,220.2**	**-1,273.5**

The following table shows a breakdown of derivatives by counterparties.

in € million	Fair values as of 31 Mar 2011		Fair values as of 31 Mar 2010	
	Positive	Negative	Positive	Negative
OECD banks	562.2	1,963.9	876.9	2,457.1
Other OECD companies and OECD private persons	221.2	39.7	331.5	13.6
Non-OECD	-	-	-	11.2
Total	**783.4**	**2,003.6**	**1,208.4**	**2,481.9**

(64) Credit risk disclosures

The following table shows the maximum credit risk amount in accordance with IFRS 7.36 (a). The maximum credit risk encompasses both 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 2011, 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		Fair value of corresponding collateral	
in € million	31 Mar 2011	31 Mar 2010	31 Mar 2011	31 Mar 2010	31 Mar 2011	31 Mar 2010	31 Mar 2011	31 Mar 2010	31 Mar 2011	31 Mar 2010	31 Mar 2011	31 Mar 2010
Fair value through profit or loss												
Held for trading	**787.7**	**1,311.7**	**787.7**	**1,311.7**	**-**	**-**	**-**	**-**	-	-	-	-
Assets held for trading	787.7	1,311.7	787.7	1,311.7	-	-	-	-	-	-	-	-
Fair value option	**2,296.7**	**2,758.7**	**2,296.7**	**2,758.7**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Investment securities	2,296.7	2,758.7	2,296.7	2,758.7	-	-	-	-	-	-		
Hedging derivatives												
Held for trading	**27.8**	**29.6**	**27.8**	**29.6**	**-**	**-**	**-**	**-**	-	-	-	-
Assets held for trading	27.8	29.6	27.8	29.6	-	-	-	-	-	-	-	-
Fair value in equity												
Available for sale	**2,746.4**	**1,594.9**	**2,746.4**	**1,594.9**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Investment securities	2,746.4	1,594.9	2,746.4	1,594.9	-	-	-	-	-	-		
Amortised cost												
Loans and receivables	**22,913.5**	**27,530.8**	**21,421.9**	**25,040.2**	**327.0**	**496.5**	**348.0**	**748.3**	**816.7**	**1,245.7**	**7,761.5**	**8,930.3**
Loans and advances to banks	2,316.2	2,518.3	2,316.2	2,518.3		-	-	-	-	-		
Loans and advances to customers (including hedge fair value adjustments)	17,742.6	20,970.7	16,394.2	18,863.1	327.0	496.5	348.0	748.3	673.5	862.7	7,761.5	8,930.3
Investment securities	2,854.7	3,987.1	2,711.5	3,604.1	-	-	-	-	143.2	383.0	0.0	0.0
Non-current assets held for sale	-	54.7	-	54.7			-		-		-	-
Receivables from finance leases												
Loans and advances to customers	**1,882.1**	**1,807.3**	**1,372.8**	**1,594.8**	**1.3**	**-**	**472.0**	**128.1**	**36.0**	**84.4**	**1,449.2**	**1,391.6**
Less portfolio impairment	**112.3**	**185.1**										
Off-balance sheet transactions												
Contingent liabilities	**496.5**	**628.4**										
Other obligations	**1,664.2**	**2,265.7**										
Total	**32,702.6**	**37,742.0**										

IKB hedges 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 other collateral such as assignment of receivables, participation rights or subordination after corresponding checks have been performed. In addition to these forms of collateral, risk transfers through Hermes guarantees, indemnifications and synthetic risk transfers serve to reduce credit risk. Broken down by type, 35.4% of collateral currently relates to risk transfers (previous year: 37.5%), 27.4% to mortgages (previous year: 27.7%), 13.9% to transfers of ownership (previous year: 10.7%), 6.4% to cash collateral (previous year: 0.0%) and 17.0% to other collateral (previous year: 24.1%).

In addition to these forms of collateral, credit derivatives and similar instruments also contribute to reducing credit risk. Information on credit derivatives and similar instruments that are related to liabilities for which the fair value option has been exercised was not available in the year under review or the previous year.

The risk relief provided by collateral is dependent on the collateral type. At IKB, individual parameters and standardised processes are used to measure the collateral accepted. In addition to the value on recognition, the sustainable value of collateral 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.

The following table shows the credit quality of financial instruments that are neither past due nor impaired:

	Credit quality of credit risk exposure neither past due nor impaired												Total	
	Rating class 1 to 4		Rating class 5 to 7		Rating class 8 to 10		Rating class 11 to 13		Rating class 14 and worse		No rating			
in € million	31 Mar 2011	31 Mar 2010	31 Mar 2011	31 Mar 2010	31 Mar 2011	31 Mar 2010	31 Mar 2011	31 Mar 2010	31 Mar 2011	31 Mar 2010	31 Mar 2011	31 Mar 2010	31 Mar 2011	31 Mar 2010
Fair value through profit or loss														
Held for trading	**544.6**	**960.7**	**94.4**	**53.2**	**89.8**	**128.7**	**45.8**	**116.7**	**13.0**	**52.4**	**0.0**	**0.0**	**787.7**	**1,311.7**
Assets held for trading	544.6	960.7	94.4	53.2	89.8	128.7	45.8	116.7	13.0	52.4	0.0	0.0	787.7	1,311.7
Fair value option	**1,102.4**	**679.8**	**229.7**	**1,099.4**	**187.7**	**359.8**	**206.7**	**192.1**	**570.2**	**427.6**	**0.0**	**0.0**	**2,296.7**	**2,758.7**
Investment securities	1,102.4	679.8	229.7	1,099.4	187.7	359.8	206.7	192.1	570.2	427.6	0.0	0.0	2,296.7	2,758.7
Hedging derivatives														
Held for trading	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**27.8**	**29.6**	**27.8**	**29.6**
Assets held for trading	-	-	-	-	-	-	-	-	-	-	27.8	29.6	27.8	29.6
Fair value in equity														
Available for sale	**2,509.4**	**1,324.4**	**59.8**	**181.5**	**122.9**	**67.2**	**0.0**	**9.7**	**0.0**	**10.6**	**54.3**	**1.5**	**2,746.4**	**1,594.9**
Investment securities	2,509.4	1,324.4	59.8	181.5	122.9	67.2	0.0	9.7	0.0	10.6	54.3	1.5	2,746.4	1,594.9
Amortised cost														
Loans and receivables	**6,520.2**	**6,397.8**	**6,222.1**	**4,195.7**	**5,335.4**	**7,025.7**	**2,567.7**	**5,768.6**	**667.4**	**1,405.7**	**109.0**	**246.8**	**21,421.9**	**25,040.2**
Loans and advances to banks	2,279.8	2,465.3	24.2	21.9	0.0	-	11.5	-	0.8	14.7	0.0	16.4	2,316.2	2,518.3
Loans and advances to customers (including hedge fair value adjustments)	1,903.0	936.3	6,011.4	3,783.5	5,335.4	6,936.6	2,515.4	5,730.0	519.9	1,246.3	109.0	230.4	16,394.2	18,863.1
Investment securities	2,337.4	2,996.1	186.5	390.3	0.0	34.4	40.8	38.6	146.7	144.7	0.0	0.0	2,711.5	3,604.1
Non-current assets held for sale	-	-	-	-	-	54.7	-	-	-	-	-	-	-	54.7
Receivables from finance leases														
Loans and advances to customers	**0.2**	**1.6**	**112.9**	**218.3**	**465.5**	**634.0**	**352.2**	**413.4**	**433.5**	**305.5**	**8.6**	**21.9**	**1,372.9**	**1,594.8**
Total	**10,676.8**	**9,364.3**	**6,718.9**	**5,748.1**	**6,201.3**	**8,215.4**	**3,172.4**	**6,500.5**	**1,684.1**	**2,201.8**	**199.7**	**299.8**	**28,653.4**	**32,329.9**

The loans with negotiated conditions shown in the table at the maximum credit risk amount are not past due 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 have 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 are not required to be recognised for the renegotiated loans or those in arrears shown below. However, these loans are taken into account in calculating portfolio write-downs. Please see the Group management report for more information on the calculation of portfolio writedowns.

The rating methods and procedures used by IKB are explained in the Group Management Report.

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.

As of the balance sheet date 31 March 2011, the following financial assets were in arrears:

	Financial assets past due but not impaired						**Total**	Fair value of corresponding collateral
31 Mar. 2011 in € million	Between 1 and 5 days	Between 5 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	**108.2**	**84.9**	**41.9**	**82.8**	**3.8**	**26.4**	**348.0**	**193.1**
Loans and advances to customers (including hedge fair value adjustments)	108.2	84.9	41.9	82.8	3.8	26.4	348.0	193.1
Receivables from finance leases								
Loans and advances to customers	**34.9**	**185.0**	**143.7**	**42.9**	**30.3**	**35.3**	**472.0**	**363.4**
Total	**143.1**	**269.9**	**185.6**	**125.7**	**34.1**	**61.7**	**820.0**	**556.5**

	Financial assets past due but not impaired						**Total**	Fair value of corresponding collateral
31 Mar 2010 in € million	Between 1 and 5 days	Between 5 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	**589.5**	**17.8**	**59.7**	**50.0**	**8.4**	**22.8**	**748.3**	**366.5**
Loans and advances to customers (including hedge fair value adjustments)	589.5	17.8	59.7	50.0	8.4	22.8	748.3	366.5
Receivables from finance leases								
Loans and advances to customers	**11.8**	**31.4**	**53.2**	**13.8**	**11.1**	**6.6**	**128.1**	**0.0**
Total	**601.4**	**49.2**	**113.0**	**63.8**	**19.6**	**29.5**	**876.4**	**366.5**

Financial instruments that are in arrears by one or more days are classed as past due in accordance with IFRS 7. However, the first maturity range (one to five days in arrears) should be regarded as less meaningful due to the possibility of delays in settlement on the part of the borrower. There are no impairment losses for the past due financial instruments shown in this table.

The following financial assets were subject to individual write-downs as of the balance sheet date:

in € million	Carrying amount of impaired assets before impairment		Amount of impairment		Carrying amount of impaired assets after impairment		Fair value of corresponding collateral	
	31 Mar 2011	31 Mar 2010	31 Mar 2011	31 Mar 2010	31 Mar 2011	31 Mar 2010	31 Mar 2011	31 Mar 2010 *
Amortised cost								
Loans and receivables	**2,108.1**	**3,325.5**	**1,291.4**	**2,079.8**	**816.7**	**1,245.7**	**585.9**	**814.9**
Loans and advances to customers (including hedge fair value adjustments)	1,372.1	1,739.7	698.6	877.0	673.5	862.7	585.9	814.9
Investment securities	735.9	1,585.8	592.7	1,202.8	143.2	383.0	-	-
Receivables from finance leases								
Loans and advances to customers	**43.6**	**91.6**	**7.6**	**7.2**	**36.0**	**84.4**	**27.7**	**65.0**
Total	**2,151.7**	**3,417.1**	**1,299.0**	**2,087.0**	**852.7**	**1,330.1**	**613.6**	**879.9**

* Figures adjusted
Owing to incorrect reporting, the fair value of the corresponding collateral of loans and advances to customers from finance leasing at 31 March 2010 was corrected from € 0.0 million to € 65.0 million.

During the financial year, IKB generated collateral revenue in the amount of € 545.0 million (previous year: € 581.1 million).

Detailed information on risks can be found in the risk report in the Group management report.

Other disclosures

(65) Changes in equity recognised directly in equity

in € million	Balance as of 1 Apr 2010	Changes recognised directly in equity	Changes recognised in profit or loss	Balance before income tax effects as of 31 Mar 2011	Income tax effects on changes recognised directly in equity	Income tax effects on changes recognised in profit or loss	Balance after income tax effects as of 31 Mar 2011
Financial assets available for sale	**0.9**	-38.1	-14.4	**-51.5**	12.1	4.3	**-35.0**
Derivatives hedging fluctuations in future cash flows	**-7.8**	9.2	-	**1.4**	-2.9	-	**-1.5**
Currency translation reserve	**-17.2**	-0.3	-	**-17.5**	-	-	**-17.5**
Actuarial gains/losses (IAS 19)	**-33.8**	13.4	-	**-20.4**	-4.2	-	**-24.6**
Total comprehensive income	**-57.9**	**-15.8**	**-14.4**	**-88.0**	**5.1**	**4.3**	**-78.6**

in € million	Balance as of 1 Apr 2009	Changes recognised directly in equity	Changes recognised in profit or loss	Balance before income tax effects as of 31 Mar 2010	Income tax effects on changes recognised directly in equity	Income tax effects on changes recognised in profit or loss	Balance after income tax effects as of 31 Mar 2010
Financial assets available for sale	**-27.6**	37.4	3.2	**13.0**	-11.2	-0.9	**0.9**
Derivatives hedging fluctuations in future cash flows	**-8.3**	0.8	-	**-7.5**	-0.3	-	**-7.8**
Currency translation reserve	**-20.5**	3.3	-	**-17.2**	-	-	**-17.2**
Actuarial gains/losses (IAS 19)	**-27.1**	-9.5	-	**-36.6**	2.8	-	**-33.8**
Total comprehensive income	**-83.5**	32.0	**3.2**	-48.3	**-8.7**	-0.9	**-57.9**

(66) Contingent assets/liabilities and other commitments

IKB's contingent liabilities and other commitments break down as follows:

in € million	31 Mar 2011	31 Mar 2010
Contingent liabilities	**496.5**	**628.4**
Other obligations	**1,664.2**	**2,265.7**
Commitments up to one year	834.3	1,108.1
Commitments of more than one year	829.9	1,157.6
Total	**2,160.7**	**2,894.1**

Contingent liabilities are offset by contingent assets in the same amount.

As part of the sale of 50% of the shares in Movesta, IKB AG and IKB Beteiligungen assumed joint and several guarantees and indemnity obligations including for the transferred GmbH shares and the proper settlement and fulfilment of historical obligations (e.g. submission of tax declarations and tax returns).

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.

(67) 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 amounted to € 9.2 million (previous year: € 22.1 million).

Other financial obligations for rental agreements, leases and other agreements totalled € 302.1 million as of 31 March 2011 (previous year: € 261.6 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 meet the contributions of other members of the Association of German Banks. Due to the current market situation, the negative impact resulting from this cannot be predicted. In accordance with section 5 (10) of the by-laws of the Deposit Protection Fund, IKB AG is also required to indemnify the Association of German Banks from losses incurred by the latter due to assistance provided for another bank in which IKB AG holds the respective majority of the shares or over which it can directly or indirectly exercise control.

(68) Leases

Finance leases

Receivables from lease transactions in € million	31 Mar 2011	31 Mar 2010
Gross investment value (maturities)		
up to one year	675,8	625,0
between one and five years	1.370,0	1.331,6
more than five years	107,4	128,7
Total gross investment value	**2.153,2**	**2.085,3**
of which:		
Non-guaranteed residual values	27,2	51,2
Unrealised financial income (maturities)		
up to one year	106,5	102,9
between one and five years	149,1	152,8
more than five years	8,0	12,3
Total unrealised financial income	**263,6**	**268,0**
Net investment value (maturities)		
up to one year	569,3	522,1
between one and five years	1.220,9	1.178,8
more than five years	99,5	116,4
Total net investment value	**1.889,7**	**1.817,3**
Contingent rent recognised in profit or loss	8,2	8,4
Cumulative impairment for irrecoverable outstanding minimum lease payments	0,9	0,6

Future minimum lease payments from non-cancellable finance leases are broken down by maturities as follows:

in € million	31 Mar 2011	31 Mar 2010
up to one year	614.1	519.9
between one and five years	1,243.2	1,111.8
more than five years	94.2	111.9
Total	**1,951.5**	**1,743.6**

Operating leases

Future minimum lease payments from non-cancellable operating leases are broken by maturities as follows:

in € million	31 Mar 2011	31 Mar 2010
up to one year	8.3	37.6
between one and five years	11.8	71.6
more than five years	0.1	0.9
Total	**20.2**	**110.1**

As in the previous year, no contingent rents were recognised in profit or loss in the year under review.

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, in each case 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 linking the increase of the rents 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:

in € million	31 Mar 2011	31 Mar 2010
up to one year	9.9	9.9
between one and five years	53.0	54.2
more than five years	135.8	153.5
Total	**198.7**	**217.6**

IKB expects to receive rental payments from subleasing parts of the administrative buildings to third-party tenants of at least € 1.9 million p.a. (previous year: € 2.0 million).

(69) Disclosures on collateral

Disclosures on collateral provided for own liabilities and contingent liabilities

The following table provides an overview of all assets (except for cash collateral payments) pledged as collateral by IKB. This also includes collateral that the secured party can dispose of freely and for which the secured party has a customary right of resale.

in € million	Assets provided as collateral	
	31 Mar 2011	31 Mar 2010
Assets		
Fair value through profit or loss		
Held for trading	**13.7**	**0.0**
Assets held for trading	13.7	0.0
Fair value option	**820.7**	**981.3**
Investment securities	820.7	981.3
Fair value in equity		
Available for sale	**670.9**	**404.0**
Investment securities	670.9	404.0
Carried at amortised cost		
Loans and receivables	**11,097.9**	**9,929.8**
Loans and advances to customers	10,320.4	8,783.4
Investment securities	775.9	1,146.4
Total	**12,603.2**	**11,315.1**

As of the balance sheet date, there were cash collateral payments amounting to € 2.2 million (previous year: € 2.9 million) in connection with lending business.

Cash collateral in the amount of € 1,479.7 million (previous year: € 1,590.7 million) was assigned for OTC derivatives as part of collateral management.

Securities with a nominal value of € 197.0 million (previous year: € 240.0 million) have been lodged with Clearstream Banking AG, Frankfurt am Main, for compliance with payment obligations in securities transactions; a security with a nominal value of € 7.0 million (previous year: € 7.0 million) has been deposited as collateral at Clearstream Banking S.A., Luxembourg. In trading on EUREX Germany, securities for margin obligations have been lodged with Barclays, London, with a nominal value of € 22.0 million (previous year: € 22.0 million).

Securities in the amount of € 87.4 million (previous year: € 87.4 million) have been pledged to KfW, Frankfurt am Main, to help hedge joint business concepts and cash collateral of € 230.0 million (previous year: € 230.0 million) has been provided. € 40.0 million (previous year: € 10.0 million) has been pledged as cash collateral at other banks. Additional securities totalling € 141.0 million (previous year: € 124.0 million) were pledged as collateral to various banks to secure global loans.

A total of € 10.3 billion (previous year: € 8.8 billion) of loans and advances to customers is pledged as collateral. Of this amount, € 2.0 billion (previous year: € 2.1 billion) was provided as security at the European Central Bank as part of the tender and loan application process and € 8.3 billion (previous year: € 6.7 billion) at development banks.

(70) Securities repurchase agreements

In the 2010/11 financial year, IKB increased its genuine repurchase agreement business. As a pledgor, IKB transferred investment securities with a carrying amount of € 954.4 million (previous year: € 576.9 million) (repo agreements) as of the reporting date. These assets included collateral that can be resold or re-pledged. The repurchase agreements resulted in liabilities to banks of € 894.1 million (previous year: € 540.2 million).

in € million	Repurchase agreements		Corresponding purchase price liabilities (liabilities to banks or customers)	
	31 Mar 2011	31 Mar 2010	31 Mar 2011	31 Mar 2010
Assets				
Fair value through profit or loss				
Fair value option	**169.8**	**339.3**	**165.6**	**317.7**
Investment securities	169.8	339.3	165.6	317.7
Fair value in equity				
Available for sale	**174.7**	**0.5**	**174.7**	**0.5**
Investment securities	174.7	0.5	174.7	0.5
Carried at amortised cost				
Loans and receivables	**609.9**	**237.1**	**553.8**	**222.0**
Investment securities	609.9	237.1	553.8	222.0
Total	**954.4**	**576.9**	**894.1**	**540.2**

As a borrower, IKB also received government bonds with a fair value of € 151.7 million (previous year: € 132.0 million) (reverse repo transactions) with an option for resale or reassignment. As of the reporting date, this resulted in loans and advances to banks with a carrying amount of € 151.4 million (previous year: € 132.0 million). In line with the usual conditions for repo agreements, there is a return obligation in the same amount for the government bonds received.

(71) Statement of changes in non-current assets

Non-current assets developed as follows in the previous financial year:

in € million	Intangible assets	Property, plant and equipment			Total
		Land and buildings and buildings under construction not including investment property	Operating and office equipment including low-value assets	Lease assets from operating leases	
Cost					
As of 31 March 2010	**79.5**	**39.5**	**69.0**	**219.8**	**407.8**
Changes in the scope of consolidation	-	-15.2	-0.3	-	-15.5
Exchange differences	-	-	-0.1	1.8	1.7
Additions	12.9	0.4	5.6	46.3	65.2
Reclassification	-	-	-	-4.1	-4.1
Disposals	3.4	0.6	2.5	30.7	37.2
As of 31 March 2011	**89.0**	**24.1**	**71.7**	**233.1**	**417.9**
Depreciation and amortisation expense					
As of 31 March 2010	**66.6**	**18.9**	**51.8**	**78.1**	**215.4**
Changes in the scope of consolidation	-	-6.8	-0.2	-	-7.0
Exchange differences	-	-	-0.1	0.5	0.4
Depreciation and amortisation	6.9	-	5.5	35.6	48.0
Impairment	-	-	-	-	-
Reversals of impairment losses	-	-	-	-	-
Reclassification	-	-	-	-	-
Disposals	3.8	0.1	1.8	20.0	25.7
As of 31 March 2011	**69.7**	**12.0**	**55.2**	**94.2**	**231.1**
Carrying amounts					
As of 31 March 2010	**12.9**	**20.6**	**17.2**	**141.7**	**192.4**
As of 31 March 2011	**19.3**	**12.1**	**16.5**	**138.9**	**186.8**

(72) 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 is shown as the due date.

The following table provides a breakdown of the carrying amounts of assets and liabilities by remaining term:

31 March 2011 in € million	up to 3 months	between 3 months and 1 year	between 1 and 5 years	more than 5 years	**Total**
Loans and advances to banks	2,243.2	5.1	56.3	11.6	**2,316.2**
Loans and advances to customers	1,630.7	2,757.6	10,922.4	5,020.2	**20,330.9**
Assets held for trading	231.4	39.8	231.5	312.8	**815.5**
Investment securities	1,416.3	976.2	3,369.4	2,135.9	**7,897.8**
Investments accounted for using the equity method	-	-	-	10.8	**10.8**
Total	**5,521.6**	**3,778.7**	**14,579.6**	**7,491.3**	**31,371.2**
Liabilities to banks	2,000.1	1,561.1	5,411.7	2,220.7	**11,193.6**
Liabilities to customers	2,804.0	1,302.3	1,181.6	2,390.3	**7,678.2**
Securitised liabilities	1,269.5	4,204.1	2,202.5	27.3	**7,703.4**
Liabilities held for trading	192.9	33.8	390.0	1,386.9	**2,003.6**
Subordinated capital	5.0	11.3	583.6	544.5	**1,144.4**
Total	**6,271.5**	**7,112.6**	**9,769.4**	**6,569.7**	**29,723.2**

31 March 2010 in € million	up to 3 months	between 3 months and 1 year	between 1 and 5 years	more than 5 years	**Total**
Loans and advances to banks	2,387.1	11.9	85.5	33.8	**2,518.3**
Loans and advances to customers	1,917.2	3,039.5	12,108.1	6,600.3	**23,665.1**
Assets held for trading	290.2	53.6	425.5	572.0	**1,341.3**
Investment securities	1,514.5	1,216.6	2,331.1	3,278.5	**8,340.7**
Investments accounted for using the equity method	-	-	-	9.5	**9.5**
Non-current assets held for sale*	197.9	-	-	-	**197.9**
Total	**6,306.9**	**4,321.6**	**14,950.2**	**10,494.1**	**36,072.8**
Liabilities to banks	1,929.7	1,814.7	5,282.6	2,971.0	**11,998.0**
Liabilities to customers	1,950.5	1,329.4	1,420.7	2,817.3	**7,517.9**
Securitised liabilities	937.3	1,816.3	7,972.5	62.5	**10,788.6**
Liabilities held for trading	335.9	45.5	527.0	1,573.5	**2,481.9**
Subordinated capital	0.6	28.3	510.3	675.0	**1,214.2**
Total	**5,154.0**	**5,034.2**	**15,713.1**	**8,099.3**	**34,000.6**

*Figures adjusted

(73) Contractual remaining terms of financial liabilities

The following table shows the liquidity risk for derivative and non-derivative financial liabilities and off-balance sheet transactions in accordance with the requirements of IFRS 7.39(a). The maturity breakdown is based on the contractual terms of the respective items. Payments due are shown as undiscounted contractual cash flows. The earliest possible termination or utilisation date is applied.

The following table provides an overview of the remaining contractual terms of non-derivative liabilities:

31 March 2011 in € million	Remaining contractual terms of financial liabilities					Total
	up to 1 month	between 1 and 3 months	between 3 months and 1 year	between 1 and 5 years	more than 5 years	
Liabilities to banks	555.5	1,482.6	1,747.9	6,172.2	2,498.5	**12,456.6**
Liabilities to customers	1,867.1	1,022.6	2,147.7	2,625.1	2,670.5	**10,333.0**
Securitised liabilities	953.4	296.4	4,366.4	2,285.5	10.4	**7,912.1**
Subordinated capital	12.0	5.9	336.1	1,670.7	830.7	**2,855.4**
Total	**3,388.0**	**2,807.5**	**8,598.1**	**12,753.5**	**6,010.1**	**33,557.1**
Off-balance sheet transactions	2,160.7	0.0	0.0	0.0	0.0	**2,160.7**

31 March 2010 in € million	Remaining contractual terms of financial liabilities					Total
	up to 1 month	between 1 and 3 months	between 3 months and 1 year	between 1 and 5 years	more than 5 years	
Liabilities to banks	2,176.6	46.4	1,907.3	6,227.2	3,399.6	**13,757.1**
Liabilities to customers	937.2	1,093.2	1,942.4	2,363.2	2,804.8	**9,140.8**
Securitised liabilities	33.9	679.2	2,047.9	8,288.0	26.0	**11,075.0**
Subordinated capital	12.3	6.3	253.9	1,632.6	1,151.2	**3,056.3**
Total	**3,160.0**	**1,825.1**	**6,151.5**	**18,511.0**	**7,381.6**	**37,029.2**
Off-balance sheet transactions	2,894.1	0.0	0.0	0.0	0.0	**2,894.1**

Subordinated capital includes liabilities with perpetual maturity that grant the issuer an exclusive right of cancellation. The resulting cash flows are allocated to the respective maturity ranges; the last maturity range shows the nominal value of the liabilities.

The maturity breakdown of the contractual cash flows of derivative liabilities only includes liabilities held for trading that are not assigned to the trading book, as the due date of derivatives assigned to the trading book primarily depends on their value development on the market and not on the contractually agreed cash flows.

31 March 2011 in € million	Remaining contractual terms of financial liabilities					Total
	up to 1 month	between 1 and 3 months	between 3 months and 1 year	between 1 and 5 years	more than 5 years	
Interest rate derivatives	31.5	102.9	237.0	1,061.0	1,971.0	**3,403.4**
Currency derivatives	5.1	0.0	2.9	70.2	9.9	**88.1**
Total	**36.6**	**102.9**	**239.9**	**1,131.2**	**1,980.9**	**3,491.5**

31 March 2010 in € million	Remaining contractual terms of financial liabilities					Total
	up to 1 month *	between 1 and 3 months *	between 3 months and 1 year *	between 1 and 5 years	more than 5 years	
Interest rate derivatives	36.9	139.8	416.7	1,807.2	3,887.4	**6,288.0**
Currency derivatives *	47.0	14.2	7.2	44.9	4.3	**117.6**
Total	**83.9**	**154.0**	**423.9**	**1,852.1**	**3,891.7**	**6,405.6**

* Figures adjusted

The breakdown of remaining terms as at 31 March 2010 was restated in the following time bands due to the incomplete allocation of contractual cash flows:
Time band of up to 1 month from € 1,153.0 million by € -1,106.0 million to € 47.0 million,
Time band of between 1 and 3 months month from € 336.9 million by € -322.7 million to € 14.0 million,
Time band of up to 1 month from € 16.3 million by € -9.1 million to € 7.2 million,

The cash outflows from swaps are reported in the table for contractual remaining terms after netting against the cash inflows per financial instrument for each maturity range. All other derivatives are included at 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 with IKB as pledgor is allocated to the first maturity range. Where IKB is the borrower, the negative fair value is generally allocated to the contractual maturity range.

(74) Liquidity risk

IKB defines liquidity risk as the components of insolvency risk, liquidity maturity transformation risk and economic liquidity risk.

Insolvency risk or short-term (investment) liquidity risk is the risk of being unable to meet current or future payment obligations in full, on time or in an economical manner. This risk is relevant when the available cash and cash equivalents and cash inflows are insufficient to meet the relevant payment obligations, taking existing liquidity reserves into account. As a bank performing refinancing via the money and capital markets, this risk is particularly relevant for IKB if the money and capital markets and/or the Bank’s own ability to act on the capital markets is disturbed on a sustained basis. This risk class is addressed by limiting the minimum daily liquidity balance taking into account various scenarios over a horizon of 180 days.

Liquidity maturity transformation risk is defined as the risk that it will only be possible to close future liquidity gaps at a higher cost or that it will not be possible to close such gaps on account of liquidity bottlenecks. Among other things, this risk class is addressed through the regular preparation of a long-term funding matrix (up to ten years). In order to ensure that the degree of the maturity transformation undertaken and the diversification of cash inflows and outflows in the individual maturity ranges in terms of timing can be analysed and included in the controlling process, a detailed evaluation of liquidity is performed on a daily basis taking into account controlling measures over a seven-year horizon. As part of the Group planning process, liquidity and liquidity costs are also analysed in detail over a five-year period and controlling measures are derived on this basis.

Economic liquidity risk encompasses the risk that market distortions or a change in conditions could result in a crisis situation for IKB. This risk is analysed using regular stress tests. Bank-specific stress tests and market-oriented stress tests are developed for this purpose. In addition, combined stress scenarios are calculated on a regular basis and reviewed to determine whether a more narrowly defined liquidity reserve for ensuring liquidity in the short term (7 days / 1 month) on the basis of MaRisk is sufficient.

Strategic liquidity management objectives are set by the Board of Managing Directors, while operational liquidity management is the responsibility of Treasury, which also plans the corresponding measures as part of daily liquidity risk reporting. The planned measures are agreed and the liquidity situation discussed by Treasury and Risk Controlling regularly each week, taking the current market situation into account.

The planned measures and models are subjected to regular backtesting by Risk Controlling in order to identify necessary adjustments in a timely manner. Assumptions and methods are reviewed at least once a year and as required.

In the past financial year, the still strained market environment meant that liquidity controlling activities primarily focused on ensuring short-term liquidity (180-day horizon) with adherence to regulatory requirements as a strict subsidiary condition. The liquidity ratio prescribed by the German Liquidity Ordinance is calculated on a daily basis by regulatory controlling and a forecast is prepared as part of Treasury controlling. IKB seeks to always maintain a liquidity ratio of at least 1.25 (regulatory requirement: 1.0). This target was met at all times in the 2010/11 financial year.

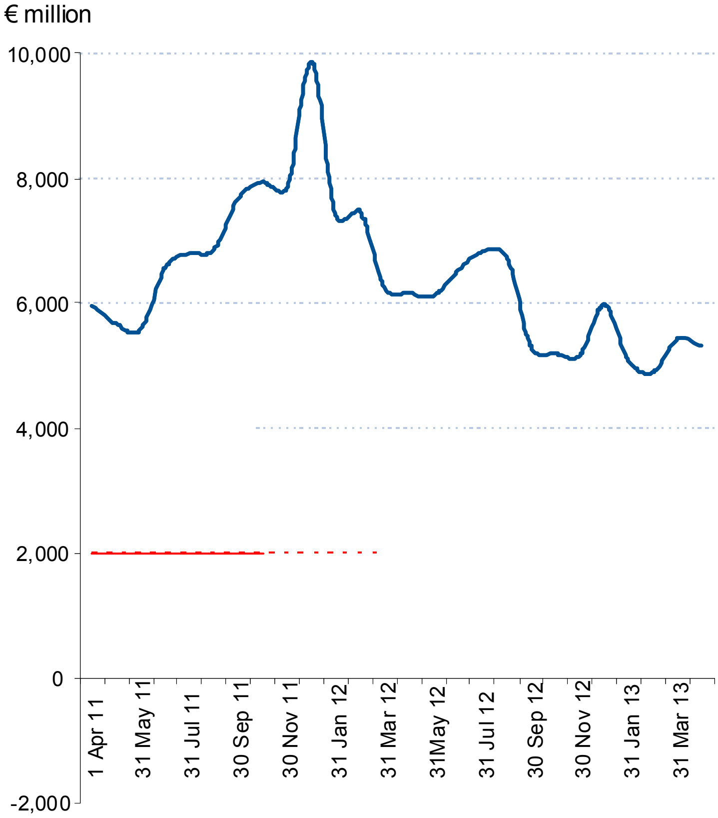
In addition, Treasury regularly examines access to the capital markets for the purposes of obtaining funds for refinancing (tactical liquidity). In the 2010/11 financial year, IKB successively increased its customer deposits (not including bond issues) by just under € 1.0 billion to € 3.6 billion. IKB also increased the granularity of the customer deposit portfolio with reduced individual investments by means of targeted control. In addition, a private customer platform was introduced at the end of the financial year via which the Bank intends to generate private customer deposits in the form of fixed-term deposits and call money. Here, too, a gradual expansion of the portfolio is planned.

The stabilisation of the liquidity situation is also reflected in the fact that IKB has already returned € 0.5 billion of the SoFFin guarantees to SoFFin before the final maturity date.

Risk Controlling is responsible for liquidity risk controlling independently of trading. It monitors adherence to limits and daily liquidity risk reporting and calculates stress scenarios. The liquidity risk report includes the development of contracted business and the liquidity reserve (particularly securities and loans eligible as collateral with central banks) as well as models on existing holdings and additional planned measures based on various scenarios. All material Group companies are included in liquidity risk reporting and liquidity controlling.

The following diagram shows a funding matrix for a horizon of two years reflecting the agreed liquidity measures. The bottom line depicts the limit of € 2 billion (180 days), while the dotted line depicts the warning threshold in the same amount (180 days to 365 days). The limit represents the minimum liquidity that the Bank seeks to maintain over a period of 180 days/365 days before liquidity measures. This limit was adhered to at all times in the 2010/11 financial year.

2-year funding matrix as of 31 March 2011



The components of the funding matrix include:

- Capital and interest cash flows from contracted business and models on existing holdings (e.g. drawdowns on credit facilities)
- Liquidity reserve (eligible collateral with central banks)
- The Bank's new business planning (loans and other liquidity investment)
- Assumed extensions of customer deposits and conclusion of new promissory note loans recognised as liabilities
- Assumed extensions within the loan portfolio
- Measures planned by Treasury (e.g. refinancing and asset sales)

(75) Average number of employees

	31 Mar 2011	31 Mar 2010
Men	957	987
Women	577	626
Total	**1,534**	**1,613**

(76) Related party disclosures

The following table shows the related parties of the executive bodies of the Bank in the customer loans business:

Group	Credit volume (utilisation or amount of commitment) (€ thousand)		Average remaining term (years)		Average interest (%)	
	31 Mar 2011	31 Mar 2010	31 Mar 2011	31 Mar 2010	31 Mar 2011	31 Mar 2010
Board of Managing Directors	-	-	-	-	-	-
Employee representatives in the SB	29	137	22.8	2.0	5.0	4.3
Shareholder representatives in the SB	-	-	-	-	-	-
Companies controlled by shareholder representatives	138,684	135,529	3.9	3.7	4.0	2.7
Companies controlled by former shareholder representatives	-	-	-	-	-	-
Total	**138,713**	**135,666**	**3.9**	**3.7**	**4.0**	**2.7**

All loans were granted at normal market conditions on the basis of IKB's standard principles of business and were secured with either real property liens or other collateral instruments. These exposures represent 0.4% (previous year: 0.5%) of the 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 conducted at normal market conditions:

Group	Type of transaction	Volume (€ thousand)		Average remaining term (years)		Average interest (%)	
		31 Mar 2011	31 Mar 2010	31 Mar 2011	31 Mar 2010	31 Mar 2011	31 Mar 2010
Companies controlled by shareholder representatives	Interest rate swaps	33,563	37,423	3.9	4.9	IKB pays variably: EURIBOR 3M and EURIBOR 6M receives: 3.60 to 4.57%	IKB pays variably: EURIBOR 3M and EURIBOR 6M receives: 3.60 to 4.57%
Companies controlled by shareholder representatives	Range-based interest rate swaps	8,713	10,501	0.2	1.2	IKB pays variably: EURIBOR 3M receives: 3.85% or EURIBOR 3M (depending on range)	IKB pays variably: EURIBOR 3M receives: 3.85% or EURIBOR 3M (depending on range)
Companies controlled by shareholder representatives	Customer deposits	-	4,000	-	< 1 month	-	0.9
Companies controlled by shareholder representatives	IHS	9,352	9,352	5.5	6.5	4.8	4.8

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 persons closely related to the member 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 2011.

Loans and advances and liabilities to subsidiaries

Related party transactions primarily relate to refinancing and capital strengthening measures by the parent of IKB's main shareholder LSF6 Europe Financial Holdings, L.P. and companies assigned to it. Loans and advances to customers primarily relate to loans issued to associated companies and other investees and investors that are not required to be included in consolidation.

The following table shows the related parties in accordance with IAS 24.9:

in € million	Parent company		Companies allocated to the parent company		Subsidiaries		Associates		Total	
	31 Mar 2011	31 Mar 2010	31 Mar 2011	31 Mar 2010	31 Mar 2011	31 Mar 2010	31 Mar 2011	31 Mar 2010	31 Mar 2011	31 Mar 2010
Receivables										
Loans and advances to banks	-	0.2	3.6	-	-	-	-	-	3.6	0.2
Loans and advances to customers	-	-	-	-	60.0	30.3	73.9	64.9	133.9	95.2
Assets held for trading	-	0.1	-	-	1.4	-	1.8	0.4	3.2	0.5
Bonds and other fixed-income securities	-	-	-	-	0.5	-	2.4	-	2.9	-
Equities and other non-fixed-income securities	-	-	-	-	-	-	10.2	45.1	10.2	45.1
Total	**-**	**0.3**	**3.6**	**-**	**61.9**	**30.3**	**88.3**	**110.4**	**153.8**	**141.0**
Liabilities										
Liabilities to customers	-	-	343.7	721.3	1.2	1.4	1.0	0.5	345.9	723.2
Liabilities held for trading	-	-	3.3	-	-	-	0.7	-	4.0	-
Subordinated liabilities	-	29.3	13.4	13.4	-	-	-	-	13.4	42.7
Total	**-**	**29.3**	**360.4**	**734.7**	**1.2**	**1.4**	**1.7**	**0.5**	**363.3**	**765.9**

As part of the contractual negotiations with SoFFin on the increased guarantee framework, LSF6 Europe Financial Holdings, L.P., Delaware, was required to waive its claims arising from the subordinated bonds dated November and December 2008 in order to strengthen IKB's core capital. With regard to the mandatory convertible bond, it was agreed that LSF6 Rio S.à.r.l. would exercise conversion early with effect from 1 July 2009.

Letter of comfort

IKB undertakes to ensure that its subsidiaries indicated in the scope of consolidation (Note (81)) as protected by the letter of comfort are able to meet their contractual obligations with the exception of the event of political risk.

IKB Projektentwicklung GmbH & Co. KG has issued a letter of comfort to Zoo & Co. in the amount of € 340 thousand (previous year: € 340 thousand) for ilmenau center GmbH & Co. KG.

In addition to the excising letter of comfort, IKB also issued a commitment to provide sufficient capital and liquidity for IKB Projektentwicklung GmbH & Co. KG in the 2010/11 financial year.

(77) 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

Remuneration of the Board of Managing Directors for the 2010/11 financial year breaks down as follows: € 2.0 million relates to fixed remuneration, € 2.6 million – subject to a resolution of the Supervisory Board – to variable remuneration, € 0.2 million to pension compensation and € 44 thousand to additional benefits. The variable remuneration for the 2010/11 financial year has not yet been resolved by the Supervisory Board but has been set aside in the amount of the target bonuses agreed with each member of the Board of Managing Directors, i.e. in a total amount of € 2.6 million. If and to the extent that the Supervisory Board resolves the bonuses for the 2010/11 financial year, payment of the portion of these bonuses attributable to the period from 1 April 2010 to 31 December 2010 will not fall due until after the SoFFin guarantees expire. Only the portion attributable to the period from 1 January 2011 to 31 March 2011 is payable immediately. Assuming the Supervisory Board resolves the variable remuneration in the amount of the target bonuses, the total remuneration of the Board of Managing Directors for the 2010/11 financial year amounts to € 4.9 million.

After the end of the period specified in the SoFFin conditions for remuneration limitation, it was agreed at the Supervisory Board meeting on 10 March 2011 to set the variable remuneration of the members of the Board of Managing Directors currently in office at € 2.6 million for the 2009/10 financial year and € 1.6 million for the 2008/09 financial year. However, due to the SoFFin conditions the variable remuneration for the 2008/09 and 2009/10 financial years will not be paid out until after the expiry of the last SoFFin guarantees. Granting of the bonuses is also subject to any ordinances of the German Financial Supervisory Authority (BaFin).

Former and retired members of the Board of Managing Directors

The total remuneration for former members of the Board of Managing Directors and their surviving dependents amounted to € 3.2 million (previous year: € 3.3 million). Provisions of € 39.9 million were recognised for pension obligations to former members of the Board of Managing Directors and their surviving dependents (previous year: € 50.0 million).

Variable remuneration in the amount of the contractually agreed pro rata minimum bonus of € 101 thousand was also paid in the 2010/11 financial year to the former Board of Managing Directors member Dr Reinhard Grzesik, who retired on 3 July 2009, for his work in the period from 1 April to 3 July 2009.

With regard to the claims for the return of the performance-related remuneration for the 2006/07 financial year from the Board of Managing Directors, please refer to the information in the remuneration report.

Remuneration of the Supervisory Board

The total remuneration of the members of the Supervisory Board for the 2010/11 financial year (including VAT) amounted to € 257 thousand (€ 254 thousand). This includes € 10 thousand (previous year: € 10 thousand) in reimbursed expenses.

Remuneration of the Advisory Board

€ 174 thousand (previous year: € 329 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 2011, IKB had extended loans of a total amount of € 0.1 million (previous year: € 0.1 million) to members of the Supervisory Board and the Advisory Board.

(78) German Corporate Governance Code

On 10 March 2011, the Board of Managing Directors and the Supervisory Board issued their annual declaration of conformity in accordance with section 161 AktG and made it permanently available to shareholders on the Company's website (www.ikb.de).

(79) Events after 31 March 2011

The following new developments have arisen since 31 March 2011:

Changes in the Group

IKB Beteiligungen bought 100% of the shares in Movesta Development GmbH from MD Capital Beteiligungsgesellschaft mbH, in which IKB Beteiligungen and KfW IPEX-Bank GmbH each hold a 50% interest. The transaction took place on 1 April 2011. IKB intends to wind up Movesta Development GmbH.

Repayment of a SoFFin-guaranteed bond

In the 2010/11 financial year, IKB bought back SoFFin-guaranteed bonds before maturity and returned SoFFin guarantees with a nominal amount of € 0.5 billion. Of this amount, € 0.1 billion related to a tranche due on 29 April 2011. The remaining amount of € 0.9 billion was repaid as scheduled on 29 April 2011. The SoFFin guarantee framework for IKB was consequently reduced to a total of € 8.6 billion, falling due between 2012 and 2015.

(80) 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 control bodies of German and foreign companies.*

Supervisory Board

Chairman

Bruno Scherrer, London
Senior Managing Director/Head of European Investments, Lone Star Management Europe Ltd.

a) *COREALCREDIT BANK AG (Chairman)*
MHB-Bank Aktiengesellschaft (Chairman) (until 8 March 2011)
Düsseldorfer Hypothekenbank AG (Deputy Chairman) (since 7 December 2010)

Deputy Chairman

Dr Karsten von Köller, Frankfurt
Chairman, Lone Star Germany GmbH

a) *Düsseldorfer Hypothekenbank AG (Chairman) (since 7 December 2010)*
MHB-Bank Aktiengesellschaft (Chairman) (since 8 March 2011)
COREALCREDIT BANK AG (Deputy Chairman)

b) *W.P. Carey & Co. LLC*

Members

Stefan Baustert, Krefeld
Consultant

a) *NYCON ENERGY AG (Deputy Chairman) (since 21 June 2010)*

b) *AptarGroup*

Wolfgang Bouché, Düsseldorf *(until 31 January 2011)*
Employee representative

Olivier Brahin, London
Head of European Real Estate Investments, Lone Star Management Europe Ltd.

a) *COREALCREDIT BANK AG*

Dr Lutz-Christian Funke, Frankfurt
Director of KfW, Head of Corporate Management of KfW-Bankengruppe

a) *Dedalus GmbH & Co. KGaA (Deputy Chairman)*

Ulrich Grillo, Mülheim an der Ruhr
Chairman of the Board of Managing Directors, Grillo-Werke Aktiengesellschaft

a) *Praktiker Bau- und Heimwerkermärkte Holding AG*
Praktiker Deutschland GmbH
mateco AG

b) *HDF Hamborner Dach- und Fassadentechnik GmbH & Co. KG (Chairman)*
Grillo Zinkoxid GmbH
RHEINZINK GmbH & Co. KG
Zinacor S.A. (Belgium)

Arndt G. Kirchhoff, Attendorn
Managing Partner of KIRCHHOFF Automotive GmbH

a) *DEKRA SE*
KOSTAL Verwaltungsgesellschaft mbH

b) *DAL Deutsche Afrika Linien GmbH & Co. KG (since 1 April 2010)*
DEG – Deutsche Investitions- und Entwicklungsgesellschaft mbH
LEWA Attendorn GmbH

Bernd Klein, Düsseldorf (since 1 February 2011)
Employee representative

Jürgen Metzger, Düsseldorf (until 26 August 2010)
Employee representative

Dr Claus Nolting, Munich
Chairman of the Board of COREALCREDIT BANK AG

Dr Thomas Rabe, Berlin
Member of the Board & CFO of Bertelsmann AG

a) *BMG RM Germany GmbH (Chairman)*
Arvato AG (Deputy Chairman)
Druck- und Verlagshaus Gruner + Jahr Aktiengesellschaft
Symrise AG

b) *Bertelsmann Capital Investment (S.A.)*
Bertelsmann Digital Media Investments S.A.
Bertelsmann Inc.
Edmond Israel Foundation
RTL Group S.A.
Springer Science + Business Media S.A. (since 20 April 2010)

Dr Carola Steingräber, Berlin (since 26 August 2010)
Employee representative

Carmen Teufel, Stuttgart
Employee representative

Dr Andreas Tuczka, London
Head of European Financial Institutions, Managing Director, Lone Star Management Europe Ltd.

a) Düsseldorfer Hypothekenbank AG (since 7 December 2010)

Ulrich Wernecke, Düsseldorf
Employee representative

Andreas Wittmann, Munich
Employee representative

Board of Managing Directors

Hans Jörg Schüttler
(Chairman)

b) IKB Autoleasing GmbH
IKB International S.A. (until 31 March 2011)
IKB Leasing Berlin GmbH
IKB Leasing GmbH
IKB Private Equity GmbH

Dr Dieter Glüder

b) IKB Data GmbH (Chairman)
IKB Immobilien Management GmbH (Chairman) (until 25 March 2011)
IKB International S.A. (Chairman) (until 31 March 2011)

Claus Momburg

b) MD Capital Beteiligungsgesellschaft mbH (Chairman)
IKB Autoleasing GmbH
IKB International S.A. (until 31 March 2011)
IKB Leasing Berlin GmbH
IKB Leasing GmbH
IKB Private Equity GmbH

Dr Michael H. Wiedmann

b) IKB Private Equity GmbH (Chairman)
Argantis GmbH (until 26 July 2010)
IKB Autoleasing GmbH
IKB Capital Corporation (until 28 April 2010)
IKB Leasing Berlin GmbH
IKB Leasing GmbH

Offices held by employees

As of 31 March 2011, the following employees were represented in the statutory supervisory boards of large corporations:

Dr Reiner Dietrich
Tricor Packaging & Logistics AG

Frank Kraemer
ae group ag (until 15 July 2010)

Dr Annette Littmann
Dortmunder Stadtwerke AG (until 25 June 2010 and from 7 September 2010)

Klaus Runzer
ae group ag (from 8 December 2010)
Oechsler AG (since 22 February 2011)

Christian Schaumkell
Oechsler AG (until 31 December 2010)

(81) Scope of consolidation as of 31 March 2011

	Letter of comfort	Share of capital in %
A. Consolidated subsidiaries		
1 Foreign banks		
IKB International S.A., Luxembourg	x	100
2 Other German companies		
Aleanta GmbH, Düsseldorf		100
Erste Equity Suporta GmbH, Düsseldorf		100[1]
Equity Fund GmbH, Düsseldorf		100[1]
ICCO Grundstücks-Vermietungsgesellschaft mbH, Düsseldorf[4]	x	100[1]
IKB Autoleasing GmbH, Hamburg	x	100[1]
IKB Beteiligungen GmbH, Düsseldorf	x	100
IKB Data GmbH, Düsseldorf	x	100
IKB Equity Capital Fund GmbH, Düsseldorf	x	100[1]
IKB Grundstücks GmbH & Co. Objekt Hamburg KG, Düsseldorf[4]	x	100
IKB Grundstücks GmbH & Co. Objekt Holzhausen KG, Düsseldorf[4]	x	100
IKB Grundstücks GmbH, Düsseldorf	x	100
IKB Leasing Berlin Gesellschaft mit beschränkter Haftung, Erkner	x	100[1]
IKB Leasing Gesellschaft mit beschränkter Haftung, Hamburg	x	100[1]
IKB Private Equity GmbH, Düsseldorf	x	100[1]
IKB Projektentwicklung GmbH & Co. KG, Düsseldorf[4]	x	100
IKB Projektentwicklungsverwaltungsgesellschaft mbH, Düsseldorf	x	100
Istop 1 GmbH, Düsseldorf		100
Istop 2 GmbH, Düsseldorf		100
Istop 4 GmbH, Düsseldorf		100
Istop 5 GmbH, Düsseldorf		100
IKB Struktur GmbH, Düsseldorf		100[1]
IMAS Grundstücks-Vermietungsgesellschaft mbH, Düsseldorf	x	100
ISOS Grundstücks-Vermietungsgesellschaft mbH, Düsseldorf[4]	x	100[1]
ISTOS Beteiligungsverwaltungs- und Grundstücks- Vermietungsgesellschaft mbH, Düsseldorf	x	100
ISTOS Dritte Beteiligungsverwaltungs- und Grundstücksvermietungsgesellschaft mbH & Co. KG, Düsseldorf[4]		100
ISTOS Erste Beteiligungsverwaltungs- und Grundstücksvermietungsges. mbH & Co. KG, Düsseldorf[4]	x	100
ISTOS Zweite Beteiligungsverwaltungs- und Grundstücksvermietungsgesellschaft mbH & Co. KG, Düsseldorf[4]		100
Projektbeteiligung TH GmbH & Co. KG, Düsseldorf		89.8
Tempelhofer Hafen GmbH, Düsseldorf		94.9[1]
Zweite Equity Suporta GmbH, Düsseldorf		100[1]

1) Indirect interest
2) Subordinated letter of comfort
3) In liquidation
4) Company has used the exemption under section 264b HGB and has not prepared notes.

3 Other foreign companies		
IKB Capital Corporation, New York[3)]		100
IKB Finance B.V., Amsterdam	x	100
IKB Funding LLC II, Wilmington	x[2)]	100
IKB Funding LLC I, Wilmington	x[2)]	100
IKB Leasing Austria GmbH, Vienna	x	100[1)]
IKB Leasing CR s.r.o., Prague 9	x	100[1)]
IKB Leasing Finance IFN SA, Bucharest	x	100[1)]
IKB Leasing France S.A.R.L., Marne La Vallée Cedex 4	x	100[1)]
IKB Leasing Korlátolt Felelösségü Társaság, Budapest	x	100[1)]
IKB Leasing Polska Sp.z.o.o, Poznan (Posen)	x	100[1)]
IKB Leasing SR, s.r.o, Bratislava	x	100[1)]
IKB Leasing S.R.L., Bucharest/Sector 1	x	100[1)]
IKB Lux Beteiligungen S.à.r.l, Luxembourg	x	100
IKB Pénzügyi Lízing zártkörüen müködö Részvénytársaság, Budapest	x	100[1)]
STILL LOCATION S.à.r.l., Marne La Vallee Cedex 4	x	100[1)]
IKB Leasing geschlossene Aktiengesellschaft, Moscow	x	100[1)]
B. Joint ventures/associates		
Linde Leasing GmbH, Wiesbaden		30[1)]
MD Capital Beteiligungsgesellschaft mbH, Düsseldorf		50[1)]
C. Special purpose entities in accordance with SIC-12		
Bacchus 2008-1 Plc, Dublin		
Bacchus 2008-2 Plc, Dublin		
IKB Partner Fonds, Luxembourg		
Partner Fonds Europa Renten Teilfonds II, Luxembourg		
Partner Fonds Europa Renten Teilfonds I, Luxembourg		
Partner Fonds Eurobonds (Teilfonds I), Luxembourg		
Rio Debt Holdings Ltd., Dublin		

1) Indirect interest
2) Subordinated letter of comfort
3) In liquidation
4) Company has used the exemption under section 264b HGB and has not prepared notes.

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	Earnings	Revenue
Linde Leasing GmbH, Wiesbaden	444.9	412.1	5.5	26.4
MD Capital Beteiligungsgesellschaft mbH, Düsseldorf	2.5	0.1	-0.2	0.8

(82) List of shareholdings as of 31 March 2011

Shareholdings of IKB Deutsche Industriebank AG in accordance with section 285 no. 11 and 11a HGB and section 313 (2) HGB	Financial year	Letter of comfort	Share of capital in %	Equity in € thou	Earnings in € thou
1 German companies					
Aleanta GmbH, Düsseldorf	1 Apr. - 31 Mar.		100.0	51,099	6,721
Equity Fund GmbH, Düsseldorf	1 Apr. - 31 Mar.		100.0	13,521	0
Erste Equity Suporta GmbH, Düsseldorf	1 Apr. - 31 Mar.		100.0	1,183	0
ICCO Grundstücks-Vermietungsgesellschaft mbH, Düsseldorf	1 Apr. - 31 Mar.	X	100.0	48	0
IKB Autoleasing GmbH, Hamburg	1 Apr. - 31 Mar.	X	100.0	14,000	0
IKB Beteiligungen GmbH, Düsseldorf	1 Apr. - 31 Mar.	X	100.0	677,071	0
IKB Data GmbH, Düsseldorf	1 Apr. - 31 Mar.	X	100.0	15,000	0
IKB Equity Capital Fund GmbH, Düsseldorf	1 Apr. - 31 Mar.	X	100.0	29,243	-7,469
IKB Grundstücks GmbH & Co.Objekt Hamburg KG, Düsseldorf	1 Jan. - 31 Dec.	X	100.0	2,457	-763 3)
IKB Grundstücks GmbH & Co.Objekt Holzhausen KG, Düsseldorf	1 Jan. - 31 Dec.	X	100.0	4,392	835 3)
IKB Grundstücks GmbH, Düsseldorf	1 Jan. - 31 Dec.	X	100.0	127	6
IKB Leasing Berlin Gesellschaft mit beschränkter Haftung, Erkner	1 Apr. - 31 Mar.	X	100.0	8,000	0
IKB Leasing Gesellschaft mit beschränkter Haftung, Hamburg	1 Apr. - 31 Mar.	X	100.0	45,025	0
IKB Private Equity GmbH, Düsseldorf	1 Apr. - 31 Mar.	X	100.0	238,039	0
IKB Projektentwicklung GmbH & Co. KG, Düsseldorf	1 Jan. - 31 Dec.	X	100.0	-7,879	-2,310 3)
IKB Projektentwicklungsverwaltungsgesellschaft mbH, Düsseldorf	1 Jan. - 31 Dec.	X	100.0	30	1
IKB Struktur GmbH, Düsseldorf	1 Apr. - 31 Mar.		100.0	103,750	0
IMAS Grundstücks-Vermietungsgesellschaft mbH, Düsseldorf	1 Apr. - 31 Mar.	X	100.0	2,888	428
ISOS Grundstücks-Vermietungsgesellschaft mbH, Düsseldorf	1 Apr. - 31 Mar.	X	100.0	48	0
Istop 1 GmbH, Düsseldorf	1 Apr. - 31 Mar.		100.0	122,525	0
Istop 2 GmbH, Düsseldorf	1 Apr. - 31 Mar.		100.0	155,025	0
Istop 4 GmbH, Düsseldorf	1 Apr. - 31 Mar.		100.0	190,025	0
Istop 5 GmbH, Düsseldorf	1 Apr. - 31 Mar.		100.0	91,525	0
ISTOS Beteiligungsverwaltungs- und Grundstücks- Vermietungsgesellschaft mbH, Düsseldorf	1 Jan. - 31 Dec.	X	100.0	76	-11
ISTOS Dritte Beteiligungsverwaltungs- und Grundstücks-Vermietungsgesellschaft mbH & Co. KG, Düsseldorf	1 Jan. - 31 Dec.		100.0	280	-9 3)
ISTOS Erste Beteiligungsverwaltungs- und Grundstücks-Vermietungsgesellschaft mbH & Co. KG, Düsseldorf	1 Jan. - 31 Dec.	X	100.0	35	-11 3)
ISTOS Zweite Beteiligungsverwaltungs- und Grundstücks-Vermietungsgesellschaft mbH & Co. KG, Düsseldorf	1 Jan. - 31 Dec.		100.0	145	-9 3)
Projektbeteiligung TH GmbH & Co. KG, Düsseldorf	1 Jan. - 31 Dec.		89.8	-67	-2
Tempelhofer Hafen GmbH, Düsseldorf	1 Jan. - 31 Dec.		94.9	24,080	-204
Zweite Equity Suporta GmbH, Düsseldorf	1 Jan. - 31 Dec.		100.0	70,080	0
2 Foreign companies					
IKB Capital Corporation, New York	1 Apr. - 31 Mar.		100.0	10,439	214
IKB Finance B.V., Amsterdam	1 Apr. - 31 Mar.	X	100.0	-2,797	-4,725
IKB Funding LLC II, Wilmington	1 Apr. - 31 Mar.	X 2)	100.0	408,532	13,056
IKB Funding LLC I, Wilmington	1 Apr. - 31 Mar.	X 2)	100.0	75,587	1,713
IKB International S.A., Luxembourg	1 Apr. - 31 Mar.	X	100.0	325,901	143,020
IKB Leasing Austria GmbH, Vienna	1 Jan. - 31 Dec.	X	100.0	405	70
IKB Leasing CR s.r.o., Prague 9	1 Jan. - 31 Dec.	X	100.0	2,527	591
IKB Leasing Finance IFN SA, Bucharest	1 Jan. - 31 Dec.	X	100.0	2,038	-544
IKB Leasing France S.A.R.L., Marne La Vallée Cedex 4	1 Jan. - 31 Dec.	X	100.0	724	-1,979
IKB Leasing geschlossene Aktiengesellschaft, Moscow	1 Jan. - 31 Dec.	X	100.0	-201	-1,961
IKB Leasing Korlátolt Felelösségü Társaság, Budapest	1 Jan. - 31 Dec.	X	100.0	-240	-840
IKB Leasing Polska Sp.z.o.o, Poznan (Posen)	1 Jan. - 31 Dec.	X	100.0	7,170	1,133
IKB Leasing S.R.L., Bucharest/Sector 1	1 Jan. - 31 Dec.	X	100.0	289	-119
IKB Leasing SR, s.r.o, Bratislava	1 Jan. - 31 Dec.	X	100.0	990	-164
IKB Lux Beteiligungen S.à.r.l, Luxembourg	1 Apr. - 31 Mar.	X	100.0	55,370	440
IKB Pénzügyi Lízing zártkörüen müködö Részvénytársaság, Budapest	1 Jan. - 31 Dec.	X	100.0	339	-255
STILL LOCATION S.à.r.l., Marne La Vallee Cedex 4	1 Jan. - 31 Dec.	X	100.0	11,440	-3,175

1) In accordance with section 315a HGB in conjunction with section 313 (2) no. 4 HGB, the disclosures on equity and earnings are not stated as they are of only minor significance to the presentation of the net assets, financial position and results of operations of the IKB Group.
2) Subordinated letter of comfort
3) Company has used the exemption under section 264b HGB and has not prepared notes

	Financial year	Letter of comfort	Share of capital in %
3 Other German companies (not included due to immateriality) 1)			
Bella GmbH, Düsseldorf	1 Apr. - 31 Mar.		100.0
Boxhagener Str. 76/78 Berlin GmbH, Norderfriedrichskoog	1 Jan. - 31 Dec.		100.0
Büroprojekt dritte GmbH & Co. KG i.L., Düsseldorf	1 Jan. - 31 Dec.		100.0
Büroprojekt dritte Verwaltungsgesellschaft mbH i.L., Düsseldorf	1 Jan. - 31 Dec.		100.0
Büroprojekt erste Verwaltungsgesellschaft mbH i.L., Düsseldorf	1 Jan. - 31 Dec.		100.0
Büroprojekt fünfte Verwaltungsgesellschaft mbH i.L., Düsseldorf	1 Jan. - 31 Dec.		100.0
Büroprojekt sechste Verwaltungsgesellschaft mbH, Düsseldorf	1 Jan. - 31 Dec.		100.0
Büroprojekt siebte Verwaltungsgesellschaft mbH i.L., Düsseldorf	1 Jan. - 31 Dec.		100.0
Büroprojekt vierte Verwaltungsgesellschaft mbH, Düsseldorf	1 Jan. - 31 Dec.		100.0
Eaton Place 98 London GmbH, Norderfriedrichskoog	1 Jan. - 31 Dec.		100.0
Einsteinufer 63-65 Berlin GmbH, Norderfriedrichskoog	1 Jan. - 31 Dec.		100.0
Elfte BauB GmbH i.L., Düsseldorf	1 Jan. - 31 Dec.		100.0
Feldmühleplatz 1 Verwaltungsgesellschaft mbH, Düsseldorf	1 Jan. - 31 Dec.		100.0
FRANA Grundstücks-Vermietungsgesellschaft mbH, Düsseldorf	1 Jan. - 31 Dec.		100.0
GAP 15 GmbH, Düsseldorf	1 Jan. - 31 Dec.		92.8
HARPE Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Schloß Schweinsburg KG, Düsseldorf	1 Jan. - 31 Dec.		88.7
HAUSTUS Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Yachtzentrum Berlin KG, Düsseldorf	1 Jan. - 31 Dec.		94.7
IKB SWE GmbH, Düsseldorf	1 Apr. - 31 Mar.		100.0
ILF Immobilien-Leasing-Fonds Verwaltung GmbH & Co. Objekt Boxdorf KG, Düsseldorf	1 Jan. - 31 Dec.		93.4
ilmenau center Verwaltungsgesellschaft mbH, Düsseldorf	1 Jan. - 31 Dec.		100.0
INCO Ingenieur Consult Geschäftsführungsgesellschaft mbH, Düsseldorf	1 Jan. - 31 Dec.		100.0
INCO Ingenieur Consult GmbH & Co. KG, Düsseldorf	1 Jan. - 31 Dec.		100.0
Istop 3 GmbH, Düsseldorf	1 Jan. - 31 Dec.		100.0
Iventus Real Estate Invest GmbH & Co. KG, Düsseldorf	1 Jan. - 31 Dec.		90.0
Logistikprojekt vierte Verwaltungsgesellschaft mbH i.L., Düsseldorf	1 Jan. - 31 Dec.		100.0
Logistikprojekt zweite Verwaltungsgesellschaft mbH i.L., Düsseldorf	1 Jan. - 31 Dec.		100.0
MFRSI Beteiligungsholding Verwaltungsgesellschaft mbH, Düsseldorf	1 Jan. - 31 Dec.		100.0
Objekt Pankow GmbH & Co. KG, Düsseldorf	1 Jan. - 31 Dec.		94.9
Objekt Pankow Verwaltungsgesellschaft mbH, Düsseldorf	1 Jan. - 31 Dec.		100.0
Paxum GmbH, Düsseldorf	1 Apr. - 31 Mar.		100.0
RAVENNA Vermögensverwaltungs AG, Berlin	1 Jan. - 31 Dec.		100.0
Restruktur 1 GmbH, Düsseldorf	1 Jan. - 31 Dec.		100.0
Restruktur 2 GmbH, Düsseldorf	1 Apr. - 31 Mar.		100.0
Robert Adams Str. 12 London GmbH, Norderfriedrichskoog	1 Jan. - 31 Dec.		100.0
TERMES GmbH i.L., Düsseldorf	1 Jan. - 31 Dec.		100.0
TUSSA Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Wilhelm-Bötzkes-Straße KG, Pullach i. Isartal	1 Jan. - 31 Dec.		100.0
4 Other foreign companies (not included due to immateriality) 1)			
Arche G.m.b.H., Luxembourg	1 Apr. - 31 Mar.		100.0
Eukelade G.m.b.H., Luxembourg	1 Apr. - 31 Mar.		100.0
Helike G.m.b.H., Luxembourg	1 Apr. - 31 Mar.		100.0
IKB Funding Trust II, Wilmington	1 Apr. - 31 Mar.		100.0
IKB Funding Trust I, Wilmington	1 Apr. - 31 Mar.		100.0
Kore G.m.b.H., Luxembourg	1 Apr. - 31 Mar.		100.0
5 German associated companies 1)			
Linde Leasing GmbH, Wiesbaden	1 Jan. - 31 Dec.		30.0
MD Capital Beteiligungsgesellschaft mbH, Düsseldorf	1 Jan. - 31 Dec.		50.0

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3) Company has used the exemption under section 264b HGB and has not prepared notes

		Financial year	Letter of comfort	Share of capital in %
6	**German associated companies (not included due to immateriality) 1)**			
	4 Wheels Service + Logistik GmbH, Düsseldorf			38.4
	alu-druckguss GmbH & Co. Brandenburg KG, Brieselang	1 Jan. - 31 Dec.		49.0
	alu-druckguss Verwaltungs GmbH, Brieselang	1 Jan. - 31 Dec.		49.0
	Argantis GmbH, Cologne	1 Jan. - 31 Dec.		50.0
	Argantis Private Equity GmbH & Co. KG, Cologne	1 Jan. - 31 Dec.		28.9
	Argantis Private Equity Gründer GmbH & Co. KG, Cologne	1 Jan. - 31 Dec.		36.5
	AWEBA Werkzeugbau GmbH Aue, Aue	1 Jan. - 31 Dec.		25.1
	AxIT AG, Frankenthal/Pfalz	1 Jan. - 31 Dec.		29.9
	Brunnenstraße 105-109 Berlin Grundbesitz GmbH, Münster	1 Jan. - 31 Dec.		50.0
	Chemtura Verwaltungs GmbH, Bergkamen	1 Jan. - 31 Dec.		50.0
	equiNotes Management GmbH, Düsseldorf	1 Jan. - 31 Dec.		50.0
	EWEKO GmbH, Hattingen	1 Jan. - 31 Dec.		30.1
	FMD Feinmechanik GmbH, Weilheim	1 Apr. - 31 Mar.		49.0
	FUNDIS Projektentwicklungsholding GmbH & Co. KG, Düsseldorf	1 Jan. - 31 Dec.		50.0
	FUNDIS Verwaltungsgesellschaft mbH, Düsseldorf	1 Jan. - 31 Dec.		50.0
	GIP Management GmbH & Co. KG, Eschborn	1 Jan. - 31 Dec.		47.5
	GIP Verwaltungs GmbH, Eschborn	1 Jan. - 31 Dec.		50.0
	GIP WestSite-Entwicklung GmbH & Co. KG, Eschborn	1 Jan. - 31 Dec.		47.5
	Hafenspitze Verwaltungsgesellschaft mbH, Hamburg	1 Jan. - 31 Dec.		25.0
	ilmenau center GmbH & Co. KG, Lüneburg	1 Jan. - 31 Dec.		50.0
	MFRSI Beteiligungsholding GmbH & Co. KG, Düsseldorf	1 Jan. - 31 Dec.		50.0
	microTEC Gesellschaft für Mikrotechnologie mbH, Duisburg	1 Jan. - 31 Dec.		48.2
	Mike's Sandwich GmbH, Hamburg	1 Jan. - 31 Dec.		35.6
	MM Mezzanine Beteiligungsberatung GmbH i. L., Frankfurt	1 Apr. - 31 Mar.		50.0
	MOTORRAD-ECKE GmbH, Villingen-Schwennigen	1 Jan. - 31 Dec.		38.9
	OCP GmbH Office Chemie Produktion, Hattingen	1 Jan. - 31 Dec.		25.1
	ODS Business Services Group GmbH, Hamburg	1 Jan. - 31 Dec.		32.0
	OPS-INGERSOLL Funkenerosion GmbH, Burbach	1 Apr. - 31 Mar.		44.7
	Projektgesellschaft Justus-von-Liebig-Straße mbH, Kronberg/Taunus	1 Jan. - 31 Dec.		50.0
	Vermögensverwaltungsgesellschaft DVD Dassow GmbH, Dassow	1 Jan. - 31 Dec.		30.0
7	**Foreign associated companies (not included due to immateriality) 1)**			
	Alu Druckguss Sp.z.o.o., Nowa Sól	1 Jan. - 31 Dec.		49.0
	Infinigate Holding AG, Rotkreuz	1 Jan. - 31 Dec.		24.5
	MM - Mezzanine S.à.r.l. i.L., Luxembourg	1 Jan. - 31 Dec.		50.0
	MM - Mezzanine SCS, SICAR i.L., Luxembourg	1 Jan. - 31 Dec.		50.0
8	**German equity investments in corporations and partnerships in which the interest exceeds 5% of voting rights1)**			
	ae group ag, Gerstungen	1 Jan. - 31 Dec.		12.4
	AXA Immoselect Hauptverwaltungsgebäude GmbH Co Objekt Düsseldorf Uerdinger Straße KG, Düsseldorf	1 Jan. - 31 Dec.		5.1
	CoBaLe Immobilien GmbH & Co. Objekt Stuttgart KG	1 Jan. - 31 Dec.		5.1
	Feldmühleplatz 1 GmbH & Co. KG, Düsseldorf	1 Jan. - 31 Dec.		5.1
	Global Safety Textiles HoldCo One GmbH, Maulburg	1 Jan. - 31 Dec.		8.8
	Oechsler Aktiengesellschaft, Ansbach	1 Jan. - 31 Dec.		10.0
	visionapp AG, Eschborn	1 Jan. - 31 Dec.		13.4
9	**Foreign equity investments in large corporations in which the interest exceeds 5% of voting rights1)**			
	Old HG Limited, Berkshire			6.1
	PSE Newco Limited, Yeadon Leeds			5.7
	Ring International Holding AG, Vienna	1 Jan. - 31 Dec.		9.4
10	**Special-purpose entities (special-purpose entities included in the consolidated financial statements in line with IAS 27/SIC 12)**			
	Bacchus 2008-1 Plc, Dublin 2			
	Bacchus 2008-2 Plc, Dublin 2			
	IKB Partner Fonds, Luxembourg			
	Partner Fonds Euro Bonds, Munsbach			
	Partner Fonds Europa Renten Teilfonds I, Luxembourg			
	Partner Fonds Europa Renten Teilfonds II, Luxembourg			
	RIO DEBT HOLDINGS (IRELAND) LIMITED, Dublin 2			

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Düsseldorf, 1 June 2011

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 below ("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 accordance with section 315a HGB and cover issues not regulated by the IFRS standards.

The following table shows only those standards relevant to IKB as of the reporting date rather than all of the existing standards:

International Financial Reporting Standards (IFRS)				
International Accounting Standards (IAS)	**Status**	**Title**	**Applicable since**	**Endorsed by EU regulation**
IAS 1	rev. 2007	Presentation of Financial Statements	1 Jan. 2007	1126/2008 of 3 Nov. 2008
IAS 2	rev. 1993	Inventories	1 Jan. 2005	1126/2008 of 3 Nov. 2008
IAS 7	rev. 1992	Statement of Cash Flows	1 Jan. 1994	1126/2008 of 3 Nov. 2008
IAS 8	rev. 2003	Accounting Policies, Changes in Accounting Estimates and Errors	1 Jan. 2005	1126/2008 of 3 Nov. 2008
IAS 10	rev. 2003	Events After the Reporting Period	1 Jan. 2005	1126/2008 of 3 Nov. 2008
IAS 11	rev. 1993	Construction Contracts	1 Jan. 1995	1126/2008 of 3 Nov. 2008
IAS 12	rev. 2000	Income Taxes	1 Jan. 1998	1126/2008 of 3 Nov. 2008
IAS 16	rev. 2003	Property, Plant and Equipment	1 Jan. 2005	1126/2008 of 3 Nov. 2008
IAS 17	rev. 2003	Leases	1 Jan. 2005	1126/2008 of 3 Nov. 2008
IAS 18	rev. 1993	Revenue	1 Jan. 1995	1126/2008 of 3 Nov. 2008
IAS 19	2004	Employee Benefits	1 Nov. 2005	1126/2008 of 3 Nov. 2008
IAS 20	rev. 2008	Accounting for Government Grants and Disclosure of Government Assistance	1 Jan. 2009	1126/2008 of 3 Nov. 2008
IAS 21	2005	The Effects of Changes in Foreign Exchange Rates	1 Jan. 2008	1126/2008 of 3 Nov. 2008
IAS 23	rev. 2007	Borrowing Costs	1 Jan. 2009	1260/2008 of 10 Dec. 2008
IAS 24	rev. 2003	Related Party Disclosures	1 Jan. 2006	1126/2008 of 3 Nov. 2008
IAS 27	rev. 2008	Consolidated and Separate Financial Statements	1 Jul. 2009	1606/2002 of 3 Jun. 2009
IAS 28	rev. 2003	Investments in Associates	1 Jan. 2006	1126/2008 of 3 Nov. 2008
IAS 31	rev. 2003	Interests in Joint Ventures	1 Jan. 2005	1126/2008 of 3 Nov. 2008
IAS 32	rev. 2003 (2009)	Financial Instruments: Presentation	1 Jan. 2005 (1 Feb. 2010)	1126/2008 of 3 Nov. 2008 (1293/2009 of 23 Dec. 2009)
IAS 33	rev. 2003	Earnings Per Share	1 Jan. 2005	1126/2008 of 3 Nov. 2008
IAS 34	1998	Interim Financial Reporting	1 Jan. 1999	1126/2008 of 3 Nov. 2008
IAS 36	rev. 2004	Impairment of Assets	31 Mar.2004	1126/2008 of 3 Nov. 2008
IAS 37	1998	Provisions, Contingent Liabilities Contingent Assets	1 Jul. 1999	1126/2008 of 3 Nov. 2008
IAS 38	rev. 2004	Intangible Assets	31 Mar.2004	1126/2008 of 3 Nov. 2008
IAS 39	2005 (2009)	Financial Instruments: Recognition and Measurement	1 Jan. 2006	1126/2008 of 3 Nov. 2008
IAS 40	rev. 2003	Investment Property	1 Jan. 2005	1126/2008 of 3 Nov. 2008

International Financial Reporting Standards (IFRS)	Status	Title	Applicable since	Endorsed by EU regulation
IFRS 3	rev. 2008	Business Combinations	1 Jul. 2009	1126/2008 of 3 Nov. 2008
IFRS 5	2004	Non-current Assets Held for Sale and Discontinued Operations	1 Jan. 2005	1126/2008 of 3 Nov. 2008
IFRS 7	2004 (2009)	Financial Instruments: Disclosures	1 Jan. 2007	1126/2008 of 3 Nov. 2008
IFRS 8	2007	Operating Segments	1 Jan. 2009	1126/2008 of 3 Nov. 2008

Standards Interpretations Committee (SIC)	Status	Title	Applicable since	Endorsed by EU regulation
SIC-10	1998	Government Assistance - No Specific Relation to Operating Activities	1 Aug.1998	1126/2008 of 3 Nov. 2008
SIC-12	2004	Consolidation - Special Purpose Entities	1 Jan. 2005	1126/2008 of 3 Nov. 2008
SIC-27	2001	Evaluating the Substance of Transactions involving in the Legal Form of a Lease	31 Dec. 2001	1126/2008 of 3 Nov. 2008

International Financial Interpretation Committee (IFRIC)	Status	Title	Applicable since	Endorsed by EU regulation
IFRIC 4	2004	Determining Whether an Arrangement Contains a Lease	1 Jan. 2006	1126/2008 of 3 Nov. 2008
IFRIC 9	2006 (2009)	Reassessment of Embedded Derivatives	1 Jan. 2007	1126/2008 of 3 Nov. 2008
IFRIC 10	2006	Interim Financial Reporting and Impairment	1 Jan. 2007	1126/2008 of 3 Nov. 2008
IFRIC 15	2008	Agreements for the Construction of Real Estate	1 Jan. 2009	1606/2002 of 22 Jul. 2009

German Accounting Standards (DRS)	Status	Title	Applicable since	Endorsed by EU regulation
DRS 5-10	2010	Risk Reporting by Financial Institutions and Financial Service Institutions	31 Dec. 2009	not relevant
DRÄS 4	2010	German Accounting Amendment Standard	31 Dec. 2009	not relevant
DRÄS 5	2010	German Accounting Amendment Standard	31 Dec. 2009	not relevant
DRS 7	2001	Group Equity and Total Recognised Results	30 Jun. 2001/31 Dec. 2002/ 31 Dec. 2003/31 Dec. 2004/ 31 Dec. 2005/31 Dec. 2009	not relevant
DRS 15	rev. 2005	Management Reporting	30 Dec. 2009	not relevant
DRS 16	2008	Interim Financial Reporting	31 Dec. 2007/31 Dec. 2009	not relevant
DRS 17	2007	Reporting on the Remuneration of Members of Governing Bodies	31 Dec. 2005/31 Dec. 2007	not relevant
DRS 19	2011	Duty to Prepare Consolidated Financial Statements, Basis of Consolidation	31 Dec. 2010	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 Jan. 2007	not relevant
GCGC in conjunction with section 161 AktG	2010	German Corporate Governance Code	31 Dec. 2010	not relevant
FWBO	2010	Frankfurt Securities Exchange Ordinance	31 Dec. 2010	not relevant

Auditor's Report

We have audited the consolidated financial statements prepared by the IKB Deutsche Industriebank Aktiengesellschaft, Düsseldorf, comprising the statement of financial position, the statement of comprehensive income, statement of changes in equity, cash flow statement and the notes to the consolidated financial statements, together with the group management report for the business year from April 1, 2010, to March 31, 2011. 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) are 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.

Düsseldorf, 7 June 2011

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Michael Maifarth	ppa. Marc Lilienthal
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 present a true and fair view of the assets, liabilities, and profit or loss of the Group, and the Group management report 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, 1 June 2011

IKB Deutsche Industriebank AG
The Board of Managing Directors

Hans Jörg Schüttler	Dr. Dieter Glüder
Claus Momburg	Dr. Michael H. Wiedmann

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).

Only the German version of this report is legally binding.

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