

Annual Report 2011/2012

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Letter from the Chairman of the Board of Managing Directors

Dear Shareholders,
Dear business partners of IKB,

The European government debt crisis, the unresolved problems affecting the European Monetary Union, the weakening global economy, the wave of additional bank regulation at European and national level, the deep uncertainty on the financial markets and the conflicting signals from the political sphere are presenting major challenges for the banking industry even in a relatively stable economic environment such as the one enjoyed by Germany at present. This scenario has required the revision of business models and restructuring measures. IKB set out on this path in 2007 and has made good progress ever since. On behalf of my colleagues on the Board of Managing Directors and myself, I would like to thank our employees for the great commitment they have shown in what has been a difficult situation at times.

However, there were setbacks in the 2011/12 financial year, too. Having prevailed for a good two years now, the factors mentioned above are increasingly having an adverse effect on demand for credit and the economic situation of our small and medium-sized clients. The haircut on Greek government bonds – we have since disposed of all our Greek risks – and the credit event recognised by the ISDA as a result have had a pronounced impact on IKB's earnings. The same applies for the drop in prices on the capital markets as a result of risk aversion, which has also started to affect the government bonds of some larger euro zone countries on a broad base.

The IKB Group reported an IFRS consolidated net loss of € 517 million. This primarily reflects the negative remeasurement effects resulting from the still unresolved government debt crisis. A wide range of extraordinary factors and remeasurement effects that had a strong positive effect on earnings in the previous year are now having a negative impact and outweighing the earnings components from our core business, often several times over.

European banking regulation is accompanied by a number of packages of extensive and severe measures. These projects, some of which are still in progress, require substantial resources to be committed. Among other things, we are seeking to limit our financial reporting to the German Commercial Code (HGB) in future. To this end, we have initiated a change in the stock exchange segment of our securities from the regulated market to the quality segments of the unregulated market, which will help to cut costs without having a material impact in terms of transparency.

Adjusted for the aforementioned extraordinary factors, we reduced our consolidated net loss by more than half, from € 140 million in the previous year to € 58 million. This shows that we are on the right track in what is a challenging environment. Net banking income (net interest and fee and commission income less provisions for possible loan losses) increased in the 2011/12 financial year. This development was driven by disciplined lending and rising income from capital market and consulting business, as well as the low level of provisions for possible loan losses, which reflects the continued positive economic sentiment among our small and medium-sized clients.

We implemented the EU conditions in full as of the end of September 2011 and submitted the closing report at the turn of the year. Despite the significant costs resulting from this process, we reduced our administrative expenses. We are systematically pressing ahead with our efforts to improve efficiency based on a system of key performance indicators that are determined on a quarterly basis. The need to cut costs requires us to perform a further headcount reduction of approximately 200. We have agreed a corresponding redundancy scheme and reconciliation of interests with the Works Council.

Our liquidity situation is secure. IKB's refinancing is based on deposits and promissory note loans from corporate clients and institutional investors, deposit business with retail customers ("IKB direkt") and secured financing. IKB is also continuing to actively provide its customers with funding from government development banks. We still have SoFFin guarantees of € 4.25 billion, of which € 2 billion will fall due in September of this calendar year. Where possible, we intend to return the remaining € 2.25 billion within the next twelve months in order to more quickly reduce the guarantee fees payable. IKB has already paid fees in excess of € 300 million to SoFFin.

Annual Report of IKB (Group) 2011/2012

Taking into account the losses on Greek bonds, the IKB Group's tier I capital ratio amounted to 9.4% at the reporting date, meaning that it still exceeds the regulatory requirements and our commitment to SoFFin. Our legal risks have declined significantly thanks to the reconciliation of our legal dispute with Crédit Agricole and FGIC and the settlement agreed with Iowa Student Loan Corporation and King County with respect to Rhinebridge.

The government debt crisis in the euro zone is overshadowing the progress we have made in the past financial year and delaying the Bank's return to sustainable profitability, particularly as further developments in the euro zone remain subject to great uncertainty. We will continue to focus IKB on its core activities and support our small and medium-sized clients with a comprehensive range of credit and advisory services.

Düsseldorf, June 2012



Hans Jörg Schüttler
Chairman of the Board of Managing Directors

High-end SMEs remain successful

Jobs secured by investments and successful exports

The high-end SME segment in Germany – IKB's primary customer group – consists of particularly high-income and high-growth companies with an international focus, whose innovative products often occupy leading positions on the global markets. IKB actively tracks their development by regularly analysing the annual and interim financial statements of around 125 listed companies with annual sales of between € 50 million and € 3 billion. The results constitute trends that apply to the high-end SME segment as a whole.

The current analysis shows that, on average, companies recorded double-digit sales growth once again in 2011 (+12% after +15% in the previous year), thereby leaving behind the financial and economic crisis that dominated 2009/2010. A slight slowdown in business development was only observed towards the end of 2011. Growth was broad-based, with almost nine out of ten companies seeing a rise in sales. Two-thirds of the companies in the segment also recorded earnings growth despite high commodities prices and rising labour costs. Costs also resulted from process optimisation, the establishment of new production facilities and the integration of acquired companies. At the same time, returns (such as the EBIT margin, which averaged almost 8%) remained almost unchanged as against the strong prior-year level.

The high-end SMEs included in the analysis made extensive investments in 2011, with more than two-thirds increasing their investment volume as against the previous year. A large number of acquisitions also took place.

The average free cash flow remained positive but declined year-on-year in light of this extensive activity. Almost every second company increased its cash and cash equivalents; taken as an average for the SMEs analysed, this item declined only slightly to a good 12% of total assets. Despite the significant growth in total assets of more than 7%, the average equity ratio increased by half a percentage point to 46.2%. More than one in three companies currently has an equity ratio in excess of 50%. One notable development (and one that is comparatively unusual in a phase of substantial growth) is that half of the companies reduced their financial liabilities. This item remained largely constant in terms of its share of total equity and liabilities.

All in all, the financial situation of high-end SMEs remains extremely comfortable. On the one hand, they are well equipped to deal with a potential downturn in sales (e.g. as the result of the possible intensification of the euro zone debt crisis), while on the other hand, they have sufficient scope for initiating new investment projects once the market indicators are pointed more clearly towards growth again. The extent to which companies are systematically pursuing their growth path is underlined by the development in employment figures: in 2011, high-end SMEs expanded their workforces by an average of almost 8%.

Although this growth was particularly pronounced outside Germany, a large number of new jobs were also created in Germany. While the domestic market accounted for only one-third of sales, it remains the case that considerably more than half of the workforce is employed at locations in Germany.

IKB – Economic Research

“UnternehmerThemen März 2012: Mittelständische Unternehmen – Auch 2011 ein erfolgreiches Jahr”; the full study can be found at: [www.ikb.de/Branchen & Märkte](http://www.ikb.de/Branchen%20&%20M%C3%A4rkte) (German only).

(This page is not part of the Management Report.)

Report of the Supervisory Board

In the financial year 2011/12, the Supervisory Board fulfilled the duties and obligations incumbent upon it in accordance with statutory provisions and the Articles of Association. The Supervisory Board supervised the management of the company and advised the Board of Managing Directors on the management of the company. The Supervisory Board was involved in all decisions of fundamental importance to the bank.

Overview

In its supervisory and advisory activities, the Supervisory Board received regular, timely and comprehensive reports from the Board of Managing Directors, in both oral and written form. The Board of Managing Directors informed the Supervisory Board of the business operations and the economic and financial development of the IKB Group and IKB AG. Other focal points of reporting were the general development of IKB and the development of the Group's risk situation, in particular with the impact of the sovereign debt crisis. Furthermore, the Supervisory Board addressed the planning of the Board of Managing Directors for the financial year 2012/13, the medium-term planning and deviations in the actual development of the business from planning.

Reports by the Board of Managing Directors on the business situation and on specific issues were supplemented by written presentations and documentation which each member of the Supervisory Board received prior to the meeting for preparation purposes. The members of the Supervisory Board were also provided with the annual financial statements and consolidated financial statements and the auditors' reports in due time prior to the meeting. The members of the Finance and Audit Committee and the Supervisory Board plenary meeting also received the half yearly and quarterly financial reports in due time for preparation purposes. The Executive Committee of the Supervisory Board approved management measures requiring approval, such as the approval of large exposure loans.

The Supervisory Board held five meetings in the financial year 2011/12. Regular meetings were held in June, September, November and February. The Supervisory Board also convened in September, following the Annual General Meeting for the financial year 2010/11, for a constitutive meeting which elected Mr Bruno Scherrer again as Chairman of the Supervisory Board. The Chairmen of the Supervisory Board and the Board of Managing Directors also consulted regularly on key developments and decisions. Individual members were unable to attend meetings of the Supervisory Board and sent their apologies in each case. Mr Olivier Brahin and Dr Thomas Rabe attended one meeting.

Topics of the Supervisory Board plenary meeting

At all Supervisory Board meetings in the reporting year 2011/12, the Board of Managing Directors provided the Supervisory Board with explanations concerning the development of sales and result. Furthermore, the Board of Managing Directors examined in detail the development in the individual business segments and reported on the capital position and financial situation. The Supervisory Board was continuously informed by the Board of Managing Directors about the impact of the euro debt crisis and the status of material legal disputes.

One focal point of the activities of the Supervisory Board was the impact of the sovereign debt crisis in Europe. Special emphasis was given here to the conceivable scenarios and respective consequences, in particular in terms of the equity ratio and valuation issues.

At the meeting on 28 June 2011, the Supervisory Board formed a detailed opinion on the general development of the bank, based on written and oral reporting by the Board of Managing Directors. The Supervisory Board also examined the annual financial statements and consolidated financial statements and the dependent company report. The Board of Managing Directors also gave a comprehensive written and oral explanation of the risk situation of the IKB Group, and Internal Audit made its annual report for 2010/11. The appointed auditing company PwC reported on the audit findings, and the Chairman of the Finance and Audit Committee on preparations for the auditing of the annual financial statements and consolidated financial statements as of 31 March 2011 with the management reports and dependent company report for the financial year 2010/11. The annual financial statements and consolidated financial statements were approved by the Supervisory Board. No objections were raised to the declaration of the Board of Managing Directors in the closing statement of the dependent company report. The report of the

Supervisory Board for the financial year 2010/11 and the Corporate Governance Declaration resp. the Corporate Governance Report for the financial year 2010/11 were subsequently approved. The Board of Managing Directors then explained both in written and oral form the five-year plan and the processing status of the findings of the Deutsche Bundesbank in the course of its examination according to Section 44 para. 1 sentence 2 German Banking Act (*Kreditwesengesetz – KWG*). The Board of Managing Directors further reported in written and oral form on the remuneration systems for the company. The Supervisory Board also addressed the agenda for the Annual General Meeting 2011 of IKB AG and approved the Supervisory Board's proposed resolutions to the Annual General Meeting. Furthermore, the Supervisory Board discussed the achievement of targets by the individual members of the Board of Managing Directors and accordingly determined their variable remuneration for the financial year 2010/11. Diverse lawsuits with former members of the Board of Managing Directors were furthermore discussed. The resolutions of the Executive Committee of the Supervisory Board and the activities of the Finance and Audit Committee were also reported to the Supervisory Board, and the status of the sales process of the bank was considered.

On 6 September 2011, the day prior to the Annual General Meeting, the Board of Managing Directors informed the Supervisory Board in written and oral form about the business development in the first quarter of the financial year 2011/12, about the Group interim results as of 30 June 2011 and the Group's risk situation as of 30 June 2011. The Supervisory Board further prepared the Annual General Meeting on 7 September 2011. The resolutions of the Executive Committee of the Supervisory Board were also reported to the Supervisory Board, and the Supervisory Board deliberated on the meeting dates for 2012 and the pensions for former members of the Board of Managing Directors.

On the evening following the Annual General Meeting of 7 September 2011, a constitutive meeting of the Supervisory Board was convened, at which the Supervisory Board again elected Mr Bruno Scherrer as Chairman of the Supervisory Board.

At the meeting of 25 November 2011, the Board of Managing Directors reported comprehensively in written and oral form on the business position and financial situation of the IKB Group. A special focus were the legal disputes of IKB, in particular regarding diverse lawsuits filed by investors, lawsuits in the USA and actions to set aside resolutions of the General Meeting of 25 March 2009 and 27 August 2009. The Board of Managing Directors then presented the Group interim results as of 30 September 2011 in written and oral form. The central point was the impact of the debt crisis in Europe and the development of IKB's equity. The Board of Managing Directors further reported in written and oral form on the risk situation of the IKB Group as of 30 September 2011. Here too the Supervisory Board discussed intensively the importance of the European debt crisis for the position of the IKB Group. Furthermore the Board of Managing Directors presented the bank's updated business and risk strategy in written and oral form. The Supervisory Board also resolved an amendment to the by-laws of the Board of Managing Directors as regards the reporting of the business and risk strategy.

The Supervisory Board also deliberated on the further handling of the crisis of IKB and the assertion of any damage claims against former members of the Board of Managing Directors. As hitherto, the Supervisory Board has refrained from asserting any claims. This decision by the Supervisory Board has deferred the pursuit of any damage claims in connection with the crisis at the bank but only provisionally. This is therefore not a final waiver of any claims either in law or in fact. This would only be the case if former members of the Board of Managing Directors were pleading that the claims were subject to the statute of limitations because of failure to bring an action. The Supervisory Board is, however, continuously monitoring the limitation period for any claims, and based on its findings, there is no reason for concern that any claims will become statute-barred.

The deferral of litigation within the limitation periods still running is primarily based on two considerations:

On the one hand the company is confronted with a number of actual and potential claimants in Germany and abroad, as repeatedly reported by the Supervisory Board in previous years. They are asserting claims against the company or could pursue such claims in connection with the events which led to the company's crisis in the summer of 2007. The Supervisory Board considers such third-party claims against the company to be unfounded. Nevertheless, the Supervisory Board believes it would not be in the company's best interest if the Supervisory Board presented the existing or potential claimants with the means, through a public D&O liability process against former members of the Board of Managing Directors, required to allege and assert unfounded claims against the company. This would expose the

company to high risks, especially as the company, even in the case of a ruling in its favour, would only be entitled to claim reimbursement for a fraction of the defence expenses it incurred. If the company was to lose in such court proceedings, it would be largely unrealistic to expect to assert recourse claims against the responsible parties. This also applies in view of existing D&O insurances and the indemnity agreement with KfW of 10/16 September 2008. The high-volume litigation involving FGIC/Calyon have meanwhile been settled. It cannot, however, be excluded that actions for damages are brought by capital market participants in another matter which, taking into account the value in dispute, the defence costs and other factors, can constitute a significant burden for the company. Against this background, the Supervisory Board believes that the assertion of any internal liability claims within the limitation periods should begin only at a time when the overall forensic situation has stabilised. Nevertheless, the Supervisory Board will, however, address any assertion of damage claims against persons responsible for the crisis of the company on an ongoing basis, also in the current financial year, taking into account the interests of the company, and 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.

On the other hand, as is well known, a special audit according to the German Stock Corporation Act is examining whether former members of the Board of Managing Directors neglected their duties as directors and officers in connection with the events which led to the company's crisis in the summer of 2007. This special audit is still ongoing, and the company does not know when exactly the special auditor will complete it and submit his audit report. According to a communication from the special auditor to Düsseldorf Regional Court, however, he now expects to complete the audit work in the foreseeable future. The Supervisory Board has to and shall, of course, incorporate the results of the special audit in its examinations and considerations. At present, the Supervisory Board therefore considers it expedient to await the results of the special audit in order to consider them within the limitation periods in its decision on the assertion of any claims.

This does not affect diverse ongoing lawsuits against former members of the Board of Managing Directors concerning salary resp. bonus payments and damage claims relating to houses they occupied.

At the meeting of 23 February 2012, the Board of Managing Directors informed the Supervisory Board first in written and oral form about the business development and current position of IKB. This focused in particular on lawsuits in connection with the crisis of IKB, especially in the form of lawsuits filed by investors and diverse litigation in the USA. The Board of Managing Directors then reported in written and oral form on the Group interim results as of 31 December 2011. The Board of Managing Directors then informed the Supervisory Board in written and oral form about the Group risk as of 31 December 2011. A focal point here was the impact of the European sovereign debt crisis. The Supervisory Board then deliberated on the results of the deposit audit performed by PwC. The Chief Compliance Officer also gave his annual report in oral and written form. The Supervisory Board then discussed the pensions for former members of the Board of Managing Directors and inquired about the progress of the lawsuits with former members of the Board of Managing Directors.

The Supervisory Board then addressed the concrete objectives regarding its composition. Reference is made to the Corporate Governance Report for the description of these objectives. Furthermore, the Supervisory Board approved the Declaration of Conformity with respect to the German Corporate Governance Code. The Supervisory Board also discussed the results of the efficiency review of the Supervisory Board and its committees.

The Chairman of the Supervisory Board also informed the Supervisory Board plenary meeting about resolutions meanwhile approved by the Executive Committee of the Supervisory Board, in particular about the approval of large exposure loans. The Supervisory Board furthermore discussed in detail with the Board of Managing Directors the results of a project programme to raise efficiency, quantitative and qualitative medium term HR planning, new business planning and operational risks with regard to HR measures in the IKB Group.

Declaration of Conformity with respect to the German Corporate Governance Code

The Declaration of Conformity dated 23 February 2012 and further information on this topic can be found in the section "Corporate Governance Declaration/Corporate Governance Report" in this annual report.

No conflicts of interest arose in the course of the deliberations of the Supervisory Board in the financial year 2011/12 and to date.

Activities of the Committees

To ensure that the Supervisory Board exercises its functions efficiently, the Supervisory Board has set up different committees: the Executive Committee, the Finance and Audit Committee and the Nomination Committee. The Committees prepare the deliberations and resolutions for approval in the plenary meeting. Furthermore, the authority to approve resolutions has also in some cases been delegated to the committees themselves.

The Executive Committee held five meetings in the financial year 2011/12. All members attended all meetings. The Executive Committee primarily discussed in advance the issues to be addressed at the meetings of the Supervisory Board. The Executive Committee focused on business development (including the approval of any transactions requiring approval) and in particular discussed with the Board of Managing Directors the situation of the bank and the Group. In addition, the Executive Committee deliberated primarily on questions of corporate governance, the preparation of the Annual General Meeting and matters concerning the Board of Managing Directors.

The Finance and Audit Committee held six meetings in the financial year 2011/12. All members attended all meetings. 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 and the appointment of the auditor. The Finance and Audit Committee obtained the statement of independence of the auditor according to Sec. 7.2.1 of the German Corporate Governance Code, agreed that the Chairman of the Committee would be informed immediately of any possible grounds for exclusion or impartiality arising during the audit, and commissioned the auditor to perform the audit. The Finance and Audit Committee concluded an agreement with the auditor on the focal points of the audit and the audit fee.

The Nomination Committee met on 28 June 2011 with the presence of all members and discussed the proposals to the Supervisory Board regarding the election of Supervisory Board members by the Annual General Meeting on 7 September 2011.

The members of the Committees also repeatedly engaged in deliberations among themselves and maintained ongoing contact with the Board of Managing Directors outside 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 their deliberations, is annexed to this report.

Audit of the annual financial statements and consolidated financial statements

The Annual General Meeting appointed PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft (PwC), Düsseldorf, as auditors for the annual financial statements and consolidated financial statements and for any review of the condensed interim consolidated financial statements and the interim Group management report for the first half of the financial year 2011/12. PwC audited the annual financial statements of IKB AG and the Group and the respective management reports and issued an unqualified audit opinion. The consolidated financial statements were prepared in accordance with international accounting standards (IFRS), as applied in the European Union. The auditors were not commissioned to review the condensed interim consolidated financial statements and the interim Group management report for the first half of the financial year 2011/12.

All members of the Supervisory Board received the annual financial statements, the consolidated financial statements and the relevant management reports and the related written audit reports of PwC for the financial year 2011/12 in due time prior to the meeting at which the Supervisory Board deliberated on this documentation. This enabled it to deal with the respective contents in due time prior to the meeting. Examination of and deliberation on this documentation by the Finance and Audit Committee and the plenary meeting of the Supervisory Board took place on 28 June 2012. The auditors participated in these deliberations. They 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. There were no circumstances which gave reason to doubt the impartiality of the auditors. The auditors further informed the Supervisory Board 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 at its meeting held on 28 June 2012. In accordance with the final result of the Supervisory Board's own review of the annual financial statements and the consolidated financial statements, the management report and the Group management report, no objections were raised. The Supervisory Board approved the annual financial statements and consolidated financial statements of 22 May 2012 and 1 June 2012 prepared by the Board of Managing Directors at its meeting on 28 June 2012. The annual financial statements have thus been adopted.

Review and Approval of the Dependent Company Report for the Financial Year 2011/12

The report on business relationships with affiliated companies for the financial year 2011/12 (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."

At the meetings held on 28 June 2012, first the Finance and Audit Committee and then the Supervisory Board deliberated on and reviewed the dependent company report. The members of the Supervisory Board received both the dependent company report and the related audit report of the auditors 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 findings of their audits, answered questions and provided additional information. The Supervisory Board approved the result of the auditors' audit at its meeting on 28 June 2012.

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

Personalia – Supervisory Board

Mr Bruno Scherrer, Mr Stefan A. Baustert and Mr Arndt G. Kirchhoff, whose terms of office each ended at the close of the Annual General Meeting of 7 September 2011, were again elected to the Supervisory Board, by resolution of the Annual General Meeting of 7 September 2011, until the end of the Annual General Meeting which decides on whether to grant discharge to the members of the Supervisory Board for the financial year 2013/14. Mr Andreas Wittmann retired from the Supervisory Board in rotation at the end of the Annual General Meeting of 7 September 2011 while, due to the election of new employees' representatives, Ms Nicole Riggers was elected to the Supervisory Board. Owing to his new task as Chief Executive Officer of Bertelsmann AG, Dr Thomas Rabe retired from office as of 21 February 2012. Mr Olivier Brahin retired from office with effect from 25 May 2012. A decision on the succession shall be made at the Annual General Meeting on 23 August 2012.

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

Personalia – Board of Managing Directors

There were no changes in the composition of the bank's Board of Managing Directors over the past year. 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 of the IKB Group for their personal commitment and contributions in the past financial year.

Düsseldorf, 28 June 2012
The Supervisory Board



Bruno Scherrer
Chairman

Meetings of the Supervisory Board in the Financial Year 2011/12

Date of meeting	Subject matter of deliberations
28 June 2011	<ul style="list-style-type: none"> ▪ General development of IKB ▪ Annual financial statements and consolidated financial statements as of 31 March 2011 with the management reports for IKB and the Group as well as the dependent company report for the financial year 2010/2011 ▪ Group risk dashboard as of 31 March 2011 ▪ Annual report of Internal Audit for the financial year 2010/11 ▪ Auditors' report on the audit of the annual financial statements and consolidated financial statements as of 31 March 2011 with the management reports for IKB and the Group as well as the dependent company report for the financial year 2010/11 ▪ Report of the Finance and Audit Committee on the preparation of the audit of the annual financial statements and consolidated financial statements as of 31 March 2011 with the management reports for IKB and the Group as well as the dependent company report for the financial year 2010/11 ▪ Approval of the annual financial statements and consolidated financial statements as of 31 March 2011 as well as the dependent company report for the financial year 2010/11 ▪ Report of the Supervisory Board ▪ Corporate Governance Declaration/Corporate Governance Report ▪ Five-year plan ▪ Review acc. to Sec. 44 (1) sentence 2 German Banking Act (<i>KWG</i>) – processing status of the findings of the Deutsche Bundesbank (incl. brief opinion of PwC) ▪ Remuneration systems for the company ▪ Proposals for the agenda of the Annual General Meeting on 7 September 2011 ▪ Matters concerning the Board of Managing Directors <ul style="list-style-type: none"> - variable remuneration for the financial year 2010/11 - forensics (former members of the Board of Managing Directors) ▪ Report on the resolutions of the Executive Committee of the Supervisory Board ▪ Report on the activities of the Finance and Audit Committee
6 September 2011	<ul style="list-style-type: none"> ▪ General development of IKB ▪ Group interim results as of 30 June 2011 ▪ Group risk dashboard as of 30 June 2011 ▪ Preparation of the Annual General Meeting on 7 September 2011 ▪ Matters concerning the Board of Managing Directors ▪ Report on resolutions of the Executive Committee of the Supervisory Board ▪ Meeting dates 2012
7 September 2011	<ul style="list-style-type: none"> ▪ Election of the Chairman of the Supervisory Board
25 November 2011	<ul style="list-style-type: none"> ▪ General development of IKB ▪ Group interim results as of 30 September 2011 ▪ Group risk dashboard as of 30 September 2011 ▪ Adjustment of the business and risk strategy ▪ Amendment of the by-laws for the Board of Managing Directors ▪ Matters concerning the Board of Managing Directors: forensics ▪ Efficiency review of the Supervisory Board ▪ Report on resolutions of the Executive Committee of the Supervisory Board

23 February 2012	<ul style="list-style-type: none"> ▪ General development of IKB ▪ Group interim results as of 31 December 2011 ▪ Group risk dashboard as of 31 December 2011 ▪ HR planning and development ▪ Audit according to Sec. 36 German Securities Trading Act (<i>WpHG</i>) ▪ Annual report of the Chief Compliance Officer ▪ Matters concerning the Board of Managing Directors: pensions for former members of the Board of Managing Directors ▪ Matters concerning the Supervisory Board: concrete objectives regarding the composition of the Supervisory Board ▪ Declaration of Conformity pursuant to Sec. 161 German Stock Corporation Act (<i>AktG</i>) ▪ Result of the efficiency review of the Supervisory Board ▪ Report on resolutions of the Executive Committee of the Supervisory Board ▪ Results of the projects and impact on employees
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Meetings of the Executive Committee of the Supervisory Board in the Financial Year 2011/12

Date of the meeting	Subject matter of deliberations
28 June 2011	<ul style="list-style-type: none"> ▪ Preparation of the Supervisory Board meeting <ul style="list-style-type: none"> - General development of IKB - Report of the Supervisory Board - Corporate Governance Declaration / Corporate Governance Report - Agenda of the Annual General Meeting on 7 September 2011 - Matters concerning the Board of Managing Directors
6 September 2011	<ul style="list-style-type: none"> ▪ Preparation of the Supervisory Board meeting <ul style="list-style-type: none"> - General development of IKB - Preparation of the Annual General Meeting on 7 September 2011 - Matters concerning the Board of Managing Directors
25 November 2011	<ul style="list-style-type: none"> ▪ Preparation of the Supervisory Board meeting <ul style="list-style-type: none"> - General development of IKB - Amendment of the by-laws for the Board of Managing Directors - Matters concerning the Board of Managing Directors: forensics - Efficiency review of the Supervisory Board
23 February 2012	<ul style="list-style-type: none"> ▪ Preparation of the Supervisory Board meeting <ul style="list-style-type: none"> - General development of IKB - Matters concerning the Board of Managing Directors: pensions for former members of the Board of Managing Directors - Matters concerning the Supervisory Board: objectives for the composition of the Supervisory Board - Declaration of Conformity pursuant to Sec. 161 German Stock Corporation Act (<i>AktG</i>) - Result of the efficiency review of the Supervisory Board
26 March 2012	<ul style="list-style-type: none"> ▪ Restructuring of hybrid funds

Meetings of the Finance and Audit Committee in the Financial Year 2011/12

Date of meeting	Subject matter of deliberations
28 June 2011	<ul style="list-style-type: none"> ▪ Annual financial statements and consolidated financial statements as of 31 March 2011 with the management reports for IKB and the Group as well as the dependent company report for the financial year 2010/11 ▪ Group risk dashboard as of 31 March 2011 ▪ Auditors' report on the audit of the annual financial statements and the consolidated financial statements as of 31 March 2011 with the management reports for IKB and the Group as well as the dependent company report for the financial year 2010/11 ▪ 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 as of 31 March 2011 with the management reports for IKB and the Group as well as the dependent company report for the financial year 2010/11 / proposal for the approval of the annual financial statements as of 31 March 2011 as well as the dependent company report for the financial year 2010/11 ▪ Five-year plan ▪ Reviews acc. to Sec. 44 (1) sentence 2 German Banking Act (KWG) – processing status of the findings of the Deutsche Bundesbank (incl. brief opinion of PwC) ▪ Report on the internal controlling, risk management and internal audit system ▪ Auditors 2011/12
25 August 2011	<ul style="list-style-type: none"> ▪ Group interim results as of 30 June 2011
6 September 2011	<ul style="list-style-type: none"> ▪ Group interim results as of 30 June 2011 ▪ Group risk dashboard as of 30 June 2011
25 November 2011	<ul style="list-style-type: none"> ▪ Group interim results as of 30 September 2011 ▪ Group risk dashboard as of 30 September 2011 ▪ Focal points of the audit for the financial year 2011/12
17 February 2012	<ul style="list-style-type: none"> ▪ Group interim results as of 31 December 2011
23 February 2012	<ul style="list-style-type: none"> ▪ Group interim results as of 31 December 2011 ▪ Group risk dashboard as of 31 December 2011 ▪ Review according to Sec. 36 WpHG ▪ Annual report of the Chief Compliance Officer

Meetings of the Nomination Committee in the Financial Year 2011/12

Date of meeting	Subject matter of deliberations
28 June 2011	<ul style="list-style-type: none"> ▪ Proposals to the Supervisory Board for the election of Supervisory Board members by the Annual General Meeting on 7 September 2011 ▪ Miscellaneous

Corporate Governance Declaration/Corporate Governance Report

In the declaration below, the Board of Managing Directors and the Supervisory Board report on the company management and in accordance with item 3.10 of the German Corporate Governance Code (GCGC, in the version dated 26 May 2010) on the Company's Corporate Governance taking into consideration the resignation of Mr Olivier Brahin from the Supervisory Board subsequent to the inclusion of the Corporate Governance Declaration in the management report of IKB Deutsche Industriebank AG as well as taking into consideration the meeting of the Nomination Committee on 28 June 2012.

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 23 February 2012. 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 the 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 26 May 2010 published by the Federal Ministry of Justice in the official section of the electronic Federal Gazette on 2 July 2010 have been met since the issue of the last Declaration on 10 March 2011 taking into account the Update on 26 July 2011 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 principle intention of IKB's major shareholder to sell its shareholding and the restructuring situation of IKB no restriction of a severance payment was agreed with the members of the Managing Board of Directors.

- Item 5.4.1 para. 2: Specification of concrete objectives regarding the composition of the Supervisory Board and stipulation 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 the composition of the Supervisory Board. In the Supervisory Board meeting on 23 February 2012 the Supervisory Board decided on concrete objectives for its composition.

- Item 5.4.1 para. 3: Taking into account the concrete objectives regarding the composition of the Supervisory Board when making recommendations to the competent election bodies and publication of the concrete objectives and the status of their implementation in the Corporate Governance Report

The Supervisory Board did not – by a deviation from item 5.4.1 para. 2 – define concrete objectives for its composition. Thus the Supervisory Board could not take into account concrete objectives for its composition when making recommendations to the competent election bodies and the concrete objectives and the status of their implementation could not be published in the Corporate Governance Report.

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

The 3-Month Interim Announcement as of 30 June 2011 was published on 26 August 2011, the 6-Month Report 2011/12 on 28 November 2011 and the 9-Month Interim Announcement as of 31 December 2011 on 20 February 2012. 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 and 4.2.3 para. 4 on the grounds listed above.

Düsseldorf, 23 February 2012

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 in the version dated 26 May 2010 – 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 GCGC). 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 GCGC). 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 not transmitted via modern communication media (item 2.3.4 GCGC).

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 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/Central Staff and Compliance, Group Audit, Organisation, Strategic Planning and Investment Management as well as Communications. Dr Glüder's responsibilities comprise Information Technology, Finance, Data Protection and Data Security as well as Taxation. Mr Momburg is responsible for Credit Risk Management and Risk Controlling, Credit Treasury Operations, Securitisation Structures Management and Human Resources and Services. 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 (79).

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 2011/12 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.

For the members of the Board of Managing Directors, there is a D&O insurance policy with a deductible of 10% of the respective damage up to a level of 1.5 times the fixed annual remuneration of the respective member of the Board of Managing Directors.

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 principle, the Supervisory Board comprises ten shareholder representatives and five employee representatives. After Dr Rabe resigned from his office with effect from 21 February 2012 due to his new position as Chairman of Bertelsmann AG and Mr Brahin resigned from his office with effect from 25 May 2012, there are currently only eight shareholder representatives on the Supervisory Board. A decision on the succession shall be made at the Annual General Meeting on 23 August 2012. Details regarding the 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 (79).

At its meeting on 23 February 2012, the Supervisory Board resolved the following objectives for its composition, thereby fulfilling item 5.4.1 para 2 GCGC:

“The Supervisory Board will seek to realise the following targets for the future composition of the Supervisory Board and the formulation of nomination proposals to the General Shareholders' Meeting considering potential conflicts of interest:

- At least three members of the Supervisory Board shall have several years of experience working abroad or on an international level.
- At all times, there is at least one independent member on the Supervisory Board with expertise on the field of accounting or auditing of annual accounts. Furthermore, at least two more members of the Supervisory Board shall be independent.
- At all times, at least three members of the Supervisory Board shall have expertise and experience in the management and/or supervision of credit institutes, financial services companies and/or comparable capital market participants.
- The age limit for members of the Supervisory Board (75 years) provided for in the rules of procedure of the Supervisory Board must be taken into consideration.
- The ratio of women on the Supervisory Board shall continue to be 20%.“

The current composition of the Supervisory Board meets these requirements even following the departure of Dr Rabe and Mr Brahin. The Nomination Committee examined the proposals for the election of

shareholder representatives to the Supervisory Board in terms of the requirements for the individual Supervisory Board members and the composition of the Supervisory Board as a whole in its meeting on 28 June 2012. In the Supervisory Board's proposals for the election to the Annual General Meeting the aforementioned objectives were taken into account.

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. 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 GCGC, i.e. who have no business or personal relations with the Company or its Board of Managing Directors that cause a conflict of interests. 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; no transactions were conducted at conditions other than arm's-length conditions in the year under review. These transactions had and/or have no influence in IKB's estimation on the independence of Supervisory Board members close to the said companies. The Supervisory Board members' mandates 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 2011/12 and to the present day, no conflicts of interest occurred.

In its meeting of 25 November 2011, the Supervisory Board decided on performance of an efficiency audit in accordance with the recommendation contained in item 5.6 GCGC. The results of the efficiency audit were presented in the Supervisory Board Meeting on 23 February 2012.

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 as well as concentrations of risk and income.

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.

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 2011/12 and the financial statement auditor for a potential review of the condensed financial statements and the interim management report for the first half of financial year 2011/12. 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 GCGC) 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 GCGC).

At the IKB Annual General Meeting on 7 September 2011 – 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 2011/12 and as auditor for a potential review of the condensed financial statements and the interim management report for the first half of financial year 2011/12.

A review of the condensed financial statements and the interim management report for the first half of the 2011/12 financial year was ultimately not commissioned.

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.

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 GCGC 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 GCGC).

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 five times in financial year 2011/2012.

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

- Bruno Scherrer (Chairman)
Senior Managing Director/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 Andreas Tuczka
Head of European Financial Institutions/Managing Director, Lone Star Management Europe Ltd., resident in Vienna
- 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 six times in financial year 2011/2012.

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
- Dr Claus Nolting
CEO of COREALCREDIT BANK AG, resident in Munich
- Bruno Scherrer
Senior Managing Director/Head of European Investments, Lone Star Management Europe Ltd., resident in London
- Dr Carola Steingraber
Sector 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 2011/12.

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

- Bruno Scherrer (Chairman)
Senior Managing Director/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 the chapter "Remuneration report" of the Group management report. In accordance with item 4.2.5 GCGC, 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 GCGC. 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 GCGC).

Share ownership of board members

Pursuant to Sec. 15a 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 GCGC up until 31 March 2012.

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 2012

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

Transition in German corporate financing

Companies look for alternatives to credit

IKB's reorientation is geared towards a fundamental transition in corporate financing that has been observed for a number of years and that has accelerated since the onset of the economic and financial crisis. This change process is focused on a clear shift within the mix of financing components: internal financing is becoming more important than external financing, while bank credit is increasingly losing its former supremacy among external financing instruments.

Over the last decade, companies have increasingly financed their activities from cash flow, meaning that their average equity ratio has risen continuously. In doing so, they are taking account of the more stringent requirements imposed by banks in terms of their credit ratings, as well as the heightened risk resulting from the ongoing internationalisation process and intensified innovative activities. However, it has only been possible for companies to strengthen their financing structure thanks to a sustainable improvement in their earnings power, which can be attributed in particular to attractive products, improved productivity and moderate growth in labour costs. If the current earnings level can be maintained, this trend towards strengthening the equity base will continue. A further factor is the expectation that the sustained structural problems in the banking sector and more stringent regulation could make it more difficult and more expensive to obtain credit. The fact that companies today are particularly keen to ensure stable financing with a long-term focus is also reflected in the growing number of capital increases conducted by listed SMEs.

In looking for alternative solutions in the area of external finance, attention is turning to capital market products, which are now also being used by larger SMEs. Their access to the capital markets has been facilitated by the creation of special SME segments on the German stock exchanges. Since summer 2010, some 50 companies have issued bonds, generating funds of around €2.5 billion as a result. Although the conditions and processes on these new markets still require adjustment, this type of financing will continue to gain in importance. Promissory note loans are also enjoying increased interest, with companies taking the opportunity to place their financing on a broader base.

The substitution of bank credit with other financing instruments is not a new trend. A look at the Deutsche Bundesbank statistics shows that, even over the last 20 years, the share of total external financing attributable to bank credit has declined from around one-third to below 20%. Non-banks have increasingly emerged as lenders. In particular, lending between companies has risen significantly, with more and more companies (including SMEs) forming part of a consolidated group and hence being included in an intragroup liquidity and financing management system.

Changed financing models are presenting banks with new demands: they are no longer required to act primarily as lenders, but instead must be advisors, problem-solvers and expert partners for all questions relating to financing.

IKB – Economic Research

“Mittelstandsfinanzierung mit neuen Perspektiven”; the full study can be found at:
[www.ikb.de/Branchen & Märkte](http://www.ikb.de/Branchen%20&%20M%C3%A4rkte) (German only).

(This page is not part of the Management Report.)

Group Management Report

1. Business and general conditions

The 2011/12 financial year was dominated by the ongoing government debt crisis in the euro zone. The unresolved problems affecting the European Monetary Union affected both economic development and confidence on the financial markets to a significant extent.

Following a good start to 2011, the global economy lost momentum as the year progressed. The factors impacting the global economy included the sharp rise in oil prices and, in particular, the growing uncertainty due to the euro zone debt crisis, which intensified once again in the summer. The pace of growth in the emerging economies also decelerated, although it remained at a considerably higher level than in the industrialised nations. The US economy proved to be relatively robust, picking up substantially following weak growth in the first half of the year, with GDP growth for 2011 as a whole amounting to 1.7%. Although the initial indicators suggest that a global recovery will gradually take hold again in the course of this year, development will remain fragile due to the ongoing debt crisis in the euro zone.

General conditions for the core business

Following a good start to the year, economic development in the euro zone slowed significantly from summer 2011 onwards. Demand was impacted by the repeated consolidation measures. Momentum also slowed during the year in the core countries that are relevant for IKB. France still saw relatively stable development, recording GDP growth of 1.7% in 2011. Italy, which is increasingly suffering from consolidation measures, slipped into recession once again in the summer; however, macroeconomic growth for the year as a whole amounted to 0.4%. With annual growth of 0.7%, economic development in Spain also became increasingly weak, and the country was unable to avoid entering recession towards the end of the year. The economic recovery in the United Kingdom also came to a halt (GDP growth in 2011: 0.7%). Based on these indicators, the economic situation in the euro zone has stabilised slightly once again, but there are still no notable growth drivers.

By contrast, the German economy enjoyed a broad-based recovery in 2011, recording GDP growth of 3.0%. Although growth in demand from abroad was not quite as impressive as in the previous year, the successive strengthening of domestic growth drivers meant that the economic fundamentals demonstrated remarkable resistance. For example, commercial capital investments – an important indicator for credit demand – increased strongly by almost 8% year-on-year on the back of a optimistic business outlook and favourable financing conditions. Residential construction also saw substantial growth thanks to the solid employment market and a lack of alternative investment opportunities, while private consumption provided further momentum. However, even the German economy was unable to escape the effects of the difficult environment as the year progressed, slowing towards the end of the year in line with the downturn in global economic growth and the exacerbation of the European debt crisis. Despite this, leading indicators suggest that the economy will improve from mid-2012, although the downside risks still cannot be disregarded.

The government debt crisis continued to dominate the financial markets. A combination of uncertainty with regard to the ongoing crisis in Greece, specific developments in individual euro zone countries and growing downside risks in terms of general economic development led to the revaluation of credit risks on the markets from the summer onwards. In particular, bond yields for peripheral countries reached new record highs, while Italy and Spain also entered the focus of the markets due to growing concerns as to the desire to implement consolidation measures and the fear of rating downgrades. Despite a number of rescue packages, a debt haircut was ultimately agreed for Greece, with private creditors of Greek government bonds “voluntarily” participating in losses of around 80%.

In this environment, financial institutions came under considerable pressure once again. Banks in the crisis-hit countries in particular were increasingly exposed to refinancing problems. The situation on the credit markets also deteriorated significantly in some parts of the euro zone, while fears of a credit crunch increased.

The general increase in uncertainty over the course of the year was ultimately also driven by the fact that the measures resolved by heads of state and government in the euro zone with a view to combating the crisis were repeatedly considered to be insufficient, thereby providing only temporary relief on the markets. A more broad-based relaxation on the markets was triggered only by the commitment to strengthening

fiscal policy rules and reform and consolidation measures in individual EU member states, which was preceded by a change of government in some cases. The calming of the general situation, and particularly in the banking sector, was attributable in particular the two three-year refinancing operations by the European Central Bank (ECB), which provided banks with around € 1 trillion in medium-term liquidity at favourable conditions. This temporarily relieved the pressure on the private refinancing markets and made it easier for many banks to perform refinancing. Italian and Spanish banks used some of the additional funds to acquire domestic government bonds, thereby improving the difficult financing situation in both countries. At the same time, a significant proportion of the liquidity provided to the banking system ended up in the ECB's deposit facility and has not yet been used to increase the volume of credit financing. Fears of significant turbulence in the European financial system as a result of the one-off debt haircut in Greece proved to be unfounded. However, the government crisis in the euro zone remains fundamentally unresolved, further development will continue to be fragile and new disruptions are likely. As expected, the capital markets remain extremely sceptical with regard to the future of Greece and expect the country to exit the European Monetary Union. At the same time, Spain has attracted the attention of the capital markets due to its increased long-term deficit ratios and the need to protect the banking system. European politicians must face up to the criticism that they have focused solely on budget consolidation at the expense of encouraging growth drivers.

Growth was further impaired by the pressure on the entire European banking system to deleverage to a significant extent. In addition to the financial crisis, this development is being driven by the approaching implementation of Basel III and the stress tests performed by the European Banking Authority (EBA). In some cases, the impact of deleveraging has been smoothed by the large-volume ECB tender, which has made the generation of liquidity less of an urgent factor in the sale of portfolios.

The exacerbation of the debt crisis has given rise to a number of factors impacting operating business and negatively influencing the risk-bearing capacity of the banking sector. Despite the stabilising effect from the domestic credit sector thanks to the intact economic situation, earnings have been impacted by the repeated disruptions on the financial markets and the resulting write-downs on government bonds. In light of the sustained uncertainty affecting the financial system and the fragile economic outlook, the possibility that bank earnings will remain depressed in the longer term cannot be excluded.

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, a period characterised by a sustained and repeatedly resurgent financial crisis. Key risks have been gradually reduced. Lending business is pursued only where an active customer relationship exists. Long-term project and export financing activities are no longer being actively pursued. The Bank has been reoriented with a focus on the financing and advisory requirements of its traditional customers, German SMEs.

The business model has been expanded. In addition to credit financing, IKB offers its corporate clients capital market and advisory services (e.g. derivatives, placements, M&A, restructuring consulting) in order to help them optimise their financing structure and gain access to the capital markets. In terms of acquisition finance, IKB works together with private equity companies. The development of new business shows that IKB is satisfying the requirements of its customers with this expanded approach.

IKB has a nationwide 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. The IKB Leasing Group has 15 leasing companies in ten countries (Germany, France, Italy, Austria, Poland, Romania, Russia, Slovakia, Czech Republic and Hungary).

As at 31 December 2011, the Bank held a 7.6% share in the market for long-term corporate loans to the German manufacturing industry. For public subsidy loans, the specific market share is much higher in some areas. IKB's main competitors are larger banks in Germany and abroad in a market that is undergoing great upheaval on account of the financial and government debt crisis, the intervention by the European 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. IKB is thereby 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.

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 funding will be organised via the capital markets to an increasing degree,
- credit periods for corporate financing will be shorter on the whole,
- hedging via derivatives will become more expensive for companies,
- the provision of short-term liquidity will become more expensive,
- customers will also be faced with higher credit costs due to increased capital requirements and the necessary price discipline, and
- deposit-based financing must become a key element.

The wide range of regulatory projects poses a significant burden in terms of the cost of equity and administrative expenses. Accordingly, the business model will depend to a large extent on a high degree of cost discipline, particularly when it comes to implementing regulatory provisions, and the optimisation of risk-weighted assets.

To compensate for the aid provided by public-sector sources, IKB must satisfy extensive EU requirements. The full implementation of the EU conditions was given the highest priority and was completed by 30 September 2011 despite the significant costs and losses on the sale of assets incurred by IKB as a result. IKB handed over the closing report to the European Commission at the turn of the year 2011/12 and is currently still awaiting a response.

Segments

The Group's reporting is 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 IKB'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 IKB's advisory activities in the fields of M&A, structuring, restructuring, structure/income optimisation and private equity. The Capital Markets sub-segment bundles the range of capital market solutions in the area of equity and liabilities lending, risk management solutions for customer derivatives, attracting customer deposits from institutional investors, and consulting and structuring services for securitisation transactions.

The **Treasury and Investments segments** 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, IKB's portfolio investments that represent its investments in securitisation products including first loss pieces, and IKB's proprietary trading activities. Credit exposures that are no longer included in the

strategic portfolio and IKB's assets not directly relating 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.

In addition to the administrative expenses of head office units that cannot be allocated to other segments on a causal basis, the **Head Office/Consolidation segment** reports extraordinary factors not caused by the operating units and intragroup consolidation items as earnings components and asset positions.

2. Significant events in the reporting period

Implementation of EU conditions

The final report on the implementation of the EU conditions was submitted by the German government to the EU Commission to the end of 2011. A response is currently still awaited. The implementation period for the ruling expired on 30 September 2011. IKB implemented the measures set out in the restructuring plan on time to the extent they were permitted by law and could be carried out. Accordingly, IKB assumes that the conditions were met by the deadline.

For the record: 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. 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.

The conditions included a dramatic reduction in 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 were 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 had to comply with an agreed restructuring plan.

Specifically, the conditions were 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 was permitted to be relocated to IKB in Düsseldorf up to a maximum of € 3.2 billion) and discontinuation of new business by 1 December 2010,
- winding-up of IKB AG'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.

The status of implementation of the conditions is as follows:

- The credit volume of Real Estate Finance was reduced to € 1.7 billion as at 30 September 2011. The reduction target of 60% by 30 September 2011 has therefore been met. The winding-up of the subsidiaries from the Real Estate Finance segment was completed on schedule: following a change of legal form to a GmbH & Co. KG, IKB Immobilien Management was dissolved by way of incorporation into IKB, while IKB Projektentwicklung and IKB Projektentwicklungsverwaltungs GmbH entered liquidation. New business was discontinued on schedule.
- 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. Following a change of legal form to a GmbH & Co. KG, Movesta

Development GmbH was dissolved by way of incorporation into IKB with effect from 30 September 2011. IKB also took all of the legally permissible measures to wind up the special purpose entities. No new business has been performed.

- IKB CC: The credit portfolio was reduced in full by way of sale. The company has entered liquidation proceedings that are expected to be completed in May 2013.
- 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 had to remain with the company as they could not 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 AG 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 € 0.04 billion as at 30 September 2011. The remaining portfolio consists of exposures that it was not possible to fully wind up due solely to legal barriers.
- The Group's total assets were reduced to € 31.7 billion as at 30 September 2011, thereby falling below the upper limit set by the European Commission.

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

IKB AG has taken organisational precautions to ensure compliance with these requirements. The requirements have been complied with by IKB AG.

Return of SoFFin guarantees

In the 2011/12 financial year, IKB AG reduced its SoFFin guarantees from € 9.5 billion to € 4.5 billion due to early and scheduled returns (a further reduction of € 250 million to € 4.25 billion took place on 18 May 2012; see the supplementary report, section 6.). Development over time was as follows:

- 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 2010/11 financial year. IKB AG's SoFFin guarantee was therefore reduced to a total of € 8.6 billion.
- Following the buy-back and early return of further SoFFin guarantees in the amount of € 1.3 billion from the SoFFin-guaranteed bonds maturing on 27 January 2012 and 13 March 2012 in August 2011, IKB AG's SoFFin guarantee totalled € 7.3 billion. The remaining amounts of these SoFFin-guaranteed bonds were each repaid on schedule. IKB AG's SoFFin guarantee was reduced to € 6.1 billion as at 27 January 2012 and € 5.0 billion as at 13 March 2012.
- On 15 March 2012, IKB AG returned further SoFFin guarantees in the amount of € 500 million ahead of schedule. This related to the bonds maturing on 1 February 2013 and 2 February 2015 in the amount of € 250 million respectively. As a result, IKB AG's SoFFin guarantee was reduced to a total of € 4.5 billion as at 15 March 2012.

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The repayments were made possible by available liquidity reserves and served to reduce the SoFFin commission payable by IKB AG; as at 31 March 2012, this amounted to a total of € 311 million since the utilisation of the SoFFin guarantees. The maximum guarantee volume was € 12 billion. Of which € 10 billion was utilised.

As at 22 May 2012, the maturity structure of the outstanding bonds issued under SoFFin guarantees was as follows:

- € 2.0 billion maturing on 10 September 2012
- € 0.75 billion maturing on 1 February 2013
- € 1.5 billion maturing on 2 February 2015.

Changes in the Group

ICCO Grundstücks-Vermietungsgesellschaft mbH, Düsseldorf, and ISOS Grundstücks-Vermietungsgesellschaft mbH, Düsseldorf, were merged into IMAS Grundstücks-Vermietungsgesellschaft mbH, Düsseldorf, with economic and tax effect from 1 April 2011. With the entry of the merger in the commercial register of the receiving company, ICCO Grundstücks-Vermietungsgesellschaft mbH was dissolved on 13 October 2011 and ISOS Grundstücks-Vermietungsgesellschaft mbH was dissolved on 14 September 2011.

On 18 August 2011, IKB AG subscribed for limited partner interests in the Luxembourg-based investment fund company Valin Funds S.C.A., SICAV-SIF, an investment stock corporation with variable capital. Since this date, IKB has also acted as the general partner of the investment fund company via its subsidiary Valin Funds GP S.à r.l. The investment fund company has an umbrella structure under which sub-funds will be successively launched and their shares sold to third-party investors.

IKB AG acquired the shares in Movesta Development GmbH, Düsseldorf, held by IKB Beteiligungen GmbH. With the change in legal form to a GmbH & Co. KG and the subsequent exit of the general partner, Movesta Development GmbH was then merged into IKB AG with effect from the end of 30 September 2011.

As part of its liquidity provisioning, IKB AG launched another investment fund with an umbrella structure, Partner Fonds Government & Covered Select, Luxembourg, in October 2011 with only one sub-fund initially.

In March 2012, IKB AG transferred a subordinate bond with a volume of around € 475 million to MATRONA GmbH (MATRONA), Düsseldorf, meaning that the latter became the new obligor of IKB Finance B.V. by way of an assumption of debt with full discharge. As consideration for the transfer of the liability, MATRONA received securities from IKB AG with a corresponding nominal value. Both transfers were conducted at the respective carrying amounts. The securities now held by MATRONA mean that it is economically able to make all of the interest and principal payments on the subordinate bond as well as the repayment on the due date.

In a further measure, as of 31 March 2012 MATRONA was contributed to the free capital reserves of IKB PE from the assets of IKB Beteiligungen GmbH by way of a non-cash contribution. This non-cash contribution was conducted at the market value of MATRONA. This resulted in an intragroup gain of € 193 million that improved the Tier I ratio of IKB AG by 1.2 percentage points under the terms of profit transfer agreements.

Legally relevant events

Crédit Agricole Corporate and Investment Bank (CA-CIB, formerly Calyon), Financial Guaranty Insurance Company (FGIC) and IKB – and other parties – have signed an agreement aimed at resolving various legal disputes between the parties. This relates to the proceedings initiated by CA-CIB and FGIC against IKB with the Commercial Court, High Court of Justice in London, United Kingdom, and additional legal disputes in New York and Jersey, Channel Islands. The confidential agreement covers the conclusion of the legal disputes without the acknowledgement of guilt by the parties concerned. IKB does not expect this

agreement to represent a financial burden for the Bank and considers its legal risks to have declined significantly as a result.

With regard to the legal proceedings described in the risk report due to alleged incorrect capital market information, hearings took place before the XI. Civil Senate of the German Federal Court of Justice on 15 November 2011 in the case of an appeal that was granted. On 13 December 2011, the Senate referred the case back to the Düsseldorf Higher Regional Court. The previous assessment by IKB, which considers this and the other unresolved investor legal proceedings to be unfounded, has not changed in light of this decision. According to the comments by the Senate, there are also no claims founded in tort in the case in question.

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/Steuerberatungsgesellschaft, 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

In light of the situation on the capital markets, the Bank refrained from updating the debt issuance programme in the 2011/12 financial year.

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. Since September 2011, investments with a term of up to ten years have been possible. Since March 2012, “IKB direkt” has also offered private investors an income plan with terms of up to ten years.

Personnel changes

Mr Stefan A. Baustert, Mr Arndt G. Kirchoff and Mr Bruno Scherrer, whose terms of office expired at the end of the Annual General Meeting on 7 September 2011, were re-elected to the Supervisory Board by resolution of the Annual General Meeting on 7 September 2011. The constituent meeting of the Supervisory Board on 7 September 2011 re-elected Mr Bruno Scherrer as Chairman of the Supervisory Board.

As scheduled, Mr Andreas Wittmann stepped down from the Supervisory Board at the end of the Annual General Meeting on 7 September 2011. Ms Nicole Riggers was elected to the Supervisory Board as a new employee representative with effect from 7 September 2011.

Due to his new position as Chairman of the Executive Board of Bertelsmann AG, Dr Thomas Rabe stepped down with effect from 21 February 2012.

Annual General Meeting on 7 September 2011

The Annual General Meeting of IKB AG for the 2011/12 financial year was held in Düsseldorf on 7 September 2011. The Annual General Meeting adopted all the resolutions proposed by the Bank's management by a large majority. The results of the individual votes can be found on the Bank's website at www.ikb.de. No legal proceedings were initiated against resolutions of the Annual General Meeting.

European debt crisis

On 24 February 2012, the Greek government circulated a proposal to the private creditors of certain bonds concerning their participation in a debt swap. The aim of the proposal was to ensure the greatest possible participation by the private sector in support of the aid already granted by the public sector (EU, ECB, International Monetary Fund), thereby reducing the probability of a disorganised default on Greek debt.

Under the terms of the debt swap offer, creditors were offered the following under Greek law for every € 1,000 (nominal) of existing bonds held:

- € 315 (nominal) of new bonds issued by the Republic of Greece,
- Warrants issued by the Republic of Greece on the aforementioned bonds that are tied to Greece's GDP,
- € 150 (nominal) of receivables secured against the European Financial Stability Facility (EFSF) with residual terms of a maximum of two years.

Creditors would also receive a secured zero-coupon bond from the EFSF with a term of six months for interest accrued up until 24 February 2012.

The voluntary participation of at least 90% of the creditors affected would have prevented the need for a compulsory debt waiver via the activation of collective action clauses. As this participation ratio was not achieved, the Greek government activated the collective action clauses in March 2012, which the responsible industry authority, the ISDA (International Swaps and Derivatives Association Inc.), considered to represent a credit event affecting the Republic of Greece.

In March 2012, IKB participated in the debt swap programme for the bonds held. This related to bonds with a nominal value of € 211 million (original nominal volume of € 200 million plus € 11 million cumulative increase in an inflation-linked bond).

The credit event affecting the Republic of Greece also meant that the first-to-default bonds held by IKB relating to Greece (cost: € 148 million) fell due and securities corresponding to the terms of the bond were delivered in exchange.

In addition to Greece, the loss of confidence resulting from the government debt crisis in the European Monetary Union had an adverse effect on the valuation of other euro zone government bonds. In March 2012, the EU member states responded to the continued uncertainty by resolving to replace the existing provisional European Stability Mechanism (ESM) with a permanent ESM in June 2013. Due to this and other international support measures, IKB does not currently consider there to be any acute risk of default on the part of the aforementioned other member states (see "General conditions", section 1.).

Current rating situation

IKB terminated its contracts with rating agencies with effect from 30 June 2011, as a rating is no longer beneficial for the Bank and its investors and costs can be saved as a result. In response to this, the rating agencies Fitch and Moody's withdrew their ratings with effect from 30 June and 14 July 2011 respectively, meaning that IKB does not currently have an external rating. With the withdrawal of their ratings, both agencies confirmed their most recent ratings for IKB.

3. Net assets, financial position and results of operations

Business development

Despite the slowdown in economic development, the Group generated a new business volume of € 3.3 billion in the period under review (previous year: € 3.7 billion). This reduction is primarily due to the selective lending policy and the general downturn in demand for credit over the course of the year.

Earnings performance

The consolidated net loss amounted to € 517 million after a consolidated net profit of € 21 million in the previous year. This development was primarily attributable to the government debt crisis and the resulting sharp rise in risk premiums for loans from certain public issuers and banks in the euro zone, as well as the low level of interest rates due to the crisis. In particular, this resulted in a year-on-year deterioration in net income from financial instruments at fair value and investment securities of around € 409 million.

The investment securities held by IKB for refinancing with the ECB were particularly hit by these remeasurement effects. Furthermore, the debt haircut on receivables relating to Greece and the resulting credit event impacted earnings to the tune of € 131 million in the year under review.

The net addition to IKB's provisions for possible loan losses declined further thanks to the continued robust sentiment among German companies.

The following table provides an overview of the income statement for the 2011/12 financial year and the previous year and the main extraordinary factors affecting the consolidated net loss in the financial year. The table shows an adjusted consolidated net loss of € 58 million.

Table: Income statement with extraordinary factors

in € million	Unadjusted profit and loss account 1 Apr. 2010 - 31 Mar. 2011*	Unadjusted profit and loss account 1 Apr. 2011 - 31 Mar. 2012	Change absolute	thereof extraordinary factors					Adjusted profit and loss account 1 Apr. 2011 - 31 Mar. 2012
				Portfolio invest-ments	Long-term invest-ments, liabilities and derivatives	Measure-ment of liabilities due to credit rating changes	Measure-ment of liabilities according to IAS 39 AG 8	Other factors	
Net interest income	143.6	153.5	9.9				-30.5		184.0
Provision for possible loan losses	78.8	26.3	-52.5						26.3
Net interest income after provision for possible loan losses	64.8	127.2	62.4				-30.5		157.7
Net fee and provision income	-93.0	-63.2	29.8					-102.3	39.1
Net income from financial instruments at fair value	45.2	-304.8	-350.0	-52.5	-323.8	50.9			20.6
Net income from investment securities	42.3	-16.8	-59.1	-27.1	-3.2				13.5
Net income from investments accounted for using the equity method	1.6	0.2	-1.4						0.2
Administrative expenses	321.3	297.4	-23.9					10.3	287.1
Net other operating income	242.9	49.4	-193.5	-10.3			65.4	-14.9	9.2
Operating result	-17.5	-505.4	-487.9	-89.9	-327.0	50.9	34.9	-127.6	-46.7
Taxes	-38.8	11.5	50.3						11.5
Consolidated net income/loss	21.3	-516.9	-538.2	-89.9	-327.0	50.9	34.9	-127.6	-58.2

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

* Prior-year figures adjusted

At € 154 million, **net interest income** was up € 10 million on the previous year (€ 144 million). In the Credit Products segment, net interest income rose, despite the reduction in the credit volume. By contrast, the earnings contributions from the Treasury and Investments segment declined year-on-year on the whole.

Net interest income includes the following extraordinary factors:

- The compensation agreements in connection with the debt waivers previously announced by KfW Bankengruppe, Frankfurt/Main, and by LSF6 Europe Financial Holdings, L.P. (LSF6 Europe), Delaware, Dallas/USA, as well as some profit participation certificates and silent partnership contributions were measured at the present value of the expected future payments in accordance with

IAS 39 AG8. The expected future payments are discounted using the original contractual effective interest rate. The year-on-year change in the present value also includes a share of interest (unwinding) which is recognised in interest expense. This unwinding declined by € 28 million year-on-year to € 31 million.

- The extraordinary effect of the amortisation of the adjustment item for reversed hedges at the time of transition to IFRS resulted in an expense of € -46 million in the previous year (IFRS 1 IG60A). This effect no longer applied in the year under review due to the full reversal as at 31 March 2011.

Provisions for possible loan losses amounted to € 26 million (previous year: € 79 million) due to the strong economic development, particularly in Germany. Net additions to specific valuation allowances, provisions and write-downs amounted to € 55 million (previous year: € 152 million). Net reversals of portfolio impairments amounted to € 29 million (previous year: € 73 million).

Net interest income after provisions for possible loan losses increased by € 62 million to € 127 million (previous year: € 65 million).

At € -63 million, **net fee and commission income** was up significantly on the prior-year figure of € -93 million. This was primarily due to the € 24 million reduction in SoFFin guarantee commission to € 102 million. Adjusted for SoFFin guarantee commission, net fee and commission income increased by € 6 million year-on-year to a positive € 39 million.

Net income from financial instruments at fair value amounted to € -305 million (previous year: € +45 million) and was primarily driven by the following extraordinary factors:

- Net income from non-current assets and liabilities and derivatives at fair value amounted to € -324 million (previous year: € -170 million). This development was largely due to the government debt crisis in the European Monetary Union and the resulting expansion of credit spreads for the bonds of certain public-sector issuers and banks in the euro zone. Lower interest rates also had a material impact in the form of fair value losses on liabilities and derivatives.
- The fair value development of portfolio investments impacted net income from financial instruments at fair value to the tune of € 53 million (previous year: gain of € 37 million).
- The government debt crisis also resulted in an increase in IKB's risk premiums. Own liabilities recognised at fair value through profit and loss resulted in remeasurement gains of € 51 million on account of widening IKB spreads.

Net income from investment securities amounted to € -17 million (previous year: € +42 million). Key factors included the negative fair value development of portfolio investments and non-current assets (extraordinary factors).

At € 297 million, **administrative expenses** were down € 24 million on the previous year (€ 321 million). Staff costs fell by € 9 million to € 159 million, particularly as a result of the lower level of pension costs. Other administrative expenses declined by € 15 million to € 138 million largely as a result of the cost savings relating to external consultants.

Net other operating income decreased by € 194 million year-on-year to € 49 million. As in the previous year, net other operating income was primarily determined by the following extraordinary factors:

- Provisions of € 10 million were recognised for winding-up costs for certain portfolio investments.
- The measurement of own liabilities in accordance with IAS 39 AG8 led to the recognition of a remeasurement gain of € 65 million (previous year: € 321 million) in net other operating income. This resulted in particular from the change in business expectations reflecting the negative impact of the sustained government debt crisis on economic development in the euro zone.
- Provisions of € 11 million were recognised for restructuring expenses (previous year: € 3 million).

- The buy-back and early return of SoFFin-guaranteed issues resulted in a net gain of € 1 million (previous year: net expense of € 9 million).
- Companies being wound up resulted in an expense of € 4 million (previous year: € 53 million).

Accordingly, the **operating result** amounted to € -505 million (previous year: € -18 million). The adjusted operating result was significantly better at € -47 million.

The **net tax result** amounted to € -12 million.

All in all, the **consolidated net loss** amounted to € 517 million (previous year: consolidated net profit of € 21 million). Adjusted for extraordinary factors, the consolidated net loss amounted to € 58 million.

Please see the notes to the consolidated financial statements 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 as well as equipment leasing. In the 2011/12 financial year, the segment generated an operating result of € 113 million after € 86 in the previous year. This development is attributable to the significant reduction in provisions for potential loan losses and an extraordinary effect in net income from financial instruments at fair value resulting from the reduction of securitisation of corporate loans. On account of the good economic development in Germany, the net addition to provisions for possible loan losses amounted to just € 10 million, compared with € 23 million in the previous financial year. The new business volume amounted to € 3.3 billion in the period under review (previous year: € 3.5 billion). While payouts in the traditional lending business were down year-on-year at € 2.2 billion, there was growth in demand for lease finance. Net interest income in the segment remained at the prior-year level despite a € 1.1 billion (8%) decrease in the credit volume.

In this segment, the IKB Leasing Group, which operates nationally and internationally in the field of equipment leasing, generated a new business volume of € 1.1 billion (previous year: € 0.9 billion). In particular, the company benefited from the continued good economic performance and investment activity in Germany.

The segment return on equity amounted to 20.3% (previous year: 14.8%); this was due in particular to the positive development of provisions for possible loan losses and the continued partial hedging of the credit portfolio using securitisation transactions. The cost/income ratio amounted to 48.9% (previous year: 52.0%).

The **Advisory and Capital Markets segment** bundles advisory activities and capital market and risk management solutions for customers. Net interest and net fee and commission income increased to € 29 million after € 11 million in the previous year. In customer derivatives business, which is reported in net income from financial instruments at fair value, income of € 3 million was generated after € 23 million in the previous year. Administrative expenses declined to € 64 million (previous year: € 71 million) due to lower costs for current projects aimed at creating the infrastructure for capital market and risk management solutions in particular. The segment reported an operating result of € -28 million (previous year: € -33 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 that were required to be reduced in accordance with the EU conditions. In the period under review, earnings were negatively impacted by the expansion of risk premiums for certain government and bank risks and lower long-term interest rates, which resulted in high remeasurement losses on non-current assets held to safeguard liquidity and on derivatives (see also the "Extraordinary factors" table). The segment reported an operating result of € -602 million after € -333 million in the previous year. In the Treasury sub-segment, the fair value losses on non-current assets and derivatives amounted to € -324 million, while the market disruptions resulted in net income from financial instruments held at fair value of € -53 million in the Portfolio Investments sub-segment. The guarantee commission paid to SoFFin impacted earnings in the Treasury sub-segment in the amount of € 102 million. Other operating income in

the amount of € -14 million largely consisted of a provision for costs in connection with the winding-up of portfolio investments. In the previous year, this item (€ -65 million) primarily consisted of write-downs on a real estate project and provisions for legal costs in connection with the winding-up of portfolio investments in particular.

In addition to the administrative expenses of head office units that cannot be allocated to other segments on a causal basis, the **Head Office/Consolidation segment** reports extraordinary accounting factors as earnings components and asset positions. It also reports the effects of methodological differences between management reporting and the consolidated financial statements, as well as intragroup consolidation items. Net income from financial instruments at fair value was generated in the amount of € 51 million (previous year: € 188 million); this was due in particular to the remeasurement of liabilities. The non-recurring effect from the write-down of the adjustment item in accordance with IFRS 1 IG 60A no longer applied in the year under review due to the full reversal as at 31 March 2011. Other operating income primarily consisted of gains of € 65 million (previous year: € 321 million) from the remeasurement of liabilities in accordance with IAS 39 AG8.

Net assets

At the reporting date, IKB's **total assets** increased by € 0.2 billion year-on-year to € 31.6 billion.

Loans and advances to banks rose by € 0.7 billion to € 3.0 billion as a result of the increase in short-term investments on the interbank market and cash collateral for derivative transactions.

Loans and advances to customers declined by € 2.5 billion year-on-year to € 17.8 billion. This development is due to the reduction in customer lending business and the lower level of new business as part of the implementation of the EU conditions (e.g. for real estate finance) as well as to maturities.

Provisions for possible loan losses declined by € 0.3 billion to € 0.5 billion thanks to the positive sentiment among German companies in particular.

Assets held for trading increased by € 1.7 billion to € 2.5 billion, largely as a result of the higher positive fair values of derivatives.

Investment securities remained constant at € 7.9 billion, with changes in inventories holdings and remeasurement effects balancing each other out.

Liabilities to banks increased by € 2.0 billion to € 13.2 billion particularly as a result of the higher level of borrowing on the interbank market and increased refinancing for specific purposes.

Securitised liabilities declined by € 5.4 billion to € 2.3 billion. This development was primarily due to maturities and the buy-back and early return of SoFFin-guaranteed liabilities.

Liabilities to customers increased by € 2.3 billion to € 10.0 billion, largely as a result of the growth in the volume of customer deposits obtained via the "IKB direkt" retail customer platform.

Liabilities held for trading increased by € 1.8 billion to € 3.8 billion due to the higher negative fair values of derivatives in particular.

Subordinated capital declined by € 0.1 billion to € 1.0 billion largely as a result of remeasurement effects.

Equity declined by € 519 million to € 425 million; this was primarily attributable to the consolidated net loss for the year. The revaluation surplus in equity increased by € 21 million year-on-year to € -15 million.

As at 31 March 2012, the tier I ratio of the IKB Group (based on HGB data) in accordance with the quarterly notification submitted to Deutsche Bundesbank was 9.2% (31 March 2011: 11.2%). The overall capital ratio at the same date amounted to 12.8% in accordance with the quarterly notification submitted to Deutsche Bundesbank (31 March 2011: 15.9%). With the adoption of the annual financial statements, the IKB Group had a tier I ratio of 9.4% and an overall capital ratio of 13.0% as at 31 March 2012.

Financial position

The liquidity situation at IKB is stable. This was driven in particular by the diversification of the funding mix. IKB accepts revolving deposits from a number of corporate clients and retail customers, The Bank is also reducing its volume of non-strategic assets in order to generate liquidity and being selective when it comes to entering into new lending business with an impact on the balance sheet.

Overall assessment

In terms of the adjusted result from ordinary business activities – i.e. with extraordinary and tax effects eliminated – business development and the position in the 2011/12 financial year stabilised at significantly higher than the prior-year level. This is primarily due to the good economic development, particularly in Germany, and the substantial reduction in provisions for possible loan losses as a result. However, the momentum of the German economy tailed off in the third quarter of the financial year due to the difficult environment.

Results of operations continued to be dominated to a significant extent by the uncertainty concerning the further development of the government debt crisis affecting the European Monetary Union.

With the exception of extraordinary effects, the results of operations stabilised as

- the development of net interest income, which had been adversely impacted by the EU and SoFFin conditions for a number of years, appears to have bottomed out,
- net fee and commission income from core business (Credit-based Products and Consulting & Capital Markets) increased despite the slump in activity on the credit markets from autumn 2011 onwards,
- commission expenses declined due to the lower fee payments to SoFFin,
- risk provision was extremely low, and
- administrative expenses were reduced despite the costs incurred for the fulfilment of the EU conditions up until the middle of the financial year and the implementation of regulatory requirements, e.g. Basel III.

4. Risk report

Risk management organisation

The Bank has established a comprehensive risk management system. The business and risk strategy outlook and the measures derived from this are set out in the business and risk strategy.

Individual tasks and areas of responsibility are 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 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 important is the Strategy and Risk Committee, which monitors the implementation of the targets defined in the business and risk strategy, incorporates current market developments and expectations into the measures required to achieve the targets, and discusses the areas of the business and risk strategy requiring adjustment. The Committee is composed of the members of the Board of Managing Directors and the heads of various front and back office divisions, and meets at least once a quarter.

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 counterparty default risks. 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. 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 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.

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. This central division is also responsible for reporting on these transactions in the context of overall risk management at IKB. Furthermore, this central division is responsible for the administration of the special purpose entity "Rio Debt Holdings (Ireland) Limited" (Rio Debt Holdings) in addition to meeting the extensive contractual commitments of IKB in connection with the Rhineland Funding conduit¹ and the Havenrock Limited and Havenrock II Limited special purpose entities².

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 relevant 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 workflows in the lending, consulting 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 material 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 Board of Managing Directors.

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". The scenario

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 arose on utilisation of the liquidity lines. IKB acts as an administrator for the Havenrock companies.

matrix method has also been implemented as part of the introduction of Murex as a new trading system. This has been approved by the regulatory authorities.

Following the introduction of the standard software "LeDIS" for the documentation, administration and content-related examination of the master netting agreements, OTC derivatives netting has been in use since 9 March 2012. The regulatory use of netting agreements to determine the net basis of measurement for derivatives has been disclosed to the regulatory authorities.

The following tables provide an overview of the regulatory risk items, equity base and ratios as applicable on approval of the accounts:

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

Regulatory capital situation in € million	as of 31 Mar. 2012	as of 31 Mar. 2011	as of 31 Mar. 2010
Risk-weighted assets	16,143	16,776	19,265
Market risk equivalent	661	663	313
Operational risk	497	782	1,100
Risk position	17,301	18,221	20,678
Tier I capital	1,698	2,120	2,257
Tier II capital	695	919	1,030
Tier III capital	0	0	0
Deductions ¹⁾	-137	-149	-216
Equity capital	2,256	2,890	3,071
Tier I ratio in %	9.4	11.2	10.4
Overall capital ratio in %	13.0	15.9	14.9

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.

The decrease in risk-weighted assets as at 31 March 2012 is primarily attributable to scheduled repayments accompanied by limited new business.

At 9.4% at Group level, the tier I capital ratio has fallen as against the previous year. This is still above the regulatory minimum tier 1 capital ratio of 4.0%. At 13.0% 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). The ongoing implementation of Basel III will lead to significant additional equity requirements. For this reason, the Bank will further reduce its risk-weighted assets by lowering the level of balance sheet assets, restructuring its investments and using a central counterparty for standardised derivatives trading. There is still considerable uncertainty due to the fact that the results of the legislation progress remain unforeseeable. This process is not yet complete despite the fact that the application of the new rules is scheduled for 1 January 2013.

Risk-bearing capacity. Risk-bearing capacity is monitored and controlled internally by comparing the available economic risk cover with the total risk on a Group basis determined in accordance with standard business methods (economic capital requirements) from both an equity provider (going concern view) and a lender (liquidation view) perspective. The equity 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 perspective, this assumes a significantly higher level of security (confidence level).

In the equity provider and lender perspectives alike, risk cover consists of core capital (share capital, reserves, net retained profits/loss carryforwards and the planned operating result for the next twelve months), profit participation certificates, silent partnership contributions and, in the lender perspective,

subordinated capital. Unrealised market value losses³ are deducted from risk cover in both perspectives, while benchmark capital is also deducted in the equity provider view.

In the equity provider perspective, risk cover has declined from € 688 million to € 377 million since the end of the last financial year. In the lender perspective, risk cover amounted to € 1,142 million as at 31 March 2012 (31 March 2011: € 2,065 million). This decrease is attributable to the following developments since the start of the financial year:

- Reduction in core capital due to an operating result for the 2011/12 financial year that was worse than expected. This was due to the impact of the European debt crisis as presented in the “Business and general conditions” section above. The negative planned operating result for the 2012/13 financial year was also deducted from risk cover.
- In the lender perspective, the crisis situation in the euro zone had a particularly pronounced impact, with a stress scenario effectively occurring. This is primarily reflected in the rise in hidden charges. The historical simulation applied was also determined by the crisis days – particularly in late December 2011 – thereby leading to higher methodological loss estimates. These discounts are recognised in risk cover in full, although the Bank is not expecting to see permanent impairment.

The Group’s economic capital requirements in order to cover “unexpected” risk on a Group basis [counterparty default risk, market price risk, liquidity risk (only in the equity provider perspective) and general business and operational risk] are determined using the Bank’s own quantitative models. Reputational risks are reflected in business and liquidity risk, and hence are not explicitly included again in the calculations of risk-bearing capacity. Economic capital is not currently calculated for investment risks; however, these are also subject to ongoing monitoring. The same applies to legal risks.

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

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

Table: Economic capital requirements – equity provider perspective

	31 Mar. 2012		31 Mar. 2011	
	in € million	in %	in € million	in %
Counterparty default risk	154	46	198	51
Market price risk	66	20	71	18
Operational risk	29	9	29	8
Business risk	76	22	72	19
Liquidity risk	12	4	16	4
Total	338	100	387	100
Minus diversification effects	-80		-98	
Overall risk position	258		289	
Risk cover	377		688	

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

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

³ Equity provider perspective: Interest-driven unrealised market value losses from items whose maturities are up to two years apart. Lender perspective: All interest-, volatility- and credit spread-driven losses with the exception of unrealised market value losses in traditional lending business in illiquid markets.

Table: Economic capital requirements – lender perspective

	31 Mar. 2012		31 Mar. 2011	
	in € million	in %	in € million	in %
Counterparty default risk	727	43	764	47
Market price risk	686	41	609	37
Operational risk	97	6	97	6
Business risk	167	10	158	10
Total	1,677	100	1,628	100
Minus diversification effects	-349		-308	
Overall risk position	1,328		1,321	
Risk cover	1,142		2,065	

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

IKB's risk-bearing capacity must be assessed in the light of the massive impact of the debt crisis in certain European countries – particularly Greece, but also Italy and Spain. While counterparty default risk in IKB's traditional lending business enjoyed largely inconspicuous development as a result of the robust economic performance in Germany, the aforementioned debt crisis led not only to market price losses in the magnitude of the stress level following the insolvency of the US investment bank in late 2008, but the historical simulation applied was also determined by the crisis days (particularly in late December), leading to higher methodological risk estimates. The European debt crisis also led to a significant loss in the value of European government bonds, thereby simultaneously triggering an extreme utilisation of risk cover in the form of hidden charges and substantial write-downs on the government bonds held by the Bank as liquidity investments.

Despite the stress-like nature of the overall situation, risk cover continues to clearly exceed the risk position in the going concern view. However, the level of utilisation has now risen to 68% (31 March 2011: 42%). If the estimated unexpected risks above and beyond the planned operating losses should occur during the course of the financial year, the Bank would still have a tier I ratio in excess of the required statutory minimum of 4% (see also section 7., Outlook). This remains the case if the diversification effects between the risks are not taken into account. This is primarily due to the write-downs on Greek government bonds. The going concern view is the relevant view when it comes to controlling risk-bearing capacity, as the continuation of business activities while observing the regulatory minimum capital requirements represents the Bank's primary objective with respect to its risk-bearing capacity.

In the liquidation view, which shows the extent to which it would be possible to satisfy the claims of creditors following the occurrence of all unexpected risks in the event of a theoretical liquidation of the Bank, the overall risk position is not covered in full by the risk cover for the first time (shortfall: 16%). This is due to the EU crisis, which is reflected not only in the aforementioned write-downs on Greek bonds, but also in the extensive widening of spreads for long-term Italian bonds, which led to a further increase in hidden charges and market price risks compared with the start of the financial year. For Italian in particular, the extent of the risk premiums implies the expectation of default – a position that IKB does not share. In IKB's view, this reflects speculation against the land and the euro, as well as an almost absolute risk aversion on the part of investors, who no longer have confidence in European politics.

In light of the fact that the liquidation view is largely dominated by the long-term Italian government bonds held by the Bank as liquidity investments (total risk contribution: € 284 million; proportionate hidden charges: € 341 million) and IKB does not believe that other Southern European countries will experience similar development to Greece, the Bank considers the aforementioned shortfall in its risk-bearing capacity to be acceptable. Adjusted for the risks and hidden charges relating to these long-term Italian government bonds, the utilisation of risk cover would amount to just 70%.

Forecast calculations and stress tests. In light of the continued uncertainty with regard to macroeconomic development, the Bank prepares different forecast calculations for the next two financial years. These forecast calculations are based on the Bank's business plan and various stress scenarios. The outcome is that, assuming the business plan occurs in reality, the risk cover will continue to exceed the economic capital requirements for unexpected risks in the going concern view in the next two financial years.

In terms of market price risk, the calculation of IKB's risk-bearing capacity IKB currently involves figures for a stress scenario that are comparable to the situation following the Lehman insolvency. If these risks continue to increase or the real economy deteriorates to a greater extent, however, the Bank's risk-bearing capacity will be impacted further.

The analysis of economic and macroeconomic stress scenarios shows that more extreme scenarios, such as the collapse of the euro zone with wider economic consequences for the entire European Economic Area or a serious economic downturn, would mean that risk cover would no longer be sufficient to fully cover the overall risk position even in the going concern view. It should be noted that the current situation on the capital markets already includes significant elements of a stress scenario.

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. In the 2011/12 financial year, all of the risk strategies were revised in order to reflect the current business focus and the economic situation. The areas of the strategies requiring adjustment as identified by the Strategy and Risk Committee were taken into account.

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, IKB's regional focus will remain on Germany in future. Outside Germany, its activities (other than leasing) are currently limited to Western Europe, particularly France and Italy. 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 its customer business, the Bank focuses on providing interest and currency derivatives to support the interest and currency management of its customers with regard to possible market price risks. 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 denominated in euro and US dollar, while the maximum risk positions this entails are kept very low. The majority of the Group's market price risk therefore results from asset/liability management and its investment portfolios. The key risk drivers are credit spread risks and interest rate risks, which the Bank intends to continue to limit and moderately reduce as part of its market price risk management.

Liquidity strategy. The current liquidity protection is based on the acceptance of customer deposits guaranteed by the Deposit Protection Fund, the issuance of promissory note loans, secured borrowing on the interbank market, participation in the ECB tender procedure, and SoFFin-guaranteed issues. The SoFFin guarantee volume was reduced from € 9.5 billion to € 4.5 billion in the 2011/12 financial year. In addition to ensuring that the Bank is able to meet its payment commitments at all times, the aim of liquidity management is to ensure permanent access to affordable, diversified refinancing options with a view to the restricted access to the capital markets at present. A diversified portfolio of ECB-eligible liquid securities with low market risks serves as a liquidity reserve.

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.

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. In addition to the analysis of the economic circumstances of borrowers based on annual financial statements, forecasts and liquidity planning, credit analysis places a considerable focus on the sales and procurement markets of the respective borrowers, their positioning in the relevant markets and their prospects for the future. At the same time, a great deal of importance is attached to the mobility of loans, i.e. their eligibility for transfer or syndication. In syndication transactions, acquisition finance and other individual cases of corporate finance involving the assumption of underwriting risks and subsequent transfer, the existence of a positive syndication approval by the Syndication team of the Financial Markets & Treasury front office function – which is separate from the unit that initiated the transaction – is required before a credit decision is taken. There is also a limit system for the size of individual underwriting positions and the aggregate of all underwriting positions, the aim of which is to ensure that even those risk positions that are intended only to be held in the credit book for a short period are syndicated during the approved period.

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 by Credit Risk Management every twelve months using the appropriate processes and approval procedures. 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 included 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.

For acquisition finance, the Bank uses a system developed for leveraged finance transactions, which takes into account the financing structure on the basis of key ratios as well as qualitative factors of the transaction. The development, maintenance and operation of the rating system have been 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, as the focus in this area 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. In addition, monthly portfolio meetings are generally held between the company advisors and restructuring specialists in back office at the branches in order to discuss potential problem exposures at an early stage and initiate measures aimed at reducing counterparty default risk.

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. Furthermore, the credit portfolio is continuously monitored by risk analysts at Credit Risk Management specialising in industrial sectors.

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. The credit volume as at 31 March 2012 was composed as follows:

Table: Credit volume

Credit volume in € million	31 Mar. 2012	31 Mar. 2011	Difference
Loans and advances to banks	2,976	2,308	668
Loans to customers	15,690	18,430	-2,740
Assets held for trading	2,479	816	1,664
Investment securities ¹⁾	7,931	7,869	62
Operating and finance leases	2,170	2,029	141
Contingent liabilities (gross), credit default swaps, guarantees	467	625	-157
Total credit volume	31,713	32,076	-363

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

1) excluding portions attributable to third parties (€ 10 million; previous year: € 24 million)

The credit volume decreased by € 0.4 billion to € 31.7 billion. Loans and advances to customers declined by € 2.7 billion; this was largely due to the reduction in non-strategic assets. By contrast, assets held for trading increased by € 1.7 billion due to the rise in the positive fair values of derivatives. The € 0.7 billion increase in loans and advances to banks is primarily attributable to the growth in call accounts as part of collateral agreements in derivatives trading.

Table: Credit volume by size

Size ¹⁾ in € million	31 Mar. 2012			31 Mar. 2011	
	Credit volume		Number ¹⁾	Credit volume	
Under € 5 million	4,522	14%	20,911	4,433	14%
Between € 5 million and € 10 million	2,479	8%	343	2,697	8%
Between € 10 million and € 20 million	3,458	11%	250	3,741	12%
Between € 20 million and € 50 million	3,269	10%	109	3,464	11%
Over € 50 million	13,152	41%	70	11,020	34%
Sub-total	26,880	85%	21,683	25,355	79%
Risk transferred to third parties ²⁾	4,833	15%	0	6,721	21%
Total	31,713	100%	21,683	32,076	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 volume for the size class of over € 50 million is characterised by the increased positive market values of derivatives and collateral with banks provided for derivatives. The average exposure in this class is € 188 million (previous year: € 165 million). The largest share of exposures over € 50 million relates to banks (€ 8.9 billion; previous year: € 5.8 billion), the public sector (€ 2.2 billion; previous year: € 3.0 billion) and portfolio investments (€ 0.6 billion; unchanged year-on-year).

The volume of risks transferred to third parties declined by € 1.9 billion to € 4.8 billion, largely as a result of repayments of loans transferred by way of the Bank's securitisation transactions.

This mainly includes synthetic securitisations, in which KfW Bankengruppe (KfW) hedges the credit risk, and indemnifications, which are also predominantly used in the context of KfW programmes. Current risk transfers amount to a total of € 4.8 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 amounted to € 2.6 billion (previous year: € 4.2 billion). The loans transferred are composed as follows:

- € 0.3 billion for loans for which the Bank has retained only first loss risks of € 12.1 million (originally € 15.3 million).
- Loans with a volume of € 0.5 billion relate to risk transfers for which only the expected, and parts of the unexpected, loss in the amount of € 32.6 million (originally € 39.2 million) has been transferred. This subordination is still considered sufficient.
- In the year under review, the hedging of the senior portion of the portfolio was terminated for loans in the amount of € 1.4 billion. The remaining hedging in the amount of € 228.9 million is considered to represent sufficient subordination.
- The credit risk for loans with a volume of € 0.4 billion has been transferred in full.

Collateral, risk transfer and securitisation. The provision of cover by means of traditional collateral (property liens, transfers of ownership and guarantees) is still of great importance for the traditional 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

Credit volume in € million	31 Mar. 2012 Credit volume		31 Mar. 2011 Credit volume	
	Value	Percentage	Value	Percentage
Property liens and charges	4,481	14%	5,204	16%
Transfers of ownership	2,779	9%	2,637	8%
Other collateral ¹⁾	2,677	8%	3,232	10%
Collateralised ²⁾	4,033	13%	1,218	4%
Secured credit volume³⁾	13,971	44%	12,291	38%
Without collateral	12,909	41%	13,064	41%
Sub-total	26,880	85%	25,355	79%
Risk transferred to third parties ⁴⁾	4,833	15%	6,721	21%
Total	31,713	100%	32,076	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) Derivatives with positive market values (€ 1.9 billion) and call accounts (€ 2.2 billion) relating to collateral agreements, i.e. with corresponding positions, largely derivatives with negative market values
- 3) Including credit portions beyond collateral value
- 4) Hermes guarantees, indemnifications, risks transferred

Exposures secured by means of property liens, transfers of ownership and other collateral decreased by a total of € 1.1 billion in the past financial year.

The "Collateralised" item is used to report derivatives with positive market values and call accounts that relate to collateral agreements, i.e. with corresponding positions – largely derivatives with negative fair values. This position increased significantly by € 2.8 billion year-on-year due to the rise in the market value of the relevant derivatives.

The majority of unsecured loans relates to banks (€ 5.4 billion; previous year: € 5.7 billion), the public sector (€ 2.4 billion; previous year: € 3.4 billion) and portfolio investments (€ 0.8 billion; previous year: € 0.9 billion). The remaining unsecured loans increased from € 3.1 billion to € 3.9 billion, largely as a result of new business and the rise in the market value of the relevant derivatives. Unsecured loans relating to banks and the public sector primarily include securities that are assigned to the cash portfolio and are eligible at the ECB.

Geographical structure. As at 31 March 2012, the total credit volume can be broken down by regions as follows:

Table: Credit volume by region

Regions in € million	31 Mar. 2012 Credit volume		31 Mar. 2011 Credit volume	
Germany	13,500	43%	13,494	42%
Outside Germany	13,379	42%	11,861	37%
Western Europe	10,112	32%	9,324	29%
Eastern Europe	779	2%	740	2%
North America	2,318	7%	1,579	5%
Other	170	1%	218	1%
Sub-total	26,880	85%	25,355	79%
Risk transferred to third parties ¹⁾	4,833	15%	6,721	21%
Total	31,713	100%	32,076	100%

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

1) Hermes guarantees, indemnifications, risks transferred

While the credit volume in Germany remained essentially unchanged, the volume outside Germany increased by 13%, primarily as a result of the growth of € 0.8 billion in each of Western Europe and North America on the back of the higher derivatives volume and Western European bank bonds.

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

Country ratings ¹⁾ Credit volume in € million	31 Mar. 2012 total ²⁾	Country ratings				
		1-6	7-9	10-12	13-15	16-19
Western Europe	10,112	9,430	496	140	0	46
Eastern Europe	779	520	51	208	0	0
North America	2,318	2,318	0	0	0	0
Other	170	111	23	22	15	0
Total	13,379	12,379	570	370	15	46

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

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

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

93% of the credit volume attributable to countries outside Germany was assigned to the six best country risk classes, 1-6. The utilisation of loans in risk classes 13-15 primarily relates to Iran (€ 12 million) and Egypt (€ 2 million). The utilisation of loans in risk classes 16-19 relates to Greece (€ 46 million).

Within Western Europe, risks relate to the following states:

Table: Credit volume in Western Europe by risk

31 Mar. 2012 in € million	Credit volume after risk mitigation	of which country risks	of which banks ¹⁾	of which other counterparty default risks ²⁾
France	2,223	218	1,141	865
UK	2,045	0	1,076	969
Italy	1,580	886	275	419
Spain	1,437	87	671	679
Luxembourg	549	0	458	92
Ireland	496	19	20	457
Netherlands	373	20	185	168
EU ³⁾	330	234	0	96
Switzerland	264	0	146	119
Sweden	242	0	205	37
Portugal	140	50	28	62
Greece	46	17	17	12
Other	386	26	143	217
Total	10,112	1,556	4,364	4,191

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

- 1) Bank exposures in Spain and Italy contain primarily covered bonds
- 2) Portfolio investments of € 305 million are included in the figure for Ireland, while bonds issued by the European Financial Stability Facility (EFSF) in the amount of € 96 million are included in the figure for the EU
- 3) European Commission and EFSF

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, Portugal and Spain. Thanks to these support measures by the EU, the Bank does not feel that these states are exposed to acute default risks at present, with the exception of Greece.

In March 2012, the Bank swapped Greek government bonds with a nominal volume of € 211 million, in exchange for which it received Greek government bonds with a nominal volume of € 67 million and a carrying amount of € 9 million, and EFSF with a nominal volume and carrying amount of € 35 million. The latter was sold at its carrying amount after the balance sheet date.

The Greek credit event on the CDS market affected four first-to-default securities referring to Greece with a total cost of € 148 million. Two of these securities had already been swapped at the reporting date in exchange for the delivery of Greek government bonds with a nominal volume of € 30 million and a carrying amount of € 8 million, as well as Hellenic Railway with a nominal volume of € 38 million and a carrying amount of € 12 million. These securities were sold after the balance sheet date. The two remaining first-to-default securities (nominal volume € 80 million, carrying amount € 17 million) were swapped only after the balance sheet date, with the securities received in exchange also being sold. In the above overview, the first-to-default securities are allocated to the risk country of Greece.

This means that all of the Greek bonds were sold after the balance sheet date.

The Bank still holds an additional first-to-default security in the amount of € 50 million to be repaid in the event of refinanced state debtors defaulting in the form of bonds of the respective country. Reference countries include France, Italy, Portugal, the Czech Republic and Cyprus.

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. IKB allocates each customer to one of around 430 sectors based on an industrial sector system. These sectors are grouped and combined to form industry clusters.

Table: Credit volume by sector

Sectors in € million	31 Mar. 2012 Credit volume		31 Mar. 2011 Credit volume	
Industrial sectors	12,661	40%	12,175	38%
Mechanical engineering	1,061	3%	1,141	4%
Services	935	3%	872	3%
Energy supply	853	3%	1,049	3%
Metal products	814	3%	750	2%
Wholesale	801	3%	646	2%
Other	8,197	26%	7,717	24%
Real estate	1,385	4%	1,919	6%
Financial sector	969	3%	1,146	4%
Banks	9,436	30%	6,669	21%
Public sector	2,429	8%	3,446	11%
Sub-total	26,880	85%	25,355	79%
Risk transferred to third parties ¹⁾	4,833	15%	6,721	21%
Total	31,713	100%	32,076	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 increased by € 0.5 billion year-on-year, while the credit volume in the real estate industry fell by € 0.5 billion year-on-year. The degree of diversification in the industrial sectors is still high, with no single sector accounting for more than 3% of the portfolio. The increase of € 2.8 billion in the banking sector is primarily attributable to the higher level of derivatives with positive market values as well as Western European bonds.

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

Table: Credit volume by credit rating structure

Credit rating structure ¹⁾ in € million	31 Mar. 2012 Credit volume		31 Mar. 2011 Credit volume	
1-4	10,212	32%	9,981	31%
5-7	6,267	20%	4,036	13%
8-10	5,222	16%	4,808	15%
11-13	2,604	8%	2,732	9%
14-15	733	2%	1,291	4%
Lehman assets ²⁾	339	1%	352	1%
Problem exposures ³⁾	1,501	5%	2,156	7%
Sub-total	26,880	85%	25,355	79%
Risk transferred to third parties ⁴⁾	4,833	15%	6,721	21%
Total	31,713	100%	32,076	100%

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

1) Higher rating classes reflect lower creditworthiness

2) Portfolio investments whose probability of default is no longer dependent on the credit ratings of the portfolio investments due to legal risks, and that therefore cannot be quantified

3) Carrying amounts, i.e. after deducting losses from impaired financial assets (securities)

4) Hermes guarantees, indemnifications, risks transferred

The € 2.2 billion increase in credit rating levels 5-7 is primarily attributable to deteriorations in the creditworthiness of bank counterparties and the public sector. In addition to problem exposures, the volume in credit rating levels 14-15 also declined due to improvements in creditworthiness, particularly in the leasing business, and loan repayments.

Problem exposures.

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

Table: Problem exposures¹⁾

Credit volume	31 Mar. 2012 in € million	31 Mar. 2011 in € million	Change	
			in € million	in %
Impaired (non-performing loans)	1,261	1,761	-500	-28.4%
Non-impaired	370	487	-117	-24.0%
Total	1,631	2,248	-617	-27.4%
as % of credit volume	5.1%	7.0%		

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

1) Carrying amounts plus losses from impaired investment securities (31 March 2012: € 130 million; 31 March 2011: € 92 million).

Non-impaired problem exposures declined due to improvements in credit quality and transfers to impaired problem exposures.

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

Table: Non-performing loans

Credit volume	31 Mar. 2012 in € million	31 Mar. 2011 in € million	Change	
			in € million	in %
Germany	662	1,173	-511	-43.5%
Outside Germany	378	401	-23	-5.8%
Impaired loans	1,040	1,574	-534	-33.9%
Securities (impaired financial assets) ¹⁾	220	187	34	18.0%
Impaired (non-performing loans), total	1,261	1,761	-500	-28.4%
as % of credit volume	4.0%	5.5%		

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

1) Carrying amounts plus losses from impaired investment securities (31 March 2012: € 130 million; 31 March 2011: € 92 million).

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

Risk provisions. Risk provisions in the form of a valuation adjustment are recognised for possible loan losses. For off-balance-sheet lending, a provision is recognised if utilisation becomes probable.

When measuring the valuation adjustment required, IKB takes into consideration both expectations with regard to future cash flows from interest and principal payments and the value of the respective collateral. The Credit Risk Management central division is responsible for setting valuation adjustments, which involves judging each case on an individual basis, assessing the restructuring strategy and carrying 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 2011 to 31 March 2012, provisions for possible loan losses declined by 67% year-on-year, from € 79 million in the previous year to € 26 million; this was primarily due to the improved economic situation. The € 29 million reduction in portfolio impairments was largely attributable to the decrease in non-impaired problem exposures. Additions to specific valuation allowances and provisions declined by € 91 million, while reversals of specific valuation allowances remained essentially unchanged. Direct write-downs were reduced by € 11 million. Risk provisioning focused on acquisition finance in the amount of € 29 million, of which € 21 million related to the Credit Products segment, and real estate finance in the Treasury and Investment segment in the amount of € 15 million; in each case, this primarily related to financing outside Germany. Net risk provisioning includes expenses of € 8 million in conjunction with the sale of customer receivables without increased risk for portfolio optimisation purposes.

Table: Provision for possible loan losses

	1 Apr. 2011 – 31 Mar. 2012 in € million	1 Apr. 2010 – 31 Mar. 2011 in € million*	Change
Additions to specific valuation allowances/provisions	199.2	289.7	-31%
Direct write-downs	13.4	24.7	-46%
Recoveries on loans previously written off	-8.1	-12.5	-35%
Additions to/reversals of portfolio impairments	-28.8	-72.8	-60%
Reversal of specific impairment losses/provisions	-149.4	-150.3	-1%
Provisions for possible loan losses	26.3	78.8	-67%
Development of specific impairment losses/provisions			
Opening balance	741.4	941.0	-21%
Utilisation	-326.2	-317.1	3%
Reversal	-149.4	-150.3	-1%
Reclassification	0	0.2	
Unwinding	-20.8	-25.8	-19%
Additions to specific impairment losses/provisions	199.2	289.7	-31%
Effect of changes in exchange rates	2.1	3.7	
Total specific impairment losses/provisions	446.3	741.4	-40%
Portfolio impairment losses			
Opening balance	112.3	185.1	-39%
Addition/reversal	-28.8	-72.8	-60%
Effect of changes in exchange rates	-0.1	-	
Total portfolio impairment losses	83.4	112.3	-26%
Total provision for possible loan losses (including provisions)	529.7	853.7	-0.7%

* Prior-year figures adjusted

In the past financial year, the methodology for recognising the collateral provided in the lending business was further developed. It was established that the amounts recognised for both interest income and provisions for possible loan losses in the consolidated financial statements for the year ended 31 March 2011 were too low. Provisions for possible loan losses increased by € 8 million as a result of the improved recognition of collateral cash flows in the lending business. Interest income from unwinding increased by the same amount. The correction of this error resulted in a change in presentation. Consolidated earnings were not affected as a result.

Total provisions for possible loan losses for the lending business, including portfolio impairment losses, totalled € 529 million as at 31 March 2012. The cover for impaired loans (€ 1,040 million) in the form of specific valuation allowances and provisions (€ 446 million) amounted to 43%, thereby declining as against the start of the financial year (47%). This is due to the further reduction in non-strategic exposures for which a high level of specific valuation allowances had been recognised.

Portfolio impairment losses. 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 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).

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 carrying amount, the risks of the remaining 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 has economic risks only from investments with sub-prime content for some of the assets transferred to the special-purpose entity Rio Debt Holdings.

As at 31 March 2012, the sub-segment portfolio investments consists of:

- Securitisation positions with a nominal amount of € 206 million (31 March 2011: € 187 million) and a carrying amount of € 132 million (31 March 2011: € 106 million) assigned to the strategic core business of the Bank and primarily deriving from the securitisation of own loans. These assets largely have a sub-investment grade rating.
- Two synthetic transactions with six tranches and corporate and state reference assets with a total nominal volume of € 200 million and a carrying amount of € 136 million (31 March 2011: three synthetic transactions with a nominal volume of € 270 million and a carrying amount of € 230 million). The transactions have an external rating of Baa. A third transaction with a nominal volume of € 70 million was repaid at par in June 2011.
- Securities with a nominal volume of € 688 million (31 March 2011: € 893 million) and a carrying amount of € 85 million (31 March 2011: € 168 million) that were synthetically transferred to Rio Debt Holdings. IKB's sub-prime risks have a carrying amount of € 27 million (31 March 2011: € 73 million). The residual income will be divided between IKB and Lone Star. After deducting the fair value of Lone Star's right to additional proceeds (equity kicker), IKB still has a share of the carrying amount of € 75 million (31 March 2011: € 144 million).
- Owing to the Lehman insolvency, four synthetic transactions with a nominal value of € 339 million (31 March 2011: € 332 million) and a carrying amount of € 339 million (31 March 2011: € 352 million) are being wound up (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 carrying amount, the actual economic risk to IKB from its portfolio investments was therefore only € 344 million as at 31 March 2012 (31 March 2011: € 486 million). Of this figure, € 132 million (31 March 2011: € 106 million) relates to the securitisation positions from IKB's core business listed under point 1, € 136 million (31 March 2011: € 236 million) relates to the synthetic transactions listed under point 2, and € 75 million (31 March 2011: € 144 million) relates to the IKB risks from the Rio assets listed under point 3. The legal risks presented in point 4 also apply.

The nominal volume of portfolio investments with corporate underlyings (CDOs of corporates and CLOs) declined to € 613 million (31 March 2011: € 664 million). The nominal volume of investments relating to ABS underlyings declined to € 835 million (31 March 2011: € 1,094 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 liquidity requirements in the period under review – and will continue to do so in future – by accepting customer deposits, through secured borrowing on the interbank money market (cash and

term deposits) and by participating in ECB tenders. The volume of new customer deposits again developed positively in the reporting period, now amounting to just under € 6 billion (previous year: just under € 4 billion).

Liquidity was also generated through asset disposals and the issue of promissory note loans guaranteed by the Deposit Protection Fund. 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 situation allowed the Bank to reduce its SoFFin guarantee volume from € 9.5 billion to € 4.5 billion in the 2011/12 financial year.

Depending on the development of its new business, the Bank expects its liquidity requirements to amount to between € 10 billion and € 11 billion over the next twelve months. As previously, the main options currently available for refinancing these requirements are accepting customer deposits and promissory note loans, secured borrowing on the interbank market (cash and term deposits), participating in ECB tenders 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. For example, this may include market developments that prevent the Bank from extending liabilities guaranteed by the Deposit Protection Fund or selling balance sheet assets to a sufficient extent or at all.

Market price risk

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 on a daily basis. 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 for IKB results in particular from the securities and promissory note loans in its investment portfolio and the 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.

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 clean backtesting 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 above and beyond the statistical benchmark 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. 2012	31 Mar. 2011
Basis point value	0.3	-0.05
Vega	0.1	0.6
VaR – foreign currency	-2.5	-2.5
VaR – interest rate and volatility	-5.2	-7.5
VaR – spread	-53.3	-41.7
Correlation effect	4.9	7.8
VaR total	-56.1	-43.9

The main driver of market risk is currently credit spread risk from state financing as a result of the massive spread volatility due to the European debt crisis.

The credit spread sensitivities of the securities and derivative positions (change in value per basis point of additional credit spread widening) amounted to between € 4.2 million and € 4.6 million at the quarterly reporting date during the year under review.

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 ORM. Significant 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 gross loss volume identified in the financial year amounted to a total of € 18.5 million at Group level. Around € 12.4 million of this related to IKB AG. Loss reductions (e.g. insurance, settlement or goodwill payments) mean that the loss recognised in the income statement can be lower. 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").

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 ORM, 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 immediate 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.

As a matter of principle, this task is performed using 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.

In managing its legal positions, IKB enters into agreements with potential claimants and defendants on the suspension of the statute of limitations.

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 € 14.6 million. In addition, further shareholders and investors in other IKB securities have approached the company out of court with claims for damages.

In the meantime, more than 110 of these suits by investors have been finally terminated, e.g. with legally binding rulings in favour of the Bank or the withdrawal of the respective suits; the Bank has not yet been ordered to pay damages in any of the cases to date. Five cases of denial of leave to appeal are pending with the German Federal Court of Justice.

In one such case, hearings took place before the XI. Civil Senate of the German Federal Court of Justice on 15 November 2011. On 13 December 2011, the Senate referred the case back to the Düsseldorf Higher Regional Court. According to the comments by the Senate, there are no claims founded in tort in the case in question.

IKB still considers the outstanding claims by investors not yet dismissed (with a remaining provisional value of around € 10.6 million) and the out-of-court claims for damages to be unfounded. Nonetheless, even after more than four 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 16 September 2011, Crédit Agricole Corporate and Investment Bank (CA-CIB, formerly Calyon), Financial Guaranty Insurance Company (FGIC) and IKB Deutsche Industriebank AG (IKB) – and other parties – signed an agreement aimed at resolving various legal disputes between the parties.

This relates to the proceedings initiated by CA-CIB and FGIC against IKB with the Commercial Court, High Court of Justice in London, United Kingdom, and additional legal disputes in New York and Jersey, Channel Islands.

The confidential agreement covers the conclusion of the legal disputes without the acknowledgement of guilt by the parties concerned. IKB does not expect this agreement to represent a financial burden for the Bank and considers its legal risks to have declined significantly as a result.

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 class 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 class 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.

On 10 January 2012, the plaintiffs submitted additional particulars of the claim. On 31 January 2012, IKB filed to have the expanded claim dismissed on the grounds of failure to state a claim, among other things. On 4 May 2012, the court admitted some elements of the expanded claim.

On 25 May 2012, King County, Iowa Student Loan Liquidity Corporation and IKB recorded in court an agreement aimed at ending the legal disputes between the parties that are pending with the United States District Court of the Southern District of New York, USA. The confidential agreement covers the conclusion of the legal disputes without the acknowledgement of guilt by the parties concerned. IKB does not expect this agreement to represent a financial burden for the Bank and considers its legal risks to have declined as a result.

IKB remains of the opinion that the accusations made against IKB by the plaintiffs are unfounded.

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 (including the suit concerning the plaintiffs King County and Iowa Student Loan Liquidity Corporation) 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 or 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 Financial Holdings, L.P., Delaware, Dallas/USA (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 covering 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, in July 2009, the competent economic crimes chamber of the Düsseldorf Regional Court handed down a suspended sentence of ten months in July 2010 for market manipulation. The appeal lodged against this first instance ruling was rejected by the German Federal Court of Justice on 20 July 2011; the verdict has been legally binding since that date.

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 (in this case, Lehman Brothers) 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 without the involvement of the Bank. While courts of final 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 in the USA. Other model proceedings are still ongoing. A final instance confirmation of the legal position of the opposing party with the US courts could lead to the dismissal of the payment and, under certain circumstances, to claims for restitution against IKB. The Bank considers the probability of occurrence to be low. Because of the transactions, the Bank is involved in the out-of-court settlement proceedings with Lehman Brothers as ordered by the US insolvency court.

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. Since this date, the Bank has had to deploy considerable resources to implement these conditions. The implementation period for the ruling expired on 30 September 2011. The final report on the implementation of the EU conditions was submitted by the German government to the EU Commission to the end of 2011. IKB implemented the measures set out in the restructuring plan on time to the extent they were permitted by law and could be carried out. Accordingly, IKB assumes that the conditions were met by the deadline. A formal response from the European Commission is currently still awaited. If the conditions are not met, 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. Recessionary and revocation claims against resolutions made by the following Annual General Meetings are currently still pending:

- Annual General Meeting on 28 August 2008 (agenda item 6: election of the Supervisory Board);
- Annual General Meeting on 25 March 2009 (incl. agenda items 3 and 4: cancellation of the special audit with regard to the Board of Managing Directors and the Supervisory Board);
- Annual General Meeting on 27 August 2009 (incl. agenda items 2 and 3: approval of the actions of the members of the Board of Managing Directors and the Supervisory Board);
- Annual General Meeting on 26 August 2010 (incl. agenda items 2 and 3: approval of the actions of the members of the Board of Managing Directors and the Supervisory Board);
- With regard to the Annual General Meetings on 27 March 2008, 28 August 2008, 25 March 2009 and 7 September 2011, compulsory information proceedings have also been filed with the court in accordance with section 132 of the German Stock Corporation Act (AktG).

Derivatives business. In the 2011/12 financial year, customers criticised the consulting services provided by the Bank in connection with certain swap products. The corresponding suits are pending in two cases. The Bank is involved in out-of-court discussions with other customers. The Bank will defend itself against the accusations.

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 permitted only 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 on an ongoing basis to reflect changing external threats. 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 information security management system (ISMS) has again been certified by TÜV Rheinland on the basis of ISO 27001. The outsourcing of IT services is taken into account as part of the ISMS; in particular, quality assurance is performed for data security and data protection aspects of significant outsourcings in the form of internal certification.

Compliance risk

As a bank, IKB is subject, among other things, to the legal standards of the KWG, the German Securities Trading Act (WpHG) and the German Money Laundering Act (GwG), and also implements the more recent provisions of the German Act to Improve Investor Protection and Functionality (AnsFuG) and the Markets in Financial Instruments Directive (MiFID). This results in obligations concerning the prevention of conflicts of interest, market manipulation and insider trading and money laundering. Organisational and regulatory requirements such as the minimum BaFin requirements for compliance function and the other conduct, organisation and transparency duties arising from sections 31 ff. of the WpHG (MaComp), which were most recently updated in June 2011, must still 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.

The coordination and information of the compliance functions is performed by the Compliance Board, which consists of the Board of Managing Directors, the heads of the central divisions of Bank and the employees entrusted with specific compliance functions (corporate governance, data protection, money laundering and operational risk officers). 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.

In addition, a core compliance group was established in 2011 to provide greater operative support for the cross-divisional processing of compliance topics. The core compliance group is headed by the Chief Compliance Officer.

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 end-to-end 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.

As part of the risk inventory, 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 central office initiated in 2011 in accordance with section 25c KWG has commenced its work on identifying the central security systems for combating fraud. A corresponding organisational instruction has been introduced.

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. With regard to the business activities of "IKB direkt" with retail customers, the growing number of customers means that the range of instruments for preventing money laundering is being continuously expanded with a view to identifying politically exposed persons and counteracting the abuse of accounts.

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 and benefits. IKB also describes the moral concepts and beliefs of the Bank in a Code of Conduct. 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 has been a reorganisation of the workplace and a reduction in the number of jobs over recent years. 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. Further cost reduction and restructuring measures are planned at the Düsseldorf location in particular. To implement these measures, a new reconciliation of interests and redundancy scheme was negotiated with the employee representatives and signed on 8 May 2012. With a view to this, uncertainty among employees can be expected during the decision-making and implementation phase.

In the 2011/12 financial year, the number of people leaving the Bank exceeded the number of new appointments. The workforce reduction focused in particular on central functions. 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.

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. Accordingly, they are subject to the close and continuous observation of the Board of Managing Directors and the Strategic Planning and Investment Management central division. This includes the regular examination of the business strategy by the Board of Managing Directors along with the planning process. Business policy objectives, measures and risks are also continuously reviewed by the Strategy and Risk Committee and at the Board of Managing Directors conferences and meetings. This gives rise to strategic initiatives and restructuring measures.

The Bank is of the opinion that it has fulfilled the EU conditions in full and on schedule. The final report has been submitted to the European Commission. 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 making IKB profitable.

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 defines business risk as 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 changes in economic or 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

The IKB Group defines investment risk as the potential loss in value resulting from dividend suspension, write-downs of carrying amounts, losses on disposal and reductions in hidden reserves, among other things.

In order to implement the EU conditions, certain strategic investments (e.g. IKB CC and IKB International S.A. as well as real estate investments, e.g. IKB Immobilien Management and IKB Projektentwicklung) have been scaled back or liquidated. These measures have served to reduce the level of investment risk. Irrespective of the EU conditions, IKB pursues the objective of minimising the number of subsidiaries/investments and the complexity of its investment portfolio. This is reflected in its investment strategy, which forms part of IKB's business and risk strategy.

The Bank makes a distinction 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 form part of its business model, and strategic investments in joint ventures and other companies that may be entered into 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) or that represent joint investments or shelf companies. The strategic investments are examined for materiality once a year. The resulting material investments are included in the quarterly investment report.

The Strategic Planning and Investment Management central division handles and coordinates the operative investment processes. The Legal 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. The Finance central division is responsible for investment controlling and the evaluation of the strategic investments. Authority for decisions on strategic investments lies with the Board of Managing Directors as a whole. The Executive Committee must approve the acquisition, disposal or formation of companies if the subject of the respective transaction accounts for more than 5% of the liable equity of IKB or this is required by the regulatory standards.

In terms of disciplinary and technical matters, the key subsidiaries and investment companies of IKB are assigned to individual members of the Board of Managing Directors in the executive organisation chart. Accordingly, responsibility lies with Dr Wiedmann for the subsidiaries of the IKB PE Group, the IKB Leasing Group, IKB Finance B.V. and IKB CC, with Dr Glüder for IKB Data GmbH, MD Capital Beteiligungsgesellschaft mbH and the real estate subsidiaries being wound up or sold, and with Mr Schüttler for IKB International S.A. in liquidation.

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.

An annual Group-wide 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.

In order to meet the SoFFin conditions, which require a tier I capital ratio of at least 8% for IKB AG and the IKB Group, internal transactions are conducted within the Group to reallocate risk-weighted assets and to balance capital ratios.

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

In the 2011/12 financial year, IKB's overall risk situation was influenced to a significant extent by the European government debt crisis, which has been in place for some time and which briefly posed an acute danger to the financial markets in late 2011. The involvement of the private sector and the credit event for Greece led to additional fair value losses on the Bank's Greek exposures. Although this helped to shake out the Bank's risk situation with regard to Greece, it also had a negative impact on the equity capital position. The hesitant and contradictory crisis management at a European political level proved to be a significant risk factor. As a consequence of these events, IKB intends to continue to pursue a reduction in its risk-weighted assets in a targeted manner, with a particular focus on reclassifying government risks and unsecured bank bonds in its liquidity investments.

Above and beyond the Greek default, the dramatic widening of risk premiums for the bonds of many EU member states as a result of the European government debt crisis has triggered massive losses in terms of market value, as well as leading to market risk that is comparable to the level observed at the time of the Lehman Brothers insolvency. IKB's market value losses and market risk are attributable in particular to long-term Italian bonds; however, the Bank does not consider these exposures to be subject to any significant risk of default.

Based on the Bank's forecasts, risk-bearing capacity using the equity provider perspective – which is material for IKB – remains secure for the 2012/13 financial year and the subsequent two years. By contrast, the lender perspective shows that, in a market environment characterised by high volatility and maximum risk aversion as well as a sustained stress situation, it would not be possible to satisfy the claims of non-subordinate creditors in full in the event of a theoretical liquidation of the Bank if the unexpected risks were to actually occur in the amount quantified.

A key focus for IKB is ensuring sufficient financing for its planned business activities and the repayment of outstanding liabilities. 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. The intensified and diversified deposit business with corporate clients and retail customers and repos (ECB and general collateral pooling) are of growing importance for refinancing. Secured refinancing on the capital market is a liquidity option for the Bank. An expansion of 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 comply with the – 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. The conditions imposed by the European Commission were fulfilled as at the reporting date (30 September 2011). Even after the risk provisioning for the Bank's Greek bonds, the Group's tier I capital ratio remains in excess of the minimum level of 8% required by SoFFin, among other things, and is expected to remain above this level during the two-year forecast period based on the Bank's planning. 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.

IKB's success will remain dependent on the extent to which it can be continued through the expansion of derivatives business, customer-related capital market products and consulting services in the coming quarters. The income generated from this serves to supplement the interest income from traditional lending business, which increased once again in new business with higher overall margins. In the first half of the year, the development of new business and the increase in net fee and commission income was below expectations due to the government debt crisis. In the second half of the year, the government debt crisis again curbed the performance of the credit markets without a turnaround in sight.

Despite the relatively low growth and the growing risk of recession in Europe, German companies are enjoying good to very good sentiment. This is reflected in the extremely low level of risk provisioning, which is not expected to be sustained in the longer term. All in all, economic development remains fragile on account of the government debt crisis. The banking sector has come under pressure once again thanks to the euro zone government debt crisis. The turbulence on the bond markets means that bank risks have increased due to potential direct or indirect losses on government debt positions. The increased uncertainty was reflected on the interbank market, whose functionality was impaired once again. Due to the sustained high level of risk for the banking system, which has increased further for some countries, IKB concentrated its investments in ECB-eligible bonds on covered or secured bonds to a greater extent.

Thus, IKB will continue to see uncertainty on the markets and greater volatility for some time to come. As a matter of principle, the possibility of further new crises with unexpected default, market price and liquidity risks for the banking system – and therefore also for IKB – cannot be ruled out. This could restrict the business opportunities available to the Bank and have a corresponding impact on the fulfilment of regulatory requirements, risk-bearing capacity and the development of risk provisioning. Moreover, the Bank is exposed to the legal risks described.

Despite the realisation of the Greek risks and the continued government debt crisis, the Board of Managing Directors believes that IKB's restructuring can be continued and completed. Uncertainty will continue to result in particular from the duration and severity of the government debt crisis in the euro zone.

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

In accordance with section 289 (5) of the German Commercial Code (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 net assets, financial position and results of operations 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, the Finance and Audit Committee and the Supervisory Board familiarised themselves 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 (internally) and the responsible auditors (externally). 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 Wirtschaftsprüfungsgesellschaft to audit the consolidated financial statements. The responsibility of the auditor is to audit the consolidated financial statements, consisting of the consolidated balance sheet, consolidated income statement and notes to the consolidated financial statements, and the Group management report. The audit of the consolidated financial statements was performed in accordance with section 317 HGB and the 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. The Finance central division is responsible for the preparation of the separate and consolidated financial statements. Accounting for the subsidiaries included in the consolidated financial statements is usually performed centrally by the Finance department or at the IKB Leasing Group under the terms of 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 administrative 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 and Securitisation Structure Management. The 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. With regard to 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 issuing only those authorisations required to process tasks. Internal Audit regularly reviews the appropriateness and compliance of the authorisation concept. As part of a regular process and internal projects, the existing authorisation concept in the SAP environment is permanently reviewed and further specified. Thus, authorisation roles have been defined more narrowly to ensure that sensitive data can be processed and viewed by a defined group of persons only. 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 ICOSA

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 properly 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. IKB AG's chart of accounts is permanently modified and optimised in order to increase transparency and traceability.

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 is also backed up technically 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. Valuation allowances are calculated by Risk Controlling 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

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. Fair value is calculated by Risk Controlling and Securitisation Structure Management using recognised methods. The measurement models are reviewed for suitability internally and regularly adapted in line with changing requirements. Risk Management and Securitisation Structure Management determine the factors leading to impairment on long-term investments, calculate the amount of impairment and enter 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. Further information can be found in 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 administrative 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. Based on the proposal by the Supervisory Board, the Annual General Meeting elects the auditor of the single-entity and consolidated financial statements for the 2012/13 financial year and the auditor for the audit review of the condensed consolidated interim financial statements and interim Group management report for the first half of the 2012/13 financial year. The Board of Managing Directors decides whether the condensed consolidated interim financial statements and interim Group management report are to be subject to a review 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 2012 (Supplementary report)

The following new developments have arisen since 31 March 2012:

Mandatory conversion of convertible bonds

In December 2008, IKB Deutsche Industriebank AG issued convertible bonds (ISIN DE000A0SMN11) with a nominal amount of € 123,671,070.72. Following the implementation of several optional conversions, the remaining convertible bonds with a nominal volume of € 146,488.32 were mandatorily converted on 11 April 2012, the final mandatory conversion date as set out in the issue conditions, for a number of non-par value bearer shares at the conversion ratio defined in the issue conditions. The mandatory conversion and an optional conversion in January 2012 increased the total number of voting rights by 58,662, from 633,326,261 to 633,384,923, and the subscribed capital by € 150,174.72, from € 1,621,315,228.16 to € 1,621,465,402.88.

Change of segment from the regulated market to the quality segments of the unregulated market

The Board of Managing Directors of IKB Deutsche Industriebank AG resolved, with the approval of the Supervisory Board, to initiate a change of stock exchange segment for all of the Bank's securities from the regulated market to the quality segments of the unregulated market.

This measure affects the following securities of IKB (ISIN):

Shares: DE0008063306; bearer bonds (subordinate bonds): DE0002197761, XS0118282481, XS0163286007, XS0163773251, XS0165828673, XS0165937458, XS0169197646, XS0171797219, XS0200612355, XS0241326924, XS0266017622, XS0282589505; bearer bonds: DE0002731304, DE0002731445, DE0002731494, DE000A0SMPA3, DE000A0SMPB1, XS0238155088; profit participation certificates: DE0002731429, DE0002731197; credit-linked notes: DE000A0EUEZ7

For IKB's shares, IKB has submitted an application for the revocation of their admission to trading in the General Standard of the regulated market of the Frankfurt Stock Exchange together with their admission to the Entry Standard of the unregulated market of the Frankfurt Stock Exchange. IKB's other securities will also be admitted to the quality segments of the unregulated market of a German stock exchange. The change of segment is scheduled for completion by the end of the 2012 calendar year.

The change of segment will cut costs for IKB and provide it with the option of limiting its accounting to the German Commercial Code (HGB).

Debt issuance programme

The Bank plans to update its debt issuance programme in the 2012/13 financial year.

SoFFin guarantees

On 18 May 2012, IKB AG returned further SoFFin guarantees in the amount of € 250 million ahead of schedule. This related to the bond maturing on 2 February 2015. As a result, IKB AG's SoFFin guarantee was reduced to a total of € 4.25 billion.

Changes in the Group

In April 2012, the investment fund Partner Fonds Eurobonds, Luxembourg, was liquidated in full.

In May 2012, IKB Partner Fonds, Luxembourg, and Partner Fonds Europa Renten Teilfonds II, Luxembourg, were dissolved.

Legally relevant events

On 25 May 2012, King County, Iowa Student Loan Liquidity Corporation and IKB recorded in court an agreement aimed at ending the legal disputes between the parties that are pending with the United States

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District Court of the Southern District of New York, USA. The confidential agreement covers the conclusion of the legal disputes without the acknowledgement of guilt by the parties concerned. IKB does not expect this agreement to represent a financial burden for the Bank and considers its legal risks to have declined as a result.

Reconciliation of interests and redundancy scheme

To implement further cost reduction and restructuring measures, a new reconciliation of interests and redundancy scheme was negotiated with the employee representatives and signed on 8 May 2012.

Bonds relating to Greece

All Greek bonds were sold after the balance sheet date (see also Risk report, section 4.). The resulting charges were recognised as adjusting events at the balance sheet date.

Changes in Composition – Supervisory Board

Mr Olivier Brahin stepped down from his office with effect from 25 May 2012.

7. Outlook

Future general economic conditions

The European debt crisis is continuing to affect the global economy and the financial markets, and an end to the crisis is not yet in sight. The hesitant and contradictory crisis management at a European political level has been unable to inspire confidence in the capital markets to date. Even the decisive interventions by the ECB have provided only brief spells of positivity given the political loggerheads. Despite the large-volume ECB tender, the markets are dominated by fears of a Greek exit from the European Monetary Union, as well as concerns about Spanish banks and hence Spain itself.

The drivers of global economic development remain the emerging markets in particular, although a slowdown in momentum is being observed in certain regions. However, they will continue to generate significantly higher growth rates than the industrialised nations and continuously increase their share of global GDP. By contrast, industrial nations are likely to continue on a lower-level growth path due to falling asset prices in some countries, the high level of private-sector debt in some cases and the enormous pressure to consolidate government budgets.

The US economy remained robust in early 2012, with GDP growth of 0.6% in the first quarter. The GDP forecasts issued by the economic research institutes in their spring reports predict growth of more than 2% in 2012 and 2013, thereby outstripping the performance of the euro zone; however, the outlook for the USA remains patchy in light of the current economic indicators and the further development of the employment market. In the medium term, the growth outlook will also be impacted by structural problems: house prices are still showing no signs of recovery, private debt relief is continuing – with a corresponding impact on consumption – and the high level of government debt is increasing the pressure to consolidate.

In the euro zone, too, the situation appears to have stabilised compared with 2011, at least in recent months. In light of the intensification of the euro zone debt crisis and the risk of a credit crunch, the ECB initiated two three-year tenders for comprehensive liquidity provision with a volume of € 1 trillion. At the same time, the already softened security requirements were relaxed further. This means that the risk of serious liquidity problems in the banking sector has declined for the time being. However, the momentum towards stabilisation in terms of economic development remains uncertain, as this would require banks to step up their lending to businesses. Political uncertainty remains high, although more reform-oriented governments have been in charge in Italy, Spain and Portugal since the end of last year, having already resolved and implemented various reforms and additional efforts to make savings. Finally, the resolution of the fiscal pact at European level has documented the desire to overcome the crisis. Despite this, however, uncertainty with regard to the continuation of the crisis remains high. The results of the elections in France and Greece in particular have led to renewed uncertainty, and nervous sentiment has returned to the markets, at least temporarily. Although the impact of the election results is still unclear, there are significant fears that the change in power in both countries – i.e. the “punishment” of austerity politics by the population – and the anti-euro mood in Greece could throw the euro zone into an even deeper crisis. Unfavourable news concerning government finances in the crisis countries or the continued reform process could also lead to a further deterioration in the situation at any time. However, grounds for confidence are provided by the fact that the Greek debt haircut did not shock the financial markets even though it was designed in such a way as to be considered as a credit event. The feared negative impact of the resulting credit insurance payments on the stability of the financial markets did not materialise.

However, the restrictive approach to fiscal policy did have a tangible impact on public and private demand in the euro zone, leading to a short-term deterioration in the budget situation and making a recession seem inevitable. There is considerable divergence between the economic outlooks of the euro zone countries. The fundamental trend for Germany appears to be positive, while the outlook for other countries remains weak or is deteriorating further, particularly where financial policy has had to become highly restrictive (Portugal, Greece, Italy, Spain and Ireland). The research institutions are forecasting the following developments for IKB's core countries: Spain and Italy were already seeing particularly weak development towards the end of 2011. In the current year, GDP is expected to decline by around 1.5%. A recovery – albeit only a moderate one – will not occur in Italy until 2013. By contrast, economic output in Spain will continue to fall. The French and British economies are more robust, but the recovery in both countries remains slow to take hold, with GDP growth forecast at just 0.4% and 0.6% respectively in 2012. Growth in excess of 1% should be possible in 2013.

The situation in Germany is more favourable. After economic activity declined slightly by -0.2% quarter-on-quarter in Q4 2011, research institutions expect the economy to pick up again from mid-2012 onwards. Although industrial production has so far been unable to confirm this upward trend since the start of the year, the rises in the forecast components of the ifo and ZEW indices suggest a stabilisation in the subsequent quarters.

The most significant growth contributions in 2012 will be provided by the domestic economy. Private consumption is being supported in particular by the stable situation on the employment market and the forecast salary growth. Investment growth is expected to become stronger over the course of the year in light of the relatively high level of capacity utilisation and the economic upturn. Investments in construction will also provide growth momentum.

Export development has been encouraging in the year to date and is expected to benefit from the gradual improvement in the global economy over the course of 2012. Thanks to the focus on capital goods, the dynamic growth of the emerging economies in particular is likely to result in orders. However, demand from the euro zone, which still accounts for 43% of German exports, is not expected to increase in light of the growth and consolidation problems affecting the region. All in all, the institutes are forecasting export growth of around 3% in 2012. Imports are expected to see slightly stronger growth thanks to the high level of domestic demand in Germany, meaning that external trade is unlikely to provide any positive growth momentum on the whole in 2012. With the assumed GDP growth of 0.9% in 2012, Germany will remain the growth driver of the euro zone. In a largely more stable global environment, 2013 is likely to see a higher growth rate of 2%.

The banking sector in the euro zone, which remains stricken, is receiving support from the liquidity measures that have already been implemented as well as interest rate cuts. Even in the longer term, the sustained restrictive fiscal policy conditions mean that there will be no alternative to an expansive approach to monetary policy. While ECB's activities as a lender of last resort are successful and necessary, it is uncertain as to whether this can reasonably support economic activity at extremely low interest rates and with a largely pessimistic outlook in many countries.

Although the German banking system had already stabilised, the exacerbation of the debt crisis has given rise to a number of factors impacting operating business and negatively influencing the risk-bearing capacity of the banking sector. In light of the sustained uncertainty affecting the financial system and the fragile economic outlook, the possibility that earnings will become more depressed cannot be excluded. Furthermore, the new Basel III regulations are set to be introduced in Europe at the start of the next calendar year, making adjustments to new lending activity and reductions in risk-weighted assets even more urgent for many banks. In light of the weak demand for credit in Germany, however, this is highly unlikely to result in a credit crunch.

The greatest downside risk for economic development is still the debt and confidence crisis in the euro zone, which remains fundamentally unresolved. Although the extraordinary liquidity policy measures by the ECB have relieved the stress on the banking system, the only thing ultimately gained as a result is time. If euro zone countries continue to lose confidence on the capital markets, e.g. because the necessary fiscal policy reforms are not addressed, this is likely to also affect the German economy. However, there is also the possibility of a stronger expansion than forecast here. For example, interest rates are at a historical low in many countries. This applies in particular to Germany, where the monetary conditions are particularly favourable at present.

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. Above all, IKB will be able to devote greater attention to customer business now that it has fulfilled the EU conditions (deadline: 30 September 2011). The costs resulting from the implementation of the EU conditions up until this deadline will gradually diminish. The SoFFin guarantee will continue to be repaid further, thereby lowering the currently high level commission expenses, among other things. This means that the foundations have been laid for making the Bank profitable once again.

IKB believes there are good prospects for an expansion of its activities in the areas of consulting, hedging and credit products. However, owing to the restructuring costs and the start-up costs for new business

activities, it will take some time before the reorganisation is also reflected positively in the income statement. The Greek default has delayed the return to a positive result from ordinary business activities. A positive trend in terms of diversification and an increase in income from new business with improved margins have already been observed. Transactions not covering their costs are being eliminated. The number of customer mandates and the level of income from customer-related commission business have increased.

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 will continue to reduce the complexity of its Group structure and improve the efficiency of all significant processes with a view to cutting costs. In this context, the Bank is planning to reduce the workforce by around 200. Another important factor in cost development will be the efficient implementation of the extensive changes that will result from the large number of regulatory projects.

IKB has laid the foundations for the further optimisation of its balance sheet structure in terms of the development of total assets and the composition of assets and liabilities. IKB will continue to focus on economically reducing its non-strategic assets and optimising its portfolio of profitable loans to its target customers. Liability-side management is particularly important. This includes stable deposit business and the restructuring and reduction of the liability side of the balance sheet, e.g. through the early return of SoFFin-guaranteed bonds. The overall aim is to ensure a sufficiently high tier I capital ratio. To this end, the possibility of transferring credit risks is examined. IKB can build on the many years of experience from its own securitisation activities. With a view to the implementation of Basel III, risk-weighted assets are being further reduced and income from risk-weighted assets is being replaced by service income as a result of cooperations with investors.

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

Net assets

At 13.0% and 9.4% respectively, the overall capital ratio (solvency ratio) and tier I capital ratio of the IKB Group are lower than in the previous year but still significantly in excess of the current minimum statutory requirements. A main control parameter used to date is the tier I capital ratio, which is well over 8% for IKB AG and the Group, thereby providing a buffer for unexpected isolated events. IKB is contractually required, particularly in respect of SoFFin, to maintain minimum tier 1 capital of 8%. IKB expects to continue to fulfil this minimum requirement of 8% for IKB AG and the Group. To this end, IKB intends to sell or synthetically hedge additional risk-weighted assets and focus on generating loans in which third parties can also invest. Corresponding initiatives have been launched and others will follow. The Bank's business planning and all of the associated measures depend on the market environment. Significant unexpected losses and market disruptions with the characteristics of a stress scenario could further impact IKB's situation and make it impossible to maintain a tier I capital ratio of 8% without additional measures being taken. For the 2012/13 and 2013/14 financial years, the Bank expects to see a further reduction in loans and advances to customers, as new lending business will be more than offset by repayments in the lending business and asset-side reductions. In the forecast period, the liability side of the balance sheet is expected to be characterised by a reduction in securitised liabilities and an expansion of the funding mix.

Effects of Basel III

One key element of the Basel Committee's reform package is – assuming a corresponding implementation in European and national law – that the minimum requirement for core tier I capital will be raised from 2% to 4.5% and the minimum requirement for total tier I capital will be increased from 4% to 6%. These requirements will have to be met in stages over the period from 1 January 2013 to 1 January 2015. In addition, banks will be required to maintain a capital conservation buffer of 2.5%, covered by core tier I capital and to be gradually built up in the period from 1 January 2016 to 1 January 2019. Furthermore, a counter-cyclical capital buffer is being introduced that will consist of core tier I capital. 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.

IKB's capital and liquidity resources are calculated for the Bank and the Group on the basis of HGB and the applicable regulatory standards and, based on the current legal situation, are likely to be 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 Bank currently expects the significant national transitional provisions to remain unchanged even after an EU regulation introducing Basel III comes into force, at least temporarily.

The preparations for the implementation of Basel III – including the highly comprehensive regulations that will accompany Basel III temporarily or functionally – are giving rise to high costs and complex questions of management. IKB is currently working on the implementation of the new regulations in several major projects, including the restructuring of the reporting system – which will require the use of new reporting software, among other things – and the connection to a central counterparty for standardised derivatives trading, which will require a high-performance trading system, among other things. Despite the early launch of the project and the high costs involved, there are significant uncertainties as a number of statutory provisions have not yet been finalised or are still to be specified or implemented by the EBA or the national banking authorities. In light of the desired implementation date for Basel III at a political level according to the international and national decision-makers, namely 1 January 2013, the Bank's resources are already extremely strained, meaning that it will be largely impossible to absorb any further delays and uncertainties concerning legislation. These uncertainties also relate to the extent of the measures that will be required to control total assets and risk-weighted assets.

Ultimately, IKB also expects Basel III to influence the strategies and business models of banks. Key conclusions are already reflected in their strategic positioning (see section 1). To a greater extent than was the case for previous new regulations, the implementation of Basel III – in conjunction with other regulations such as Solvency II and bank restructuring legislation – will impact business finance and make this more expensive due to the corresponding influence on refinancing at banks. This will also affect typical SME lending and the derivatives used by companies for hedging purposes. IKB expects all banks to have to conduct deposit business to a greater extent, while borrowing via unsecured loans will be driven back by the new regulatory provisions.

Liquidity situation

Collateralised borrowing on the interbank money market and lending against securities or loan assets with the Central Bank have become important sources of refinancing for all banks. Furthermore, a rising number of banks are financing themselves via deposits for the first time (mostly via the Internet) or to a greater extent.

IKB is not reliant on issuing 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 also reduce key investors' scope for investment. Furthermore, the EU is planning to increase the liability of bond creditors in future.

In addition to secured financing, business involving deposits and promissory note loans with corporate clients, retail customers and institutional investors forms a key element of IKB's refinancing. IKB will also continue to actively utilise programme loans and global loans from government development banks for its customers.

The funds generated will be used to repay maturing SoFFin-guaranteed bonds and other refinancing as this matures, as well as for new business. Given the changes in the Bank's business model, its refinancing requirements will be lower than in the past.

The future liquidity situation is also dependent on the development of new business, the extent to which customers draw on existing loan commitments and the market value development of collateral and derivatives. Assuming a normal course of business, IKB will have sufficient liquidity in the forecast period even without access to capital market refinancing.

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

Earnings performance

The current situation is characterised by uncertainty with regard to the further duration and severity of the government debt crisis in the European Monetary Union, the impact on the European banking system and a potential slowdown in economic growth in Germany, which could lead to a high degree of earnings volatility in IKB's business performance.

There is a high degree of uncertainty concerning the – in some cases highly surprising – consequences of the current wave of regulation and the necessary adjustments resulting from this. Banks are expected to implement regulation by 1 January 2013 for which the relevant legislation has yet to be passed and many technical standards are still unknown.

It is uncertain as to how long the EU governments will need to find a convincing solution to the government debt crisis and to calm the markets. In any case, it must be assumed that, as in the previous year, economic activity in Europe will be substantially lower. Many German companies are also waiting for clarity when it comes to making investment decisions. As such, IKB's earnings forecasts have been postponed accordingly and the business model will be reflected in positive earnings at a later date only. The write-downs due to Greek risks have also contributed to this development. The future earnings structure will feature a stronger share of commission income from consulting, derivatives and capital market business and assets under management. Profitable new lending business will lead to a stabilisation of net interest income in the medium term. The expenses of the guarantee commission owed to SoFFin will diminish. Total assets will continue to decline.

Administrative expenses in the Group will be further reduced as a result of improved efficiency, particularly with regard to the fulfilment of regulatory requirements, as well as reductions in Group complexity and the workforce.

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, the active utilisation of programme loans and global loans from government development banks, and sustainable deposit business with corporate clients and retail customers.

The Board of Managing Directors is maintaining its target of generating an operating profit in the medium term, thereby creating scope for the further strengthening of its tier I capital. Servicing the compensation agreements in a total amount of € 1,151.5 million and the value recovery rights of the hybrid investors mean that, even if IKB does generate an operating profit, it will probably not report any, or only minimal, net 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 2011/12 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 2011/12 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.

In order to understand the current structure of the remuneration system, the following aspects that have been in place for a number of years are important: 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 who were in office on or after 3 July 2009 issued corresponding waivers for the above period, including 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 permitted only 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 aforementioned 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 2011/12 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 entire Supervisory Board has agreed targets with a long-term incentive effect for the coming years with the members of the Board of Managing Directors that are aimed at ensuring the continued existence of the Bank and further developing the current business model. The targets aimed at ensuring the continued existence of the Bank are based on the specifications, conditions and requirements of the EU, SoFFin and the Deposit Protection Fund, and are therefore linked to IKB's strategic objectives in the same way as the targets aimed at the further development of the future business model.

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.

From the 2010/11 financial year onwards, the system of performance-related variable remuneration was adjusted such that the payment of the remuneration is now staggered over several years. 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 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.

Granting of the bonuses is also subject to any ordinances of the German Financial Supervisory Authority (BaFin).

Given the situation at the Bank, 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 this attainment over a multi-year period and the option of a pro rata reduction in 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. The targets agreed

for IKB's Board of Managing Directors relate to the continued existence of the Bank, which continues to depend on its ability to comply with certain conditions, e.g. those imposed by SoFFin, as well as the further development of the Bank's business model.

With regard to the necessary compliance with and implementation of these conditions in the short term and with regard to the fact that IKB, in its sustained 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 2011/12 financial year.

Overview of Board of Managing Directors remuneration

Details of the remuneration of the Board of Managing Directors for the 2011/12 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 2011/12 FY	Pension compensation 2011/12 FY	Variable remuneration 2011/12 FY ⁽¹⁾²⁾	Remuneration in kind/other 2011/12 FY	Total remuneration 2011/12 FY ⁽¹⁾²⁾
Hans Jörg Schüttler	500.0	120.0	1,000.0	0.3	1,620.3
Dr Dieter Glüder	500.0	-	630.0	9.9	1,139.9
Claus Momburg	500.0	-	460.0	15.2	975.2
Dr Michael H. Wiedmann	500.0	120.0	530.0	2.1	1,152.1
Total	2,000.0	240.0	2,620.0	27.5	4,887.5

- 1) The variable remuneration for the 2011/12 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).
- 2) To the extent that the Supervisory Board resolves the bonuses for the 2011/12 financial year, the bonuses shall be payable to the members of the Board of Managing Directors in the amount of 40% immediately after the resolution is passed by the Supervisory Board, but no earlier than 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.

At its meeting on 28 June 2011, the Supervisory Board defined the bonuses for the members of the Board of Managing Directors for the previous 2010/11 financial year as follows: Mr Schüttler € 1,000 thousand, Dr Glüder € 630 thousand, Mr Momburg € 460 thousand, Dr Wiedmann € 530 thousand. Owing to the SoFFin conditions that the bonuses resolved as subsequent payments for the period in which remuneration was waived by the members of the Board of Directors not be paid out before the guarantees provided by SoFFin expire, the pro rata bonuses resolved by the Supervisory Board on 28 June 2011 for the first nine months of the 2010/11 financial year (75% of the aforementioned bonus amounts for the 2010/11 financial year as a whole) will not be payable until after the SoFFin guarantees expire. The pro

rata bonuses for the last three months of the 2010/11 financial year (25% of the aforementioned bonus amounts for the 2010/11 financial year as a whole) were paid out during the period under review.

Payments in the event of termination of employment and pensions

As described above, all the members of the Board of Managing Directors in office in the 2011/12 financial year 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 applies only 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 benefits in the event of a pension claim as at 31 Mar. 2012	Service cost in the 2011/12 financial year
Dr Dieter Glüder	375*	463
Claus Momburg	375*	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 until May 2010, IKB AG offset the pension claims of the former member of the Board of Managing Directors, Joachim Neupel, against its claim for the return of the overpaid portion of the bonus for the 2006/07 financial year in the amount of around € 451 thousand. Mr Neupel instituted summary proceedings for the payment of his pension benefits for the months from May to July 2008 and prevailed by way of a provisional ruling issued in his favour in December 2008. The effectiveness of the offsetting performed by IKB remained effective in the subsequent proceedings.

As part of a countersuit in January 2009, IKB initiated proceedings for the repayment of the outstanding bonus for the 2006/07 financial year above and beyond the minimum amount after offsetting against current pension payments. In May 2010, however, the corresponding repayment claim on the part of IKB through offsetting against current pension payments expired.

Since May 2009, IKB's countersuit has also involved the assertion of claims for damages of around € 324 thousand against Mr Neupel in conjunction with the measures arranged by Mr Neupel and considered to be unjustified from the Bank's perspective on a residential building rented by Mr Neupel and owned by the Bank and a residential building rented by Mr Stefan Ortseifen and owned by the Bank. Since May 2010, IKB has offset the aforementioned claims for damages against Mr Neupel's pension claims. Offsetting has been suspended since April 2011. In the subsequent proceedings, the Düsseldorf Regional Court ruled in favour of Mr Neupel in June 2011 and rejected the countersuit. An appeal against this verdict is currently pending with the Düsseldorf Higher Regional Court.

In a second process initiated in 2010, Mr Neupel is also suing for payment of his pension for the months of August 2008 to May 2010 on account of the offsetting. In this case, too, IKB is asserting the aforementioned claims for damages in the amount of € 324 thousand against Mr Neupel by way of offsetting in addition to its claim for the return of the overpaid portion of the bonus for the 2006/07 financial year. A provisional ruling in Mr Neupel's favour was initially 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. By way of a verdict dated 27 October 2011, the Düsseldorf Higher Regional Court quashed the provisional ruling by the Düsseldorf Regional Court and rejected Mr Neupel's suit with the exception of a residual amount of € 3,450. The verdict of the Düsseldorf Higher Regional Court is legally binding. The residual amount relates to the offsetting against the aforementioned claims for damages. The subsequent proceedings for this amount are currently pending with the Düsseldorf Regional Court.

In May 2008, Mr Ortseifen filed a suit aimed at establishing the invalidity of the immediate termination of his Board of Managing Directors contract for good cause by IKB. Since December 2010, Mr Ortseifen has also been suing for the payment of his remuneration for the period from 8 August to 31 December 2007. Since December 2011, he has also been demanding the payment of his remuneration for 2008 and the minimum bonus for the 2007/08 financial year.

As part of a countersuit in August 2008, IKB initiated judicial proceedings for the repayment of the bonus for the 2006/07 financial year above and beyond the minimum amount, which totalled € 805 thousand. IKB is also asserting claims for damages of around € 465 thousand against Mr Ortseifen in conjunction with the measures arranged by Mr Ortseifen and considered to be unjustified from the Bank's perspective on a residential building rented by Mr Ortseifen and owned by the Bank and a residential building rented by Mr Joachim Neupel and owned by the Bank. The proceedings were suspended in light of the criminal proceedings against Mr Ortseifen and have now been reopened.

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. These proceedings are currently suspended in light of the proceedings on the validity of the termination of the Board of Managing Directors contract in the aforementioned proceedings.

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 € 3,521 thousand (previous year: € 3,247 thousand). € 43,543 thousand was recognised for pension obligations to former members of the Board of Managing Directors and their surviving dependents (previous year: € 39,872 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 paid only 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.

The members of the Supervisory Board also have a budget of usually € 2 thousand per financial year, or a higher budget if this is 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 2011/12 financial year on the assumption that a dividend will not be distributed as a result of the company's circumstances.

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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.

Excluding the aforementioned remuneration for Supervisory Board activity, the remuneration paid to the employee representatives on the Supervisory Board totalled € 362 thousand (previous year: € 408 thousand).

Details on the remuneration of the Supervisory Board for the 2011/12 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
Olivier Brahin	Waived
Dr Lutz-Christian Funke	20
Ulrich Grillo	20
Arndt G. Kirchhoff	20
Bernd Klein	20
Dr Claus Nolting	Waived
Dr Thomas Rabe (until 21 Feb. 2012)	18
Nicole Riggers (since 7 Sep. 2011)	12
Dr Carola Steingraber	25
Carmen Teufel	20
Dr Andreas Tuczka	Waived
Ulrich Wernecke	25
Andreas Wittmann (until 7 Sep. 2011)	10
Sub-total	210
Value-added tax payable on earnings (VAT)	38
Reimbursement of Supervisory Board expenses (total)	10
Total	258

9. Other financial information

Disclosures in accordance with section 315 (4) HGB

As at 31 March 2012, the share capital of the company amounted to € 1,621,318,914.56 comprising 633,327,701 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 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 2011/12 financial year.

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 2011/12 financial year.

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 2011/12 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/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 existed no later than 11 April 2012. 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. In addition, a creditor of the convertible bond exercised its conversion right on 20 January 2012. On issuance of the subscribed shares on 30 January 2012, this increased the share capital of the company by € 3,686.40 to € 1,621,318,914.56. Details of the mandatory conversion conducted on 11 April 2012 can be found in the section "Events after

31 March 2012 (Supplementary report)". The increase in the share capital was entered in the commercial register on 2 May 2012.

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.

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. 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. With the exception of the conversion described, 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 € 400,000,000.00 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 2011/12 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 be changed only 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 issued ordinary shares only. 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 Group 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.

SME investments continue to recover

IKB statement on the BDI SME Panel's spring survey 2012

Following the sharp increase in industrial investment last year, the results of the latest survey for 2012 suggest more of a “controlled offensive”. Although the proportion of companies making investments has declined only slightly, the budgets involved are more cautious at present, with just a quarter of companies currently planning to increase their investment volume. In light of the current economic risks, this comes as no surprise.

Two aspects are worthy of note in this respect. Firstly, traditional investments in fixed assets are not as important as they used to be. Based on the large number of balance sheets it has analysed, IKB knows that SMEs often spend far more on research and development and company acquisitions than they do on machinery and equipment. Measures of this nature tend to be less sensitive to economic cycles. And secondly, activities are increasingly focusing on markets outside Germany: without a local presence, it is almost impossible to serve global growth markets in the longer term. The volume of foreign investments by German firms is growing continuously, precisely because larger SMEs are entering markets outside Germany to a greater extent.

Generally speaking, however, IKB believes it is not unlikely that the more solid economic outlook will lead to stronger than anticipated investment growth in Germany, as there is pent-up demand in this area. Following the slump in 2009, investments in equipment in particular have yet to return to the levels seen prior to the crisis, and IKB has observed a sideways movement since last summer.

However, companies will only be in a position to leverage the substantial sales opportunities presented by the global markets and hold their own against the growing competition by ensuring the continuous modernisation of production, development and logistics at their German locations.

Companies' investment behaviour will be only temporarily impaired by the heightened crisis in the euro zone at present and the weak economic performance of the nations of Southern Europe, as German exports in recent years have been driven by demand from third-party markets to a far greater extent than by European demand. And despite some reports to the contrary, the fundamental business prospects in these markets remain extremely favourable. For example, there is a question mark as to the development of private consumption in the USA in the medium term, but the reindustrialisation process that is now underway – which is benefiting German exporters of capital goods in particular – is set to continue.

China will also remain the driver for the global economy, albeit at a slightly lower growth rate, thanks to the critical mass it has now achieved. With demand from these important growth markets remaining stable, the expectations of German industrial companies are likely to pick up once again – thereby also leading to stronger growth in investments.

IKB – Economic Research

“BDI-Mittelstandspanel – Ergebnisse der online-Mittelstandsbefragung Frühjahr 2012”; the full study can be found at: [www.ikb.de/Branchen & Märkte](http://www.ikb.de/Branchen%20&%20M%C3%A4rkte) (German only).

(This page is not part of the Management Report.)

Consolidated financial statements
in accordance with
International Financial
Reporting Standards
as of 31 March 2012

Consolidated statement of comprehensive income of IKB Deutsche Industriebank AG for the period from 1 April 2011 to 31 March 2012

Consolidated income statement

in € million	Notes	1 Apr. 2011 - 31 Mar. 2012	1 Apr. 2010 - 31 Mar. 2011*
Net interest income	(24)	153.5	143.6
Interest income		1,675.1	1,862.9
Interest expenses		1,521.6	1,719.3
Provisions for possible loan losses	(25)	26.3	78.8
Net interest income after provision for possible loan losses		127.2	64.8
Net fee and commission income	(26)	-63.2	-93.0
Fee and commission income		48.5	43.4
Fee and commission expenses		111.7	136.4
Net income from financial instruments at fair value	(27)	-304.8	45.2
Net income from financial assets	(28)	-16.8	42.3
Net income from investments accounted for using the equity method	(29)	0.2	1.6
Administrative expenses	(30)	297.4	321.3
Personnel expenses		158.7	167.2
Other administrative expenses		138.7	154.1
Other operating result	(31)	49.4	242.9
Other operating income		233.9	499.6
Other operating expenses		184.5	256.7
Operating result		-505.4	-17.5
Taxes on income	(32)	8.0	-43.6
Other taxes		3.5	4.8
Consolidated net loss/profit		-516.9	21.3

* Figures adjusted

As in the previous year, the consolidated net result relates in full to the shareholders of IKB.

Earnings Per Share

	1 Apr. 2011 - 31 Mar. 2012	1 Apr. 2010 - 31 Mar. 2011*
Consolidated net profit/loss	-516.9	21.3
Average number of shares outstanding (million)	633.4	633.4
Undiluted earnings per share (€)	-0.82	0.03
Diluted earnings per share (€)	-0.82	0.03

* 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 2011/12 financial year was 633,384,923 (including these shares still to be converted).

Basic and diluted earnings are identical as full conversion was assumed for all convertible instruments.

Consolidated statement of total comprehensive income

in € million	1 Apr. 2011 - 31 Mar. 2012	1 Apr. 2010 - 31 Mar. 2011*
Consolidated net loss/profit	-516.9	21.3
Changes in financial assets available for sale recognised directly in equity	29.2	-38.1
Changes in financial assets available for sale recognised in profit or loss	6.5	-14.4
Changes in derivatives hedging fluctuations in future cash flows recognised directly in equity	-5.0	9.2
Currency translation differences recognised directly in equity	-1.6	-0.3
Changes due to actuarial gains/losses (IAS 19) recognised directly in equity	-30.9	13.4
Deferred taxes on other comprehensive income	0.1	9.4
Other comprehensive income	-1.7	-20.7
Total comprehensive income	-518.6	0.6

* Figures adjusted

The tax effects relating to the individual effects recognised directly in equity are discussed in note (64).

As in the previous year, the total comprehensive income relates in full to the shareholders of IKB.

Consolidated balance sheet of IKB Deutsche Industriebank AG as of 31 March 2012

in € million	Notes	31 Mar. 2012	31 Mar. 2011*	31 Mar. 2010**
Assets				
Cash reserve	(8, 33)	19.1	84.8	14.9
Loans and advances to banks	(9, 34)	3,023.6	2,316.2	2,518.3
Loans and advances to customers	(9, 35)	17,783.6	20,330.9	23,665.1
Provisions for possible loan losses	(10, 36)	-508.1	-818.5	-1,072.2
Assets held for trading	(11, 37)	2,479.2	815.5	1,341.3
Financial assets	(12, 38)	7,941.3	7,892.3	8,345.9
thereof as of 31 Mar. 2012: € 2,096.8 million (31 Mar. 2011: € 954.4 million; 31 Mar. 2010: € 576.9 million) financial assets pledged as collateral, available for sale or reassignment by the secured party				
Investments accounted for using the equity method	(13, 39)	10.5	10.8	9.5
Intangible assets	(14, 40)	24.9	19.3	12.9
Property, plant and equipment	(15, 41)	183.5	167.5	179.5
Current tax assets	(16, 42)	22.3	36.1	42.7
Deferred tax assets	(16, 43)	218.0	190.8	233.2
Other assets	(17, 44)	381.2	386.0	258.5
thereof inventories as of 31 Mar. 2012: € 97.0 million; 31. Mar. 2011: € 97.0 million; 31 Mar. 2010: -				
Non-current assets held for sale	(18, 45)	14.6	-	197.9
Total		31,593.7	31,431.7	35,747.5

Equity and liabilities				
Liabilities to banks	(9, 46)	13,221.8	11,193.6	11,998.0
Liabilities to customers	(9, 47)	9,997.4	7,693.7	7,517.9
Securitised liabilities	(19, 48)	2,277.2	7,710.5	10,791.7
Liabilities held for trading	(11, 49)	3,835.6	2,003.6	2,481.9
Provisions	(20, 21, 50, 51)	164.4	137.1	156.8
Current tax liabilities	(16, 52)	103.9	107.0	109.8
Deferred tax liabilities	(16, 53)	67.4	30.3	103.3
Other liabilities	(17, 54)	483.5	468.1	432.1
Liabilities in connection with assets held for sale	(18)	-	-	2.6
Subordinated capital	(22, 55)	1,017.7	1,144.4	1,214.2
Equity	(23, 56)	424.8	943.4	939.2
Issued capital		1,621.3	1,621.3	1,621.3
Capital reserve		597.8	597.8	597.8
Retained earnings		-1,242.9	-1,243.0	-291.6
Currency translation reserve		-19.1	-17.5	-17.2
Revaluation surplus		-15.4	-36.5	-6.9
Consolidated profit/loss		-516.9	21.3	-964.2
Total		31,593.7	31,431.7	35,747.5

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*
			Legal reserve	Actuarial gains/losses (IAS 19)	Other*		Financial assets available for sale	Derivatives hedging fluctuations in future cash flows		
Equity as of 31 Mar. 2010	1,621.3	597.8	10.2	-33.8	-267.6	-17.2	0.9	-7.8	-973.9	929.9
IAS 8: Adjustments as of 31 Mar. 2011	-	-	-	-	-	-	-	-	7.2	7.2
IAS 8: Adjustments as of 31 Mar. 2012	-	-	-	-	-0.4	-	-	-	2.5	2.1
Equity as of 1 Apr. 2010*	1,621.3	597.8	10.2	-33.8	-268.0	-17.2	0.9	-7.8	-964.2	939.2
Consolidated net profit	-	-	-	-	-	-	-	-	21.3	21.3
Other comprehensive income	-	-	-	9.2	-	-0.3	-35.9	6.3	-	-20.7
Total comprehensive income *	-	-	-	9.2	-	-0.3	-35.9	6.3	21.3	0.6
Netting of consolidated net loss 1 Apr. 2009 to 31 Mar. 2010*	-	-	-	-	-964.2	-	-	-	964.2	-
Changes: Basis of consolidation	-	-	-	-	3.6	-	-	-	-	3.6
Equity as of 31 Mar. 2011	1,621.3	597.8	10.2	-24.6	-1,230.7	-17.5	-35.0	-1.5	51.5	971.5
IAS 8: Adjustments as of 31 Mar. 2012	-	-	-	-	2.1	-	-	-	-30.2	-28.1
Equity as of 1 Apr. 2011*	1,621.3	597.8	10.2	-24.6	-1,228.6	-17.5	-35.0	-1.5	21.3	943.4
Consolidated net loss	-	-	-	-	-	-	-	-	-516.9	-516.9
Other comprehensive income	-	-	-	-21.2	-	-1.6	24.5	-3.4	-	-1.7
Total comprehensive income	-	-	-	-21.2	-	-1.6	24.5	-3.4	-516.9	-518.6
Netting of consolidated net loss 1 Apr. 2010 to 31 Mar. 2011*	-	-	-	-	21.3	-	-	-	-21.3	-
Equity as of 31 Mar. 2012	1,621.3	597.8	10.2	-45.8	-1,207.3	-19.1	-10.5	-4.9	-516.9	424.8

* Figures adjusted

Consolidated statement of cash flows for the period from 1 April 2011 to 31 March 2012

in € million	2011/12	2010/11*
Consolidated net profit/loss	-516.9	21.3
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	35.4	83.2
+/- Write-downs less reversals of write-downs on property, plant and equipment and investment securities	63.0	48.1
+/- Changes in other non-cash items (essentially changes in other provisions and certain liabilities and positive and negative fair values of derivative financial instruments)	390.4	-308.8
+/- Gain/loss on the disposal of financial assets	-28.0	-2.3
+/- Gain/loss on the disposal of property, plant and equipment	0.0	0.2
+/- Other adjustments (essentially the reclassification of interest including net income from leases and income taxes)	-166.3	-155.4
Sub-total	-222.4	-313.7
Changes in assets and liabilities from operating activities after adjustment for non-cash components		
+/- Loans and advances to banks	-708.3	202.1
+/- Loans and advances to customers	2,303.8	2,951.3
+/- Assets held for trading	-1,675.0	449.9
+/- Other assets from operating activities	34.9	5.3
+/- Liabilities to banks	1,975.5	-801.5
+/- Liabilities to customers	2,138.8	660.1
+/- Liabilities held for trading	1,723.8	-396.7
+/- Securitised liabilities	-5,413.2	-2,848.6
+/- Other liabilities from operating activities	-92.2	-53.8
+ Interest received	1,144.3	1,114.0
+ Dividends received	4.9	7.0
- Interest paid	-999.2	-1,036.5
+/- Income tax payments	-15.0	-12.7
Cash flow from operating activities	200.7	-73.8
Proceeds from the disposal of		
+ Financial assets	3,068.9	3,400.4
+ Property, plant and equipment	15.4	12.8
Payments for the acquisition of		
- Financial assets	-3,253.8	-3,200.1
- Property, plant and equipment	-87.9	-61.3
Effects of the changes in the scope of consolidation	0.0	8.7
Change in cash and cash equivalents from other investment activities	0.0	7.1
Cash flow from investing activities	-257.4	167.6
- Repayment of subordinated capital	-9.0	-23.9
Cash flow from financing activities	-9.0	-23.9
Cash and cash equivalents at end of the previous period	84.8	14.9
+/- Cash flow from operating activities	200.7	-73.8
+/- Cash flow from investing activities	-257.4	167.6
+/- Cash flow from financing activities	-9.0	-23.9
Cash and cash equivalents at end of the period	19.1	84.8

* Figures adjusted

Notes to the consolidated financial statements

Principles of Group accounting

IKB Deutsche Industriebank AG (IKB), based at Wilhelm-Bötzkes-Strasse 1, 40474 Düsseldorf, Germany, is a specialist bank for corporate lending in Germany and Europe. Its target groups are SMEs, international companies and project partners.

The consolidated financial statements of IKB were prepared by the Board of Managing Directors and authorised for publication on 1 June 2012. It is possible that the Supervisory Board will not approve the consolidated financial statements without changes.

The consolidated financial statements of IKB as at 31 March 2012 were prepared in accordance with the International Financial Reporting Standards (IFRS) applicable under EU law as at the end of the reporting period on the basis of Regulation No. 1606/2002 of the European Parliament and 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 regulations of section 315a (1) of the *Handelsgesetzbuch* (HGB – German Commercial Code) were also applied.

In addition to the consolidated statement of total comprehensive income (consolidated income statement and statement of other comprehensive income (two-statement approach)), the consolidated financial statements include the consolidated statement of financial position, the consolidated statement of changes in equity, the consolidated statement of cash flows and the notes to the consolidated financial statements. The consolidated segment reporting can be found in the notes.

The following individual regulations of IFRS 7 have been satisfied 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.

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. Outside tables, the term “previous year” is used in these financial statements for disclosures of comparative figures for the prior-year period.

Overview of accounting standards

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

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	from the start of the first financial year beginning after [date]
Accounting standards to be applied for the first time in the 2011/12 financial year						
1	IAS 24	Related Party Disclosures	4 Nov. 2009	1 Jan. 2011	19 Jul. 2010	31. Dec. 2010
2	IFRIC 14	Prepayments of a Minimum Funding Requirement	26 Nov. 2009	1 Jan. 2011	19 Jul. 2010	31. Dec. 2010
3	IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	26 Nov. 2009	1 Jul. 2010	23 Jul. 2010	30 Jun. 2010
4	IFRS 1 / IFRS 7	First-time Adoption of International Financial Reporting Standards: revision in conjunction with the amendments to IFRS 7	28 Jan. 2010	1 Jul. 2010	30 Jun. 2010	30 Jun. 2010
5	AP (2010)	Improvements to IFRS	6 May 2010	1 Jul. 2010/ 1 Jan. 2011	18 Feb. 2011	31. Dec. 2010
Standards published by the IASB and adopted into EU law, but still no application in the 2011/12 financial year						
6	IFRS 7	Financial Instruments: Disclosures - Transfers of Financial Assets	7 Oct. 2010	1 Jul. 2011	20 Nov. 2011	30 Jun. 2011
Standards published by the IASB but not yet adopted into EU law						
7	IFRS 9	Financial Instruments: Classification and Measurement for Financial Assets	12 Nov. 2009/ 28 Oct. 2010/ 16 Dec. 2011	1 Jan. 2015		
8	IFRS 1	Severe Hyperinflation and Removal of Fixed Dates	20 Dec. 2010	1 Jul. 2011		
9	IAS 12	Deferred Taxes: Recovery of Underlying Assets	20 Dec. 2010	1 Jan. 2012		
10	IAS 27	Financial Statements	12 May 2011	1 Jan. 2013		
11	IAS 28	Shares in associated companies and joint ventures	12 May 2011	1 Jan. 2013		
12	IFRS 10	Consolidated Financial Statements	12 May 2011	1 Jan. 2013		
13	IFRS 11	Joint Arrangements	12 May 2011	1 Jan. 2013		
14	IFRS 12	Disclosure of Interests in Other Entities	12 May 2011	1 Jan. 2013		
15	IFRS 13	Fair Value Measurement	12 May 2011	1 Jan. 2013		
16	IAS 1	Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income	16 Jun. 2011	1 Jul. 2012		
17	IAS 19	Recognition of Pension Provisions	16 Jun. 2011	1 Jan. 2013		
18	IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine	19 Oct. 2011	1 Jan. 2013		
19	IAS 32	Offsetting Financial Assets and Liabilities	16 Dec. 2011	1 Jan. 2014		
20	IFRS 7	Disclosures – Offsetting Financial Assets and Liabilities	16 Dec. 2011	1 Jan. 2013		
21	IFRS 1	Government Loans	13 Mar. 2012	1 Jan. 2013		

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) The amendments implemented in IAS 24 relate in particular to the definition of related parties. Another key area of revision was the introduction of a relief regulation for entities under the control, joint control or significant influence of a 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 was increased due to its current major shareholder.
- (2) 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 are not currently relevant to IKB.
- (3) IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments" applies when a (consolidated) 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 of the equity instruments issued 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 currently have no effect on IKB.
- (4) The revisions of the standard IFRS 1 in conjunction with the amendments to IFRS 7 are not relevant to IKB.
- (5) In addition, further amendments to existing IFRS 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 have no effect on 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.

- (6) 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 to the consolidated financial statements. The changes are intended to grant readers of the financial information a better insight into the net assets, financial position and results of operations. The amendment of the standard is not currently expected to have any significant effect on IKB. The amended disclosure requirements are applicable for financial years beginning on or after 1 July 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 2012. The amendments to the standards and interpretations, which are expected to be implemented from the date on which they are required to be applied, will have at least some significant effects on IKB’s accounting policies.

- (7) The regulations 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. In particular, the previous classification of financial assets into four categories in accordance with IAS 39 will be superseded by two measurement categories (measurement at amortised cost and measurement at fair value). Assets will be allocated to one of the two categories on first-time recognition. If a financial asset meets the two following conditions, it is assigned to the “at amortised cost” measurement category: a) The financial asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; b) the contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding. Interest is defined here as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time. If both the above conditions are not met, the financial assets are measured at fair value through profit and loss on subsequent measurement. According to the current status of the standard, the regulations of IFRS 9 are applicable for financial years beginning on or after 1 January 2015.

In addition, regulations 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 consolidated income statement as before. This avoids the reporting of gains and losses due to changes in the reporting entity’s own credit rating. However, all other changes in fair value are still to be reported in the consolidated income statement. 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 2015.

In connection with IFRS 9, the standard requirements for calculating impairment (phase 2) and hedge accounting (phase 3) are also to be revised. The IASB already published an exposure draft on impairment in the fourth quarter of 2009, which is currently being revised. A new exposure draft has been announced for the second half of 2012. A new standard for hedge accounting is also intended for the second half of 2012.

The intended changes of IFRS 9 will have a significant effect on the consolidated statement of financial position and consolidated income statement of IKB.

- (8) The amendment to IFRS 1 “Severe Hyperinflation and Removal of Fixed Dates” published by the IASB on 20 December 2010 is not relevant to IKB.

- (9) On 12 December 2010 the IASB published amendments to IAS 12 “Income Taxes” which are effective 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. The amendments are not currently relevant to IKB.
- (10) IAS 27 “Separate Financial Statements” contains the regulations on separate financial statements remaining after the regulations on control were transferred to IFRS 10. The revised standard is effective for financial years beginning on or after 1 January 2013. The effects of the amendments to the standard have not yet been fully analysed.
- (11) IAS 28 “Investments in Associates and Joint Ventures” includes the regulations on joint ventures and associates carried at equity after the publication of IFRS 11. The revised standard is effective for financial years beginning on or after 1 January 2013. The effects of the amendments to the standard have not yet been fully analysed.
- (12) 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 regulations of IFRS 10, consolidation is required when a parent company receives variable returns from a subsidiary and can determine the relevant activities of the subsidiary, 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. The amendments in IFRS 10 are not currently relevant to IKB.
- (13) Published on 12 May 2011, IFRS 11 “Joint Arrangements” 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. The effects of the amendments to the standard have not yet been fully analysed.
- (14) 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. The effects of the amendments to the standard cannot yet be fully analysed.
- (15) 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. The amendments of IFRS 13 could affect the income statement, but cannot yet be fully analysed at this time.
- (16) The IASB published amendments to IAS 1 “Presentation of Financial Statements” on 16 June 2011. The amendments stipulate that items of other comprehensive income be grouped together according to whether or not they can be recycled to the income statement in future. It was also confirmed that it will still be permitted to show the components of other comprehensive income in one or two separate statements, i.e. single or two-statement approach. The amended regulations of IAS 1 are effective for financial years beginning on or after 1 July 2012. The effects of the amendments to the standard cannot yet be fully analysed.
- (17) The IASB published amendments to IAS 19 “Employee Benefits” on 16 June 2011. Under these changes, actuarial gains and losses – like other changes on remeasurement – are recognised directly in other comprehensive income. In future, income from plan assets will be recognised in profit or loss

on the basis of the discount rate regardless of actual interest. IAS 19 also increases the disclosure requirements for defined benefit plans. These changes are effective for financial years beginning on or after 1 January 2013. The effects of the amendments to the standard cannot yet be fully analysed.

- (18) The interpretation IFRIC 20 “Stripping Costs in the Production Phase of a Surface Mine”, which was approved by the IASB on 19 October 2011, concerns the issues of the recognition and measurement of stripping costs in the production phase of a surface mine. This interpretation is of no relevance to IKB.
- (19) The IASB published a revised version of IAS 32 “Offsetting Financial Assets and Liabilities” on 16 December 2011. The application guidelines of IAS 32 “Financial Instruments: Presentation” were merely clarified. The changes to IAS 32 are effective for financial years beginning on or after 1 January 2014. The effects of the amendments to the standard cannot yet be fully analysed.
- (20) In connection with the revision of IAS 32, the IASB also published amendments to IFRS 7 “Disclosures – Offsetting Financial Assets and Financial Liabilities” on 16 December 2011. In future, IFRS 7 “Financial Instruments: Disclosures” will require additional disclosures for financial instruments under master netting or similar agreements, even if the underlying instruments are not reported net. The amended regulations of IFRS 7 are effective for financial years beginning on or after 1 January 2013. The effects of the amendments to the standard cannot yet be fully analysed.
- (21) The IASB published an amendment to IFRS 1 “First-time Adoption of International Financial Reporting Standards” on 13 March 2012. This amendment grants first-time IFRS adopters the same conveniences as current adopters as regards accounting for government loans. This regulation is effective for the first time for financial years beginning on or after 1 January 2013. The amendments to IFRS 1 are of no relevance to IKB.

For the changes listed above that are relevant to it, IKB is currently examining the possible effects on the consolidated financial statements.

Changes in accounting estimates and errors

These consolidated financial statements contain various changes as against the consolidated financial statements as at 31 March 2011.

(a) Significant changes in estimates

In order to show the most likely carrying amount for claims from securities that are due but have not yet been settled, IKB changed an estimate in the amount of € 24.2 million at the expense of the fair value result.

(b) Correction of errors

Owing to the incorrect calculation of amortisation effects on an emission by IKB, interest expenses and securitised liabilities have been reported too low in past periods.

The composition of the portfolio was not accurately taken into account for certain financial assets (corporate CDOs). The recalculation resulted in lower fair values, correspondingly lower carrying amounts and a deterioration of the fair value result.

Furthermore, it was found during the annual model review that some master data for a promissory note loan issued by IKB (liabilities due to customers) had not been correctly entered in the Bank's measurement system due to a data error. This data error resulted in the fair value for this transaction being calculated as too low.

The methodology of taking into account the provision of collateral in lending business was developed further in the past financial year. In doing so it was found that interest income and the provision for possible loan losses had been reported too low in the consolidated financial statements as at 31 March 2011. As a result of the improved consideration of collateral cash flows in lending business, the provision for possible loan losses rose by € 8 million. In return, the interest income from unwinding increased by the same amount. The correction of this error resulted in a change in reporting. It had no effect on the consolidated net profit.

The errors were corrected. The above changes resulted in the following effects:

31 March 2011

The reported securitised liabilities as at 31 March 2011 rose by € 7.1 million from € 7,703.4 million to € 7,710.5 million after the correction of the amortisation effect. The interest expense for the 2010/11 financial year rose by € 4.0 million from € 1,715.3 million to € 1,719.3 million. Retained earnings decreased by € 3.1 million.

Investment securities declined by € 5.5 million from € 7,897.8 million to € 7,892.3 million as a result of the corrected fair value measurement of the corporate CDOs. The fair value result thus fell by € 10.7 million in connection with this. Retained earnings increased by € 5.2 million.

Liabilities due to customers rose € 15.5 million from € 7,678.2 million to € 7,693.7 million as a result of the corrected fair value measurement of the promissory note loan. The fair value result declined by € 15.5 million.

The fair value result was reduced by a total of € 26.2 million from € 71.4 million to € 45.2 million as a result of the above corrections.

Owing to the correction of errors, the consolidated net profit fell by a total of € 30.2 million from € 51.5 million to € 21.3 million and total comprehensive income by € 30.2 million from € 30.8 million to € 0.6 million. Retained earnings rose by € 2.1 million from € -1,245.1 million to € -1,243.0 million. Equity fell by € 28.1 million from € 971.5 million to € 943.4 million.

31 March 2010

The securitised liabilities as at 31 March 2010 rose by € 3.1 million from € 10,788.6 million to € 10,791.7 million as a result of the correction of the amortisation effect. Interest expenses changed by € 2.7 million from € 1,824.0 million to € 1,826.7 million. Retained earnings fell by € 0.4 million from € -291.2 million to € -291.6 million.

Investment securities increased by € 5.2 million from € 8,340.7 million to € 8,345.9 million as a result of the corrected fair value measurement of the corporate CDOs. The fair value result changed by € 5.2 million from € -598.9 million to € -593.7 million.

This resulted in a net change in consolidated net loss of € 2.5 million from € -966.7 million to € -964.2 million and in total comprehensive income of € 2.5 million from € -941.3 million to € -938.8 million. Equity rose by € 2.1 million from € 937.1 million to € 939.2 million.

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 2011 are stated in the list of shareholdings (note (81)). The different reporting date to IKB AG at foreign leasing companies 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. Interim financial statements were not prepared for reasons of materiality.

(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 consolidated 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.

The main judgments and estimates are described below.

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. An active market exists if quoted prices are easily and regularly available from an exchange, dealer, broker, industry group, pricing service or a regulatory agency and these prices represent actual and regularly occurring market transactions between knowledgeable, willing parties in an arm's length transaction. If there is no publicly quoted price on an active market for the financial instrument to be measured as at the end of the reporting period, indications of the fair value can be obtained from the price in the most recent transactions shortly before the measurement date. If conditions have since changes, the corresponding change in the fair value of the financial instrument to be measured must be calculated by reference to the current price of similar financial instruments, if appropriate. Publicly quoted prices on an active market must be taken into account for the most recent transaction and similar financial instruments as a best possible substantial indication of fair value. If there are no publicly quoted prices on active markets or no market prices for the most recent transaction, the Group uses appropriate measurement methods for each financial instrument to determine their 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 financial instruments whose 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 the effects (sensitivity analysis). Financial instruments whose fair value is calculated using initial parameters that are not fully based on observable market parameters are discussed separately in note (61) (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, for example, for which interest deferral or loss participation can occur, that these liabilities must 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 on the trade date of

the original acquisition or the original 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 financial assets classified as available-for-sale financial assets are examined for objective indications of impairment at regular intervals. If there are objective indications of impairment, the forecast future cash flows (including proceeds from the realisation of collateral) must be estimated and discounted with the original effective interest rate. Estimation uncertainty arises in particular with regard to the amount and timing of the cash flows.

For loans and advances to customers and banks classified 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 past due by more than 90 days, restructuring measures or other negative developments that indicate that a loss could have occurred for which loan loss provisions must be recognised in the form of a specific impairment loss. 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 and liabilities

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

Determination of provisions for pensions and similar obligations 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 biometric 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 in note (50) (sensitivity analysis).

(3) Scope of consolidation

In addition to the parent company, a total of 27 German companies (31 March 2011: 30; 31 March 2010: 30) and 18 foreign companies (31 March 2011: 17; 31 March 2010: 17) are included in the consolidated financial statements of IKB as at 31 March 2012 in accordance with IAS 27. IKB AG (in)directly 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 2011: one; 31 March 2010: one) and one joint venture in accordance with IAS 31

(31 March 2011: one; 31 March 2010: one). The interests in both companies are measured using the equity method.

Eight foreign special purpose entities (31 March 2011: seven; 31 March 2010: four) were included in the consolidated financial statements in accordance with SIC-12.

The consolidated companies are listed in note (80).

There were the following changes in the scope of consolidation as of 31 March 2012:

By way of agreement dated 23 August 2011, ICCO Grundstücks-Vermietungsgesellschaft mbH, Düsseldorf, was merged with IMAS Grundstücks-Vermietungsgesellschaft mbH, Düsseldorf, effective 1 April 2011. The merger was entered at the register court of the transferring entity on 30 September 2011 and at the acquiring entity on 13 October 2011. The company was thus terminated.

By way of agreement dated 23 August 2011, ISOS Grundstücks-Vermietungsgesellschaft mbH, Düsseldorf, was merged with IMAS Grundstücks-Vermietungsgesellschaft mbH, Düsseldorf, effective 1 April 2011. The merger was entered at the register court of the transferring entity and the acquiring entity on 14 September 2011. The company was thus terminated.

By way of the implementation of the EU conditions, the 50% interest in Movesta Lease and Finance GmbH, Pullach i. Isartal (formerly: Düsseldorf), was sold. One condition of the purchase was that Movesta Development GmbH, Düsseldorf, (Movesta Development) remain with its former owners. The purpose of Movesta Development is to support existing joint ventures in the acquisition of land and land rights, the construction and acquisition of buildings, plants and operating facilities in Germany and their utilisation through rental, sale or otherwise and all services in connection with this purpose. The transactions listed below were carried out in connection with the intended winding up of Movesta Development.

IKB Beteiligungen, Düsseldorf, (IKB Beteiligungen) bought of MD Capital Beteiligungsgesellschaft mbH, Düsseldorf, 100% of shares in Movesta Development at a purchase price of € 0.7 million from IKB Beteiligungen (50%) and KfW IPEX-Bank GmbH, Frankfurt (50%). The acquisition occurred with economic effect as at 1 April 2011.

IKB Deutsche Industriebank AG, Düsseldorf, (IKB AG) acquired 100% of shares in Movesta Development from IKB Beteiligungen on 1 September 2011. In accordance with the resolution of the shareholder meeting on 16 September 2011, the legal form of Movesta Development was transformed into Movesta Development GmbH & Co. KG, Düsseldorf. This was entered in the commercial register on 23 September 2011. With the withdrawal of the sole general partner, Restruktur 3 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 commercial register as at 12 October 2011. The company was thus liquidated. This had no significant effect on the consolidated financial statements.

IKB AG made an initial investment of € 50 million in the partner fund European Government & Covered Select, Luxembourg, in October 2011. The newly created fund has since been included in the consolidated financial statements. This investment fund serves the investment of the Bank's excess liquidity.

As a result of the withdrawal of the general partner Büroprojekt sechste Verwaltungsgesellschaft mbH, Düsseldorf, (Büroprojekt sechste), the company assets including all assets and liabilities of IKB Grundstücks GmbH & Co. Objekt Hamburg KG, Düsseldorf, accrued to the sole limited partner IKB AG. This had no effect on the consolidated financial statements. IKB Grundstücks GmbH & Co. Objekt Hamburg KG, Düsseldorf, was liquidated as a result of the withdrawal of Büroprojekt sechste effective from midnight on 31 December 2011. This was entered in the commercial register on 27 January 2012.

IKB Projektentwicklungsverwaltungsgesellschaft mbH i.L., Düsseldorf, was deconsolidated as at 31 January 2012 due to immateriality.

IKBL Renting and Service S.r.l., Lainate, Italy, was included in the consolidated financial statements for the first time as at 31 March 2012. The company is a newly founded subsidiary of the Leasing Group.

MATRONA GmbH, Düsseldorf, was included in the consolidated financial statements for the first time as at 31 March 2012. The purpose of the newly founded company is the management of its own assets.

(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.

Intragroup assets and obligations, gains and losses and income and expenses from intragroup 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, investments of IKB Private Equity GmbH and IKB Equity Capital Fund GmbH are carried at fair value and reported in financial assets.

Subsidiaries acquired or sold during the course of the year are included in the consolidated statement of comprehensive income 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 of the Group (euro) must be translated as at the end of the reporting period in accordance with the functional currency concept. The foreign-currency 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 historical rates and all other statement of financial position items are translated at the reference rate of the European Central Bank at the end of the reporting period. All expenses and income are translated at the average rate. Currency gains and losses from the translation of the financial statements of subsidiaries in foreign currency are recognised in the "Currency translation reserve" in equity.

(6) Financial Instruments: Recognition and Measurement

The IKB Group implements the provisions of IAS 39 "Financial Instruments: Recognition and Measurement" for financial assets and liabilities as follows:

(a) Categorisation of financial assets and liabilities

All financial assets and liabilities are assigned to an IFRS measurement category on addition. The classification of a financial instrument determines how it is measured in the statement of financial position (at fair value, amortised cost) and the extent to which changes in measurement are shown in the income statement or the revaluation surplus.

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. An active market exists if quoted prices are easily and regularly available from an exchange, dealer, broker, industry group, pricing service or a regulatory agency and these prices represent actual and regularly occurring market transactions between knowledgeable, willing parties in an arm's length transaction.

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

Financial assets or liabilities at fair value through profit or loss. This category consists of two sub-categories:

a) Held for trading. Financial instruments acquired or entered into with the intention of selling or buying them back again in the near future or that are part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking are classified as financial assets or liabilities held for trading. All derivatives (with the exception of financial guarantees) are also assigned to this sub-category. Assets held for trading include primary financial instruments, precious metals and derivative financial instruments that are assets, if they meet the above conditions. In particular, liabilities held for trading include derivative financial instruments that are liabilities, trading book emissions by the Bank and obligations from short sales of securities. The derivatives used in hedge accounting are reported separately as "Hedge derivatives".

b) Fair value option. Under specific conditions, the fair value option of IAS 39 allows for financial assets and liabilities not held for trading to be irrevocably classified as financial instruments subsequently measured at fair value through profit or loss on first-time recognition. This does not include equity instruments for which there are no listed market prices 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 otherwise separable embedded derivatives or
- the management and performance measurement of a portfolio of financial instruments is based on its fair value.

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

Other financial liabilities. The financial instruments held as "Other financial liabilities" are all the financial liabilities not recognised at fair value through profit or loss.

(b) Measurement of financial assets and liabilities

(ba) General information

Calculations based on mid-market prices are adjusted to reflect the bid price (asset items) or the ask price (liability 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. For 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).

(bb) Initial measurement

All financial instruments are measured at fair value on first-time recognition. For financial instruments not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial instruments must be added to this. Transaction costs do not include financing costs or internal costs for the management and processing of financial instruments or risk costs.

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 derecognised 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.

(bc) Subsequent measurement

Loans and receivables. Subsequent measurement of loans and receivables is at amortised cost, whereby premiums and discounts are recognised in net interest income in profit or loss using the effective interest method over the remaining term. The financial assets in this category are also tested for indications of impairment and impairment losses are recognised in profit or loss if appropriate. Adjusting events are taken into consideration until the preparation date of the consolidated financial statements if the loss events had demonstrably already occurred as at the end of the reporting period. If the grounds for impairment no longer apply, the impairment is reversed accordingly.

The corresponding interest (interest deferrals and interest payments) are recognised in interest income.

Financial assets or liabilities at fair value through profit or loss. Financial instruments in this category are measured at fair value through profit or loss on subsequent measurement. The measurement effects and gains on disposal on financial instruments in this category are recognised directly in net trading income as a component of the fair value result. The corresponding interest is recognised in net interest income.

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 on active markets.

If a comparison with prices for transactions with similar instruments quoted on an active market is not possible, 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 constant maturity swap (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. As 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.

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. Current primary liabilities are based on the market repurchase (buy back) spreads. Long-term senior liabilities and subordinated issues are based on CDS spreads. For 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, as the deposit guarantee fund generally provides cover for the former. Spreads derived from current transactions are applied in discounting global loans.

The fair value of a financial liability is also 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 of IKB are explained in the notes.

Available for sale. Subsequent measurement of available for sale financial assets is at fair value. Both positive and negative changes in measurement are recognised in the revaluation surplus. Please see the comments in the above section for information on the calculation of fair value.

These assets are measured outside profit and loss until sold or until an impairment loss is recognised in profit or loss within the meaning of IAS 39.67.

Assets are tested for objective indications of impairment at the end of each reporting period (IAS 39.58). Objective indications of impairment for debt instruments include, for example, significant financial difficulties on the part of the issuer or the disappearance of an active market as a result of financial difficulties. Impairment requirements are shown for equity instruments if the fair value is significantly or permanently less than the cost or carrying amount. If there is any such evidence, the difference between the cost and the current fair value is shown in profit or loss. The cumulative change in value reported in the revaluation surplus prior to the time of the impairment loss is reclassified to the income statement (net income from financial assets). 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 profit or loss in net income from financial assets up to the maximum of the amortised cost.

In cases where the fair value of equity instruments cannot be reliably measured, subsequent measurement is at acquisition cost less the necessary write-downs. These equity instruments are 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. If impairment requirements arise for equity instruments carried at cost, this is posted to the income statement (net income from investment securities). Reversals of write-downs in the event of subsequent changes in value are prohibited by IAS 39.66 for these equity instruments.

Premiums and discounts are recognised in profit and loss in net interest income over their remaining term in line with the effective interest method. The corresponding interest (interest deferrals and interest payments) are recognised in interest income.

Other financial liabilities. Subsequent measurement of other financial liabilities 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. Measurement at amortised cost using the effective interest method implies for liabilities in which, in particular, 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). Changes in carrying amount resulting from this are reported in profit or loss under other operating income. Accordingly, any loss participation or suspension of 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 recognised in interest expense.

This method applies to the following other financial liabilities:

- loans received with debt waivers and compensation agreement 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.

(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 carrying amounts for underlyings (e.g. loan receivables and

obligations) and hedges (derivatives), it also allows a special type of accounting, known as hedge accounting, to ensure accounting in line with the economic risk situation.

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. A macro hedge 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 fair value result. As a result, the carrying amounts of the designated underlyings are adjusted in 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 or the end of the last reporting period. 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 underlyings to be reported in a separate line item exclusively for a macro hedge 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, if the effectiveness of the hedge can be demonstrated. Derivatives that are hedging instruments in an effective fair flow hedge are recognised at fair value and reported under asset or liability hedges in assets/liabilities held for trading.

Due to the restrictive conditions of hedge accounting, it is impossible to apply hedge accounting to all economic 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 option of using 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 pending transactions.

Derivatives that are hedging instruments in an effective cash flow hedge are recognised at fair value and reported under asset or liability hedges in assets/liabilities held for trading. The gain or loss on remeasurement must be divided into an effective and an ineffective portion. The effective portion is the portion of the gain or loss on remeasurement that represents an effective hedge against the cash flow risk. This is recognised in 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 in the fair value result.

The general accounting policies described in the section "Measurement of financial assets and liabilities" 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 (effectiveness test).

(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 and risks of the host contract and embedded derivative are not closely related.

If there is a close financial relation, 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 financial instruments at fair value through profit or loss category. If the fair value option is not exercised, separable embedded derivatives are recognised separately. 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 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 statement of financial position of the pledgor. 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 are terminated, 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. 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. In addition, a financial liability can be derecognised if a new liability arises in the course of debt reorganisation.

(7) Classification of financial instruments in accordance with IFRS 7

Information on the classification of financial instruments as required under IFRS 7.6 can be found in note (60).

Reporting classes are grouped together in accordance with the IAS 39 holding categories for the corresponding items of the statement of financial position. Derivatives in hedges 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

Loans and advances to other banks and customers and amounts due to other banks and customers not measured at fair value through profit or loss are measured at amortised cost. The fair value is not calculated separately for current loans and advances or amounts due to other banks or customers where the carrying amount represents a reasonable approximation of fair value. Premiums and discounts are reported under the corresponding statement of financial position item. They are amortised in profit or loss over their remaining using the effective interest method and recognised in net interest income. Further information on impairment can be found in note (10) "Provisions for possible loan losses".

Separable embedded derivatives are recognised separately and at fair value under assets or liabilities held for trading.

Finance leases

IAS 17 classifies a lease as a finance lease if it transfers substantially all the risks and rewards 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.

The income and expenses resulting from finance leases are reported in net interest income.

(10) Provisions for possible loan losses

Specific loan loss provisions on loans and advances to customers and provisions for off-balance sheet lending are recognised under provisions for possible loan losses to hedge the discernible risks in loans business. In addition, any further losses that have been incurred but not yet been identified and which are not covered by specific write-downs are accounted for by way of portfolio impairments.

The timely calculation and adjustment of the necessary specific write-downs on loans and advances to customers and provisions for off-balance sheet lending are performed by way of a quarterly review of the transactions identified using specific criteria. A provision is recognised instead of a specific write-down if a guarantee was assumed in respect of a third party or there are risks from irrevocable loan commitments.

The impairment process consists of two stages.

Stage 1: Trigger criteria

The first stage determines whether there are objective, substantial indications of a need for specific write-downs or provisions. IKB has issued criteria considered as trigger events for impairment. Trigger criteria include being past due for more than 90 days, a pre-existing specific write-down (or provision), insolvency, restructuring or settlement activities.

Stage 2: Impairment test

If at least one trigger criterion is met, the exposure is tested for impairment at loan level in the second stage.

The amount of impairment is calculated as the difference between the current carrying amount and the present value of the forecast cash flows. The discount factor is equal to the original effective interest rate of the receivable.

For impaired receivables, the interest income is calculated by unwinding future forecast cash flows using the original effective interest rate.

A portfolio impairment is calculated for loans that do not meet any of the trigger criteria or for which no impairment was identified in an individual test. The amount of the portfolio impairment is calculated on the basis of historic default/loss rates. 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).

Irrecoverable debts are written off directly. Recoveries on loans previously written off are recognised in profit or loss as a reversal in "Provisions for possible loan losses". If the basis for a direct write-down no longer applies, the write-down is reversed to not more than the amortised cost.

(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 of promissory note loans and bonds, 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) Financial assets

Investment securities include all bonds and other fixed-income securities, equity investments and shares in subsidiaries not fully consolidated not held for trading. These investment securities can be assigned to the loans and receivables category or to available for sale financial assets. Under certain conditions they can also be measured at fair value through profit or loss (fair value option). Depending on the category, please see the information in note (6) on the measurement and reporting of changes in the measurement of financial assets.

(13) Investments 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 remaining useful lives at least at the end of each reporting period. 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 acquisition and production 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 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.

IKB (lessee) also leases certain property, plant and equipment (leased items) under operating leases. Leased items are still accounted for by the lessor.

The income and expenses resulting from operating leases are reported under other operating result.

(16) Current 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 and income 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 statement of financial position as asset and liability items. Taxes are reported under the items current tax assets and current tax liabilities in the amount of reimbursements by or payments to the tax authorities. Deferred tax assets and liabilities are reported under the items deferred tax assets and deferred tax liabilities.

In line with IAS 12, deferred tax assets and liabilities are calculated on the basis of the accounting 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, on the basis of the respective current planning by the Group company in question, it is more than 50% likely that the entity will generate sufficient tax income in the next five 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 end of the reporting period. 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 at the end of the reporting period.

Depending on the matter at hand and how it is treated, deferred tax assets are recognised and reversed either in profit or loss as taxes on income or in equity under the revaluation surplus or retained earnings.

Other taxes not relating to income are reported separately in the income statement.

(17) Other assets/liabilities

Other assets include lease receivables, trade receivables, inventories and prepaid expenses. Other liabilities include, for example, deferred income and trade payables.

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 acquisition and production 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 acquisition and production cost of the inventories is determined through specific allocation of the cost of individual items.

(18) Non-current assets held for sale

An asset is classified as held for sale if it meets the four following criteria. The non-current asset is available for immediate sale in its present condition; its sale is highly probable; the management has decided on a specific disposal plan and the sale is likely to be completed within twelve months of reclassification. The assets available for sale are reported in a separate statement of financial position item, non-current assets held for sale. Measurement as at the end of the reporting period is at the lower of the previous carrying amount and the fair value expected to be generated from the sale less costs to sell. If the assets intended for sale are financial instruments, measurement is 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 direct 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, 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 of the highest credit standing 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 differences from the originally estimated obligation, are recognised in full in retained earnings in the year in which they arise in line with the option exercised.

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.

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 currently 1.75%, 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 and IKB Data GmbH.

The assets backing the pension obligations from the 1979 and 1994 and 2006 pension fund plans, the compensation obligations and early retirement obligations have been transferred to a deferred income accounts scheme. 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 and 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.

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

The item "Subordinated liabilities" includes 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 loss through waived interest in the subsequent financial year.

(23) Equity

Issued capital

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

Capital reserve

The capital reserve comprises the amount of the proceeds from the issuance of shares that 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 consist of legal reserves, the reserve for actuarial gains or losses in accordance with IAS 19 resulting from changes in calculation parameters and variations with regard to risk factors (i.e. disability or mortality figures) observable as at the end of the reporting period compared to expectations, and other reserves.

Currency translation reserve

The currency translation reserve includes foreign exchange gains and losses resulting from the translation of the financial statements of foreign subsidiaries.

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.

Consolidated profit/loss

The consolidated profit / loss for the current year is reported in a separate line item in 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 non-consolidated subsidiaries and investments, plus 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	2011/12	2010/11*
Interest income from derivatives	483.1	659.4
Interest income from fair value option from financial assets	69.0	74.4
Interest income from securities held for trading	2.1	2.8
Total interest income from financial assets measured at fair value through profit or loss	554.2	736.6
Interest income from lending and money market transactions	960.2	994.0
Interest income from fixed and floating-rate securities	155.7	125.1
Income from shareholdings	2.1	4.8
Dividends	2.9	2.4
Total interest income from other categories	1,120.9	1,126.3
Total interest income	1,675.1	1,862.9
Interest expenses for derivatives	606.1	688.0
Amortisation from discontinued hedges IFRS 1 IG 60A	-	46.0
Interest expenses for fair value option financial liabilities	259.4	318.9
Total interest expenses from financial liabilities measured at fair value through profit or loss	865.5	1,052.9
Interest expenses for securitised liabilities	13.7	36.6
Interest expenses for other liabilities	529.3	538.6
Interest expenses for subordinated capital	28.8	30.1
Similar expenses to interest expenses including interest expenses for pension obligations	84.3	61.1
Total interest expenses from other categories	656.1	666.4
Total interest expenses	1,521.6	1,719.3
Net interest income	153.5	143.6

* Figures adjusted

No current interest income is recognised for impaired loans and advances. Instead, the increase in the present value of future payments as a result of the passage of time is recognised as interest income (unwinding). The interest income resulting from the unwinding effect amounts to € 31.5 million (previous year: from € 30.1 million to € 38.1 million on account of IAS 8 adjustment). Interest expenses include unwinding effects of € 30.5 million (previous year: € 59.0 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 € 41.1 million (previous year: € 17.3 million).

The adjustment from fair value hedges as part of initial recognition under IFRS in accordance with IFRS 1.IG 60A was fully amortised as at 31 March 2011.

(25) Provisions for possible loan losses

2011/12 in € million	Amortised costs		Financial assets accounted at fair value in equity	Receivables from finance leases	Provisions for off-balance sheet transactions	Total
	Loans and advances to customers	Financial assets	Financial assets	Loans and advances to customers		
Additions to specific impairment losses/provisions	166.0	-	-	10.3	22.9	199.2
Direct write-downs	13.4	-	-	-	-	13.4
Recoveries on loans previously written off	8.1	-	-	-	-	8.1
Additions to (+)/reversals of (-) portfolio allowances	-30.3	-	-	1.5	-	-28.8
Reversal of specific valuation allowances/provisions	123.9	-	-	10.2	15.3	149.4
Provisions for possible loan losses	17.1	-	-	1.6	7.6	26.3
Additions to (+)/reversal of (-) impairment on financial assets (see (28), net income from financial assets)	-	11.5	8.6	-	-	20.1
Total	17.1	11.5	8.6	1.6	7.6	46.4

2010/11 in € million*	Amortised costs		Financial assets accounted at fair value in equity	Receivables from finance leases	Provisions for off-balance sheet transactions	Total
	Loans and advances to customers	Financial assets	Financial assets	Loans and advances to customers		
Additions to specific impairment losses/provisions	268.1	-	-	10.5	11.1	289.7
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	113.4	-	-	13.3	23.6	150.3
Provisions for possible loan losses	93.1	-	-	-1.8	-12.5	78.8
Additions to (+)/reversal of (-) impairment on financial assets (see (28), net income from financial assets)	-	-31.9	0.0	-	-	-31.9
Total	93.1	-31.9	0.0	-1.8	-12.5	46.9

* Figures adjusted

(26) Net fee and commission income

in € million	2011/12	2010/11
Net fee and commission income from lending business	35.9	30.7
Net fee and commission income from securitisation	0.1	-1.3
Net fee and commission expense for liquidity procurement	-102.3	-126.2
Other	3.1	3.8
Total	-63.2	-93.0

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

(27) Net income from financial instruments at fair value

in € million	2011/12	2010/11*
Net trading result	64.7	33.4
Net result from fair value option	-358.2	22.2
Hedging result	-11.3	-10.4
Total	-304.8	45.2

* Figures adjusted

The positive effects in net trading income primarily relate to the derivative result of € 41.6 million (previous year: € 53.4 million), the currency result of € 20.9 million (previous year: € -20.3 million) and the income from trading securities and promissory note loans of € 2.2 million (previous year: € 0.4 million).

There is foreign currency income of € 44.6 million from financial instruments not measured at fair value (previous year: foreign currency expense of € 82.2 million). 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 21.52 (a) 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 income.

Some of the investments in international credit portfolios and some of the European government and bank bonds held as a liquidity investment were measured in line with the fair value option. The fair value option is also applied to financial instruments containing separable embedded derivatives and to implement risk-minimising hedging strategies. 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 € -357.2 million (previous year: € -203.2 million) relates to fair value losses on long-term investments, obligations and derivatives from hedging swaps, € -52.5 million to net fair value losses on portfolio investments (previous year: net gains of € 47.3 million) and € 0.6 million (previous year: € -9.6 million) to value increases 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. In particular, this concerns bonds with Greek and Italian exposure and first-to-default securities, which reference the countries Greece, Ireland, Italy, Spain and Portugal among others.

Furthermore, the drop in the general interest level led to interest-induced measurement losses on the Bank's own obligations for which the fair value option had been exercised.

Owing to the widening of the IKB credit spread, there was credit rating-induced income of € 50.9 million (previous year: € 187.7 million) on the Bank's own obligations, though these did not offset the interest-rate induced measurement losses. Until the planned repayment of these financial instruments, net income from financial instruments at fair value will continue to be affected by changes in credit spreads in future periods.

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. 2012	31 Mar. 2011	1 Apr. 2011 - 31 Mar. 2012	1 Apr. 2010 - 31 Mar. 2011
Liabilities to banks	14.7	18.5	-	-0.5
Liabilities to customers	438.6	492.6	35.9	176.6
Securitised liabilities	4.9	0.2	-4.6	-19.1
Subordinated capital *	484.2	423.3	19.6	30.7
Total	942.4	934.6	50.9	187.7

* For reasons of comparability, the item "Subordinated capital" includes a profit participation right now due that was reported under "Other liabilities" as at 31 March 2012.

The result from fair value hedges is composed of the result of fair value hedges and cash flow hedges. The result from fair value hedges is composed of the result from hedged items of € 187.2 million (previous year: € 18.1 million) and from hedging derivatives of € -198.5 million (previous year: € -28.5 million). The earnings contribution from ineffective portions of effective cash flow hedges is not significant.

(28) Net income/loss from financial assets

in € million	2011/12	2010/11
Net income/loss from securities	-16.8	43.3
Net loss from investments and shares in non-consolidated companies	0.0	-1.0
Total	-16.8	42.3

The result from securities includes net measurement losses of € 20.1 million (previous year: measurement gains of € 31.9 million). The sale of financial assets resulted in net income of € 3.3 million (previous year: € 11.4 million).

Impairment of € 0.0 million (previous year: € 2.0 million) was recognised in profit and loss for investments. The sale of investments resulted in income of € 0.0 million (previous year: € 1.0 million).

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

in € million	2011/12	2010/11
Linde Leasing GmbH	0.5	1.7
MD Capital Beteiligungsgesellschaft mbH	-0.3	-0.1
Total	0.2	1.6

(30) Administrative expenses

in € million	2011/12	2010/11
Personnel expenses	158.7	167.2
Other administrative expenses	126.6	141.7
Write-downs on office and operating equipment, real estate and intangible assets	12.1	12.4
Total	297.4	321.3

The individual expense categories break down as follows:

Personnel expenses

in € million	2011/12	2010/11
Wages and salaries	134.6	137.6
Social security contributions	17.4	17.7
Expenses for pensions and other benefits	6.7	11.9
Total	158.7	167.2

Statutory pension premiums amounted to € 10.2 million (previous year: € 10.3 million).

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

Other administrative expenses

in € million	2011/12	2010/11
Advisory fees	22.8	37.0
IT costs	26.4	28.0
Other administrative expenses (incl. audit expenses)	18.0	18.9
Occupancy expenses	18.5	18.1
Mandatory contributions, miscellaneous administrative and company law expenses	14.4	16.6
Workstation costs	12.6	13.0
Travel expenses and vehicle costs	7.9	7.6
Advertising, public relation and representation costs	6.0	2.5
Total administrative expenses	126.6	141.7

Other administrative expenses include expenses for consulting and other services for managing the crisis totalling € 10.3 million (previous year: € 20.3 million).

Mandatory contributions, other contributions and company law expenses primarily contain expenses for contributions to the Deposit Protection Fund in the amount of € 11.4 million (previous year: € 13.1 million).

Other administrative expenses include audit expenses and other services relating to our auditor as shown in the table below. The auditor's fees are shown without sales tax in accordance with IDW RS HFA 36. The prior-year figures have been adjusted accordingly to aid comparison.

in € million	2011/12	2010/11*
Audit of financial statements	4.1	4.6
Other assurance services	0.1	0.7
Tax advisory services	0.1	0.1
Other services	0.0	1.1
Total	4.3	6.5

* Figures adjusted

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

in € million	2011/12	2010/11
Operating and office equipment	5.3	5.5
Real estate used for bank operations	0.3	0.0
Intangible assets	6.5	6.9
Total	12.1	12.4

(31) Other operating result

in € million	1 Apr. 2011 - 31 Mar. 2012	1 Apr. 2010 - 31 Mar. 2011
Other operating income	233.9	499.6
Income from the remeasurement of compensation from future profits and hybrid financial instruments	65.4	322.2
Income from operating leases	115.2	118.7
Income from project development activities	5.2	6.4
Repurchase of own issues	0.7	1.2
Cost allocations	4.9	6.7
Reversals of provisions/write-downs on other receivables	24.6	16.8
Income from buildings not used for banking purposes	2.2	2.1
Income from the sale of non-financial assets	0.2	0.5
Remaining other operating income	15.5	25.0
Other operating expenses	184.5	256.7
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	111.9	114.9
Impairment losses from the remeasurement of inventories	-	57.3
Restructuring expenses	11.1	3.4
Settlement of portfolio investments	1.7	8.0
Expenses for buildings not used for banking purposes (including depreciation)	5.3	5.3
Additions to provisions/write-downs on other receivables	32.5	9.9
Voluntary social benefits (including donations)	1.6	1.5
Expenses from the sale of non-financial assets	0.1	0.1
Repurchase of own issues	0.2	10.0
Remaining other operating expenses	20.1	24.7
Total	49.4	242.9

Measurement of liabilities in accordance with IAS 39 AG8 led to a remeasurement gain of € 65.4 million (previous year: € 320.5 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 capital strengthening was expected as compared to the previous years. This change in planning leads to lower present values being recognised in the IAS 39 AG8 valuation. The resulting income from the IAS 39 AG8 remeasurement of compensation from future profits and hybrid financial instruments is explained in note (47) "Liabilities to customers" and note (55) "Subordinated capital".

(32) Taxes on income

in € million	2011/12	2010/11
Current income taxes	-1.7	-22.4
for the current year	1.5	1.6
from prior years	-3.2	-24.0
Deferred taxes	9.7	-21.2
Total	8.0	-43.6

Current income taxes primarily relate to taxes in Germany. Based on the Group's operating result for 2011/12 and taking trade tax into account, tax income of € 159.4 million (previous year: tax expense of € 2.5 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	2011/12	2010/11*
Profit/loss before taxes	-508.9	-22.3
Applicable tax rate (%)	31.3	31.3
Expected income taxes	-159.4	2.5
Tax effects	-	-
from prior years	-8.8	-4.4
from tax rate changes	-	2.1
from differences between tax rates in Germany and abroad	3.1	2.9
from tax-free income	-17.4	-13.0
from non-deductible expenses	10.6	47.1
from change of unrecognised deferred taxes	365.5	-135.7
from change of permanent effects of an accounting nature	-190.4	39.0
from other differences	4.8	15.9
Taxes on income	8.0	-43.6

* 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 € 365.5 million (previous year: € -190.4 million) from the change in unrecognised deferred taxes primarily relates to temporary differences in the German tax group.

The tax effect of € -259.8 million (previous year: € 39.0 million) from the change in permanent accounting effects mainly relates to permanent effects in financial assets.

Notes on the consolidated balance sheet (assets)

(33) Cash reserve

in € million	31 Mar. 2012	31 Mar. 2011
Cash in hand	0.0	0.1
Balances with central banks	19.0	84.6
Other	0.1	0.1
Total	19.1	84.8

As at the end of the reporting period, € 19.0 million (previous year: € 84.3 million) of balances at central banks related to balances at Deutsche Bundesbank.

(34) Loans and advances to banks

in € million	31 Mar. 2012	31 Mar. 2011
Loans and advances to banks (remaining term up to 1 year)	2,972.6	2,248.3
Loans and advances to banks (remaining term 1-5 years)	43.8	56.3
Loans and advances to banks (remaining term more than 5 years)	7.2	11.6
Total	3,023.6	2,316.2

(35) Loans and advances to customers

in € million	31 Mar. 2012	31 Mar. 2011
Loans and advances to customers (remaining term up to 1 year)	3,679.8	3,821.0
Loans and advances to customers (remaining term 1-5 years)	8,377.4	9,700.0
Loans and advances to customers (remaining term more than 5 years)	3,713.0	4,920.3
Finance lease receivables	2,013.4	1,889.6
Total	17,783.6	20,330.9

The decrease in loans and advances to customers is primarily attributable to the reduction in loans due to the implementation of the EU requirements.

The carrying amount of loans and advances to customers includes hedge adjustments from hedged items in macro fair value hedge accounting for interest risks in the amount of € 191.8 million (previous year: € 108.3 million).

(36) Provisions for possible loan losses

31 Mar. 2012 in € million	Specific provisions		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 Apr. 2011)	698.6	7.6	112.3	35.2	853.7
Utilisation	305.3	0.0	0.0	20.9	326.2
Reversal	123.9	10.2	30.6	15.3	180.0
Unwinding	20.4	0.0	0.0	0.4	20.8
Addition	166.0	10.3	1.8	22.9	201.0
Reclassification	0.0	0.0	0.0	0.0	0.0
Effects of exchange rate changes	2.2	-0.2	-0.1	0.1	2.0
Closing balance (31 Mar. 2012)	417.2	7.5	83.4	21.6	529.7
less provisions	-	-	-	21.6	21.6
Provisions for possible loan losses reported as of 31 Mar. 2012	417.2	7.5	83.4	-	508.1

31 Mar. 2011 in € million*	Specific provisions		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 Apr. 2010)	877.0	10.1	185.1	53.9	1,126.1
Utilisation	311.2	0.0	0.0	5.9	317.1
Reversal	113.4	13.3	76.8	23.6	227.1
Unwinding	25.7	0.0	0.0	0.1	25.8
Addition	268.1	10.5	4.0	11.1	293.7
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 Mar. 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 Mar. 2011	698.6	7.6	112.3	-	818.5

* Figures adjusted

Specific loan loss provisions on loans and advances to customers and provisions for off-balance sheet lending are recognised to hedge the discernible risks in loans business.

Provisions for possible loan losses in the form of specific loan loss provisions on loans and advances to customers and provisions for off-balance sheet lending amounted to € 446.3 million (previous year: € 741.4 million) as at 31 March 2012.

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 € 83.4 million as at 31 March 2012 (previous year: € 112.3 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. 2012	31 Mar. 2011	2011/12	2010/11	2011/12	2010/11*
German customers	292.6	581.5	274.1	246.3	4.7	118.2
Production	151.3	255.9	79.0	161.7	-17.1	41.5
Trade	26.4	28.9	3.2	12.8	2.0	3.0
Services	108.7	286.2	183.8	69.1	15.8	73.9
Transport	0.0	2.3	2.3	2.7	0.1	0.1
Other	6.2	8.2	5.8	0.0	3.9	-0.3
Foreign customers	144.8	151.1	52.1	70.8	50.2	29.6
Production	47.0	54.6	21.1	26.8	15.9	-7.4
Trade	22.8	30.5	26.8	2.0	19.2	15.7
Services	50.9	42.6	4.2	40.5	14.8	20.4
Transport	6.7	7.2	0.0	0.0	-0.8	-0.5
Other	17.4	16.2	0.0	1.6	1.1	1.4
Portfolio investment	8.9	8.8	0.0	0.0	0.2	3.8
Portfolio impairment losses	83.4	112.3	0.0	0.0	-28.8	-72.8
Total	529.7	853.7	326.2	317.1	26.3	78.8

* Figures adjusted

Key figures for the provision for possible loan losses:

in %	2011/12	2010/11
Addition ratio	0.1	0.2
Default ratio	1.0	1.1
Risk ratio	1.7	2.7

The key figures for the provision for possible loan losses are defined as follows:

Addition ratio = net provisions for risks (additions less reversals of impairment losses and provisions for commercial loans and portfolio write-downs 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 plus the balance of direct write-downs and recoveries on loans previously written off) in relation to total credit volume.

Risk ratio = total loan loss provisions (balance of valuation allowances and provisions for counterparty risks from commercial loans and portfolio write-downs) in relation to total credit volume.

(37) Assets held for trading

in € million	31 Mar. 2012	31 Mar. 2011
Bonds and other fixed-income securities	26.8	-
Promissory note bonds carried as trading assets	36.3	32.2
Derivatives with positive fair values	2,134.1	598.0
Asset derivatives offset by non-derivative financial instruments measured at fair value	266.8	157.5
Hedging derivatives with positive fair values	15.2	27.8
Total	2,479.2	815.5

Of the bonds and other fixed-income securities reported in trading assets, € 26.1 million are listed and € 0.7 million negotiable.

The change in trading assets of € 1.7 billion is mainly due to higher positive fair values for derivatives.

(38) Financial assets

Financial assets include the following items:

in € million	31 Mar. 2012	31 Mar. 2011*
Bonds and other fixed-income securities	7,865.5	7,787.3
Investments	75.4	104.8
of which in banks	0.2	0.3
Shares in non-consolidated affiliated companies	0.4	0.2
Total	7,941.3	7,892.3

* Figures adjusted

The change in bonds and other fixed-income securities primarily resulted from maturities, sales and remeasurement effects.

Financial assets can be broken down into the following categories defined in IAS 39:

in € million	31 Mar. 2012	31 Mar. 2011*
Fair value option financial assets	2,064.7	2,291.2
Bonds and other fixed-income securities	2,005.0	2,202.1
Investments	59.7	89.1
Financial assets available for sale	2,951.8	2,746.3
Bonds and other fixed-income securities	2,935.7	2,730.4
Shares in non-consolidated companies	0.4	0.2
Investments	15.7	15.7
of which carried at amortised cost	15.4	15.5
Loans and receivables	2,924.8	2,854.8
Bonds and other fixed-income securities	2,924.8	2,854.8
Total	7,941.3	7,892.3

* Figures adjusted

The carrying amount of all negotiable securities reported under financial assets breaks down as follows:

31 Mar. 2012 in € million	Total negotiable	listed	non- negotiable
Bonds and other fixed-income securities	7,347.3	7,280.2	67.1
Investments	20.7	-	20.7

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

As of 31 March 2012, 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. 2012	31 Mar. 2011
Linde Leasing GmbH	10.0	9.9
MD Capital Beteiligungsgesellschaft mbH	0.5	0.9
Total	10.5	10.8

See note (29) for information on net income from investments accounted for using the equity method.

As in the previous year, impairment testing on investments accounted for using the equity method did not identify any need for impairment.

(40) Intangible assets

in € million	31 Mar. 2012	31 Mar. 2011
Internally generated intangible assets	2.6	3.4
Acquired intangible assets	22.3	15.9
Total	24.9	19.3

(41) Property, Plant and Equipment

in € million	31 Mar. 2012	31 Mar. 2011
Operating lease assets	156.2	138.9
Land and buildings including advance payments and assets under construction	12.2	12.1
Operating and office equipment	15.1	16.5
Total	183.5	167.5

The increase in operating lease assets was essentially due to increased business in the Leasing Group.

(42) Current tax assets

in € million	31 Mar. 2012	31 Mar. 2011
Germany	20.7	28.3
Outside Germany	1.6	7.8
Total	22.3	36.1

(43) Deferred tax assets

Deferred tax assets result from the following line items:

in € million	31 Mar. 2012	31 Mar. 2011
Loans and advances to customers/provision for possible loan losses	54.0	30.7
Assets held for trading	5.3	34.4
Financial assets	396.7	266.4
Property, plant and equipment	23.9	1.4
Loss carryforwards	26.0	48.5
Liabilities to banks	16.9	12.5
Liabilities held for trading	515.0	284.6
Pension provisions and similar obligations	23.2	13.8
Subordinated capital	0.5	1.9
Other balance sheet items	27.4	50.9
Sub-total	1,088.9	745.1
Netting against deferred tax liabilities	-870.9	-554.3
Total	218.0	190.8

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: € 142.0 million) and € 13.4 million outside Germany (previous year: € 19.2 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 € 1,646.5 million (previous year: € 751.1 million).

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In total, € 1,820.6 million (previous year: € 1,085.8 million) in corporation tax loss carryforwards and € 1,632.2 million (previous year: € 998.6 million) of trade tax loss carryforwards were not recognised. Details can be found in the following table:

in € million	31 Mar. 2012	31 Mar. 2011
Corporate income tax – loss carryforwards unrecognised as of the reporting date	1,820.6	1,085.8
of which expired in 2012/13	-	0.1
of which expired in 2013/14	-	0.9
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	1,820.6	1,083.5
Trade tax – loss carryforwards unrecognised as of the reporting date	1,632.2	998.6
of which may be carried forward for an unlimited period	1,632.2	998.6

(44) Other assets

in € million	31 Mar. 2012	31 Mar. 2011
Receivables from leasing transactions	94.4	105.1
Trade receivables	58.3	89.8
Deferred items	48.1	37.3
Inventories	97.0	97.0
Other receivables	83.4	56.8
Total	381.2	386.0

The carrying amount of one property is reported under inventories.

(45) Non-current assets held for sale

Loans and advances to customers held for sale of € 14.6 million that were sold between the end of the reporting period and the preparation of these consolidated financial statements are reported in this item. An expense of € 1.0 million from these loans and advances to customers is included in provisions for possible loan losses.

Notes on the consolidated balance sheet (equity and liabilities)

(46) Liabilities to banks

in € million	31 Mar. 2012	31 Mar. 2011
Liabilities to banks (remaining term up to 1 year)	5,158.9	3,561.2
Liabilities to banks (remaining term 1-5 years)	6,321.2	5,411.6
Liabilities to banks (remaining term more than 5 years)	1,741.7	2,220.8
Total	13,221.8	11,193.6

The increase is essentially due to greater borrowing on the interbank market.

(47) Liabilities to customers

in € million	31 Mar. 2012	31 Mar. 2011*
Liabilities to customers (remaining term up to 1 year)	6,041.6	4,106.4
Liabilities to customers (remaining term 1-5 years)	1,677.6	1,181.6
Liabilities to customers (remaining term more than 5 years)	2,278.2	2,405.7
Total	9,997.4	7,693.7

* Figures adjusted

Liabilities to customers essentially rose as a result of cash and term deposits from private investors.

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 the end of each reporting period. This is calculated using an estimate of the expected interest and principal cash flows discounted using the effective original yield. The carrying amount was € 291.5 million (previous year: € 320.1 million) as at the end of the reporting period. The drop in the carrying amount is attributable to unwinding expenses (increase in carrying amount) of € 27.6 million and a remeasurement gain (decrease in carrying amount) of € 56.3 million.

(48) Securitised liabilities

in € million	31 Mar. 2012	31 Mar. 2011*
Bonds issued (remaining term up to 1 year)	2,181.1	5,480.7
Bonds issued (remaining term 1-5 years)	73.9	2,202.5
Bonds issued (remaining term more than 5 years)	22.2	27.3
Total	2,277.2	7,710.5

* Figures adjusted

The € 5.4 billion decline in securitised liabilities (previous year: € 3.1 billion) is essentially due to bullet maturities and the buyback and early repayment of SoFFin-guaranteed liabilities.

The carrying amount of securitised liabilities includes changes in value of € 5.8 million (previous year: € 6.8 million) from hedge adjustments on hedged items.

(49) Liabilities held for trading

in € million	31 Mar. 2012	31 Mar. 2011
Derivatives with negative fair values	3,181.5	1,593.4
Asset derivatives with negative fair value offset by non-derivative financial instruments measured at fair value	416.3	297.4
Hedging derivatives with negative fair values	237.8	112.8
Total	3,835.6	2,003.6

The change of € 1.8 billion is mainly due to higher negative fair values for derivatives.

(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 between the recognised items of provisions for pensions and similar obligations and other assets (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. 2012	31 Mar. 2011	31 Mar. 2010	31 Mar. 2009	31 Mar. 2008
Pension obligations (defined benefit obligation)	271.2	243.9	260.5	223.4	204.9
- fair value of plan assets	242.1	239.3	237.3	206.8	206.5
= Excess (+)/deficit (-)	-29.1	-4.6	-23.2	-16.6	1.6
recognised as an asset	1.1	1.8	1.0	0.1	5.1
recognised as a provision	30.2	6.4	24.2	16.7	3.5

The defined benefit obligation for pension obligations amounted to € 271.2 million as at 31 March 2012 (previous year: € 243.9 million). Of this figure, € 269.4 million (previous year: € 241.7 million) related to obligations covered by funds and € 1.8 million (previous year: € 2.2 million) to obligations not covered by funds.

As at the end of the reporting period, the covered pension obligations are largely covered by the assets in the CTAs. The change in comparison to the previous year is due among other things to the increase in the obligation resulting from the change in the discount rate. In line with IAS 19, the amount reported for pension provisions is increased to the amount of pension obligations not covered by corresponding assets; these amounted to € 30.2 million as at 31 March 2012 (previous year: € 6.4 million).

Pension obligations developed as follows in the last two financial years:

in € million	2011/12	2010/11
Opening balance of pension obligations as of 1 Apr.	243.9	260.5
Changes in the consolidated group	0.2	0.0
Pension payments	12.9	11.0
Employee contributions	0.4	0.1
Additions	20.7	19.8
of which current service cost	7.1	8.9
of which future service cost	0.0	-2.4
of which interest cost	13.6	13.3
-/+ actuarial gains and losses	18.9	-25.5
Closing balance of pension obligations as of 31 Mar.	271.2	243.9
Plan assets under IAS 19	242.1	239.3
Net balance sheet position as of 31 Mar.	-29.1	-4.6

The total pension expense consists of the following components:

in € million	2011/12	2010/11
Current service cost	7.1	8.9
Past service cost	0.0	-2.4
Interest expense	13.6	13.3
Plan income	-12.0	-12.6
Pension expenses	8.7	7.2

As at 31 March 2012, pension obligations have a total value of € 271.2 million (previous year: € 243.9 million). The rise in pension obligations as against the previous year is essentially due to actuarial losses of € 18.8 million (previous year: actuarial gains of € 25.5 million), € 1.5 million of which (previous year: € -1.7 million) relate to changes in inventory. The main factor causing the actuarial losses in obligations was the low discount rate.

As at the end of the reporting period, the total actuarial losses arising in the financial year (offset against gains on plan assets) amounted to € 30.8 million (previous year: actuarial gains of € 13.5 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 statement of comprehensive income as of 31 Mar. 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 statement of comprehensive income as of 31 Mar. 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 statement of comprehensive income as of 31 Mar. 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 statement of comprehensive income as of 31 Mar. 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 statement of comprehensive income as of 31 Mar. 2011	8.0	27.8	35.8
-/+ actuarial gains and losses	18.8	12.0	30.8
of which changes to actuarial parameters and calculation bases	17.3	0.0	17.3
of which adjustments due to inventory changes	1.5	0.0	1.5
Cumulative gains/losses recognised in the statement of comprehensive income as of 31 Mar. 2012	26.8	39.9	66.7

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The plan assets offsetting the obligations developed as follows in the last two financial years:

in € million	2011/12	2010/11
Opening balance of plan assets as of 1 Apr.	239.3	237.3
Expected return on plan assets	12.0	12.6
-/+ actuarial gains and losses	-12.0	-12.0
IKB contribution additions	2.4	1.3
Employee contributions	0.4	0.1
Pension payments	0.0	0.0
Closing balance of plan assets as of 31 Mar.	242.1	239.3

The plan assets generated a result of € 0.0 million in the 2011/12 financial year (previous year: gain of € 2.0 million).

Plan assets broke down as follows on the current and last reporting date:

in %	31 Mar. 2012	31 Mar. 2011
Cash and cash equivalents	2.3	5.9
Shares	24.0	10.3
Fixed-income securities	69.9	66.7
Real estate	3.7	17.0
Other	0.1	0.1

Calculations were based on the following actuarial assumptions:

	31 Mar. 2012	31 Mar. 2011
Discount rate	5.25	5.75
Forecast increase in pensionable remuneration	3.00	3.00
Forecast rate of pension increases (including inflation)	2.00	2.00
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	5.00	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 2012/13 financial year. The expected pension payments amount to € 13.5 million (previous year: € 12.6 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 € 9.6 million (previous year: € 8.5 million).

(51) Other provisions

in € million	Opening balance as of 1 Apr. 2011	Utilisation	Reversal	Addition	Unwinding	Reclassification	Effects of exchange rate changes	Closing balance as of 31 Mar. 2012
Risks for possible loan losses	35.2	20.9	15.3	22.9	-0.4	-	0.1	21.6
Provisions for interest on taxes	18.5	-	-	5.1	-	-	-	23.6
Provisions for anniversary bonuses	3.7	0.4	-	0.5	-	-	-	3.8
Tax provisions not including income tax	3.7	0.5	2.0	2.0	-	-	-	3.2
Litigation and recourse claims	3.8	-	2.5	3.9	-	-	-	5.2
Restructuring	17.5	16.0	0.1	19.5	-0.5	-7.1	-	13.3
Miscellaneous	48.3	9.4	2.0	19.7	-0.2	7.1	-	63.5
Total	130.7	47.2	21.9	73.6	-1.1	-	0.1	134.2

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).

Provisions for 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.

As at 31 March 2012, restructuring provisions essentially include expenses for the planned headcount reduction activities.

Other provisions essentially include provisions of project development activities, rent obligations and provisions in connection with the settlement of remaining portfolio investments.

The information in accordance with IAS 37.86 on the estimate of the financial impact on contingent liabilities, uncertainty regarding the amount or maturity of outflows and the possibility of reimbursement in connection with contingent liabilities and the information in accordance with IAS 37.89 on the estimate of the financial impact on contingent assets has not been disclosed for reasons of practicality in accordance with IAS 37.91.

The following table shows the other provisions by remaining maturity:

in € million	31 Mar. 2012			31 Mar. 2011		
	Remaining term <1 year	Remaining term >1 year	Total	Remaining term <1 year	Remaining term >1 year	Total
Risks for possible loan losses	17.4	4.2	21.6	35.2	-	35.2
Provisions for interest on taxes	-	23.6	23.6	-	18.5	18.5
Provisions for anniversary bonuses	-	3.8	3.8	-	3.7	3.7
Tax provisions not including income tax	-	3.2	3.2	0.1	3.6	3.7
Litigation and recourse claims	1.6	3.6	5.2	1.7	2.1	3.8
Restructuring	8.1	5.2	13.3	9.9	7.6	17.5
Miscellaneous	31.5	32.0	63.5	28.9	19.4	48.3
Total	58.6	75.6	134.2	75.8	54.9	130.7

(52) Current tax liabilities

Current tax liabilities break down as follows:

in € million	31 Mar. 2012	31 Mar. 2011
Germany	102.1	102.9
Outside Germany	1.8	4.1
Total	103.9	107.0

(53) Deferred tax liabilities

Deferred tax liabilities result from the following line items:

in € million	31 Mar. 2012	31 Mar. 2011
Loans and advances to customers/provision for possible loan losses	130.3	68.5
Assets held for trading	569.3	95.2
Financial assets	46.2	27.3
Property, plant and equipment	11.9	9.2
Liabilities	87.1	166.8
Liabilities held for trading	1.7	28.5
Pension provisions	0.1	8.2
Other liabilities	27.2	22.4
Subordinated capital	46.8	140.9
Other balance sheet items	17.7	17.6
Sub-total	938.3	584.6
Netting against deferred tax assets	-870.9	-554.3
Total	67.4	30.3

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. 2012	31 Mar. 2011
Trade payables	115.3	128.6
Deferred items	31.0	30.9
Restructuring liabilities	1.6	1.0
Other liabilities	335.6	307.6
Total	483.5	468.1

Other liabilities include an ABS transaction under which lease receivables were sold to an unconsolidated special purpose entity. The ABS transaction did not result in derecognition. The other liability to the acquirer of the ABS transaction amounts to € 282.4 million.

(55) Subordinated capital

in € million	31 Mar. 2012	31 Mar. 2011
Subordinated liabilities	891.5	889.4
Profit participation certificates	11.9	65.7
Silent partnership contributions/preferred shares	114.3	189.3
Total	1,017.7	1,144.4

In subordinated capital, "at fair value through profit or loss" holdings are reported at fair value and "other financial liabilities" are reported at amortised cost. Some items carried at amortised cost are measured in accordance with IAS 39 AG8. The changes in the carrying amounts of items measured at fair value are essentially due to credit ratings and interest rates. In the event of changes in forecasts for future payments on obligations measured at amortised cost, a new present value is calculated using the original effective

interest rate. The difference between the new present value and the previous carrying amount was recognised directly in profit or loss in the past financial year 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)
	2011/12		2010/11	
Subordinated liabilities	-	-	-2.8	32.1
Profit participation certificates	-1.4	2.5	-1.5	-1.7
Silent partnership contributions/preferred shares	-1.5	6.6	-2.6	10.1
Total	-2.9	9.1	-6.9	40.5

Expenses are shown with a minus sign

Subordinated liabilities

€ 482.8 million (previous year: € 383.9 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 2012, 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 Jul. 2013
2006/2007	160.0	EUR	2.56	23 Jan. 2017
2008/2009	101.5	EUR	12.00	27 Nov. 2018

* The original nominal amount of the subordinated liability maturing as at 23 January 2017 has been restated at the nominal amount as at the issue date.

In the 2011/12 financial year, interest expenses for subordinated liabilities amounted to € 35.7 million (previous year: € 35.6 million), which included no unwinding expenses in the reporting year (previous year: € 2.8 million).

Remeasurement (IAS 39.AG8) did not affect earnings in the year under review (previous year: € 32.1 million). The earnings effect was reported under other operating result in the previous year (note (31)).

Profit participation certificates

in € million	31 Mar. 2012	31 Mar. 2011
Total	11.9	65.7
of which: section 10 KWG requirements	11.9	29.5
of which: within two years	-	36.2

The profit participation capital breaks down as follows:

Year of issue	Original nominal amount in € million	Currency	Interest rate in %	Maturity
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 € 1.4 million (previous year: € 1.5 million).

Remeasurement (IAS 39 AG8) resulted in income of € 2.5 million (previous year: expense of € 1.7 million).

Silent partnership contributions/preferred shares

The following table shows the carrying amount of silent partnership contributions/preferred shares as at the end of the reporting period. This includes preferred shares that were issued by two US subsidiaries formed for this purpose and silent partnership contributions after loss participation.

in € million	31 Mar. 2012	31 Mar. 2011
Silent partnership contributions	33.6	60.6
Preferred shares	80.7	128.7
Total	114.3	189.3

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 € 1.5 million for the Group (previous year: € 2.6 million). See note (6) b (Financial liabilities) for information on the loss participation.

Remeasurement (IAS 39 AG8) affected earnings in the amount of € 6.6 million in the year under review (previous year: € 10.1 million).

(56) Equity

in € million	31 Mar. 2012	31 Mar. 2011*
Issued capital	1,621.3	1,621.3
Capital reserve	597.8	597.8
Retained earnings	-1,242.9	-1,243.0
Legal reserve	10.2	10.2
Actuarial gains/losses (IAS 19)	-45.8	-24.6
Other retained earnings	-1,207.3	-1,228.6
Currency translation reserve	-19.1	-17.5
Revaluation surplus	-15.4	-36.5
Consolidated loss/profit	-516.9	21.3
Total	424.8	943.4

* Figures adjusted

No treasury shares were held in the 2011/12 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 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 2011/12 financial year.

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 2011/12 financial year.

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 with a nominal value of € 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. There was a conversion obligation until not later than 11 April 2012. 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. Furthermore, a creditor of the convertible bond exercised its conversion right on 20 January 2012. On issuance of the subscribed shares on 30 January 2012, this increased the share capital of the company by € 3,686.40 to € 1,621,318,914.56. Please see the section "Events after 31 March 2012 (supplementary report)" in the Group management report for information on the mandatory conversion performed on 11 April 2012. The increase in the share capital was entered in the commercial register on 2 May 2012.

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. With the exception of the conversion described, 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 2011/12 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 2011/12 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	2011/12	2010/11
Opening balance as of 1 Apr.	-36.5	-6.9
Unrealised gains/losses from investment securities available for sale	29.2	-38.1
Reclassifications to the income statement due to financial assets available for sale	6.5	-14.4
Unrealised gains/losses on derivatives hedging fluctuations in future cash flows:		
Unrealised gains/losses for the period before taxes	-5.0	9.2
Deferred taxes	-9.6	13.6
Closing balance as of 31 Mar.	-15.4	-36.5

As at 31 March 2012, the revaluation surplus included carrying amounts of € -7.1 million from the effective portion of effective cash flow hedges before tax effects (previous year: € -2.2 million).

The corresponding tax effects are discussed in note (64).

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.

Equity ratios are calculated on a weekly basis for the Bank and quarterly for the Group. The Board of Managing Directors receives weekly reports on the development of equity ratios and the changes in equity components and risk-weighted assets. The aim of capital management is to achieve and maintain the tier I 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. 2012	31 Mar. 2011
Capital charge for credit risk	16,143	16,776
Capital charge for market risk	661	663
Capital charge for operational risk	497	782
Total of positions for which capital charges are required	17,301	18,221
Tier I capital	1,698	2,120
Issued capital	1,858	2,007
Other reserves	3,834	3,982
Other	775	913
Deductible items	-4,769	-4,782
Tier II capital	695	919
Liabilities from profit participation certificates	34	40
Other long-term subordinated liabilities, if eligible according to BIZ	708	943
Other	-47	-64
Deductible items	-137	-149
Total liable equity	2,256	2,890
Eligible own funds	2,256	2,890
Tier I capital ratio	9.4%	11.2%
Total capital ratio	13.0%	15.9%

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 (4) 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 statement of cash flows

(57) Statement of cash flows

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 financial assets, property, plant and equipment intangible and other non-current assets. 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 consolidated segment reporting

(58) 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

Reporting is based on Bank products by 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 IKB'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** firstly comprises IKB's advisory activities in the fields of M&A, structuring, restructuring, structure/income optimisation and private equity. The Capital Markets sub-segment offers capital market solutions for equity and debt capital, risk management solutions in the area of customer derivatives, obtaining deposits from institutional and private investors and advisory services and structuring for securitisation transactions.

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. The segment also includes structured investments such as bonds and promissory note loans, IKB's portfolio investments, which represent IKB's investments in securitisation products including first loss pieces and IKB's proprietary trading. Credit exposures that are no longer included in the strategic portfolio and assets of IKB not directly 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 as a net factor (in accordance with IFRS 8.23). 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 the Head Office/Consolidation column, the tier I capital attributable to the segments is reconciled to consolidated IFRS Group equity as of 1 April of the respective financial year. 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. 2011 - 31 Mar. 2012	1 Apr. 2010 - 31 Mar. 2011*	1 Apr. 2011 - 31 Mar. 2012	1 Apr. 2010 - 31 Mar. 2011	1 Apr. 2011 - 31 Mar. 2012	1 Apr. 2010 - 31 Mar. 2011*	1 Apr. 2011 - 31 Mar. 2012	1 Apr. 2010 - 31 Mar. 2011*	1 Apr. 2011 - 31 Mar. 2012	1 Apr. 2010 - 31 Mar. 2011*
Net interest income	205.6	199.5	1.6	2.9	-19.3	64.5	-34.4	-123.3	153.5	143.6
Provisions for possible loan losses	10.1	23.2	0.0	0.0	17.3	52.8	-1.1	2.8	26.3	78.8
Net interest income after provision for possible loan losses	195.5	176.3	1.6	2.9	-36.6	11.7	-33.3	-126.1	127.2	64.8
Net fee and commission income	9.5	19.5	27.4	8.3	-101.3	-122.6	1.2	1.8	-63.2	-93.0
Net income from financial instruments at fair value	20.9	-2.1	3.3	23.3	-376.4	-140.7	47.4	164.7	-304.8	45.2
Net income from financial assets	0.0	0.0	0.0	0.0	-17.4	42.7	0.6	-0.4	-16.8	42.3
Net income from investments accounted for using the equity method	0.4	1.7	0.0	0.0	0.0	0.0	-0.2	-0.1	0.2	1.6
Administrative expenses	117.1	117.8	63.5	70.8	56.0	58.5	60.8	74.2	297.4	321.3
Other operating result	3.3	8.1	2.8	3.0	-13.8	-65.3	57.1	297.1	49.4	242.9
Operating result	112.5	85.7	-28.4	-33.3	-601.5	-332.7	12.0	262.8	-505.4	-17.5
Cost/income ratio in %	48.9	52.0	180.9	188.8	-10.6	-26.4	-	-	-163.7	84.0
Return on equity in %	20.3	14.8	0.0	0.0	-104.4	-51.7	-	-	-53.6	-1.9
Average allocated equity	555	578	0	0	576	643	-188	-282	943	939
Credit volume *	14,253	15,428	0	0	17,023	16,589	437	58	31,713	32,076
Volume of new business	3,270	3,477	0	0	46	235	0	0	3,316	3,712

* 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. 2011 - 31 Mar. 2012	1 Apr. 2010 - 31 Mar. 2011*	1 Apr. 2011 - 31 Mar. 2012	1 Apr. 2010 - 31 Mar. 2011	1 Apr. 2011 - 31 Mar. 2012	1 Apr. 2010 - 31 Mar. 2011*
Net interest income	-37.4	-88.4	3.0	-34.9	-34.4	-123.3
Provisions for possible loan losses	-1.2	2.8	0.1	0.0	-1.1	2.8
Net interest income after provision for possible loan losses	-36.2	-91.2	2.9	-34.9	-33.3	-126.1
Net fee and commission income	0.9	1.2	0.3	0.6	1.2	1.8
Net income from financial instruments at fair value	50.9	187.7	-3.5	-23.0	47.4	164.7
Net income from financial assets	0.6	-0.4	0.0	0.0	0.6	-0.4
Net income from investments accounted for using the equity method	-0.2	-0.1	0.0	0.0	-0.2	-0.1
Administrative expenses	60.8	74.2	0.0	0.0	60.8	74.2
Other operating result	57.3	296.6	-0.2	0.5	57.1	297.1
Operating result	12.5	319.6	-0.5	-56.8	12.0	262.8
Credit volume	0	0	437	58	437	58

* Figures restated

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. 2011 - 31 Mar. 2012	1 Apr. 2010 - 31 Mar. 2011*	1 Apr. 2011 - 31 Mar. 2012	1 Apr. 2010 - 31 Mar. 2011*	1 Apr. 2011 - 31 Mar. 2012	1 Apr. 2010 - 31 Mar. 2011	1 Apr. 2011 - 31 Mar. 2012	1 Apr. 2010 - 31 Mar. 2011*
Net interest income	52.8	80.9	86.6	56.5	14.1	6.2	153.5	143.6
Provisions for possible loan losses	-26.1	28.7	52.4	50.1	0.0	0.0	26.3	78.8
Net interest income after provision for possible loan losses	78.9	52.2	34.2	6.4	14.1	6.2	127.2	64.8
Net fee and commission income	-72.7	-98.1	9.5	4.3	0.0	0.8	-63.2	-93.0
Net income from financial instruments at fair value	-353.7	60.9	6.0	-20.8	42.9	5.1	-304.8	45.2
Net income from investment securities	7.8	-8.6	-24.6	50.9	0.0	0.0	-16.8	42.3
Net income from investments accounted for using the equity method	0.2	1.6	0.0	0.0	0.0	0.0	0.2	1.6
Administrative expenses	258.4	276.9	39.0	44.4	0.0	0.0	297.4	321.3
Other operating result	47.9	191.4	-5.1	41.3	6.6	10.2	49.4	242.9
Operating result	-550.0	-77.5	-19.0	37.7	63.6	22.3	-505.4	-17.5
Credit volume *	26,941	26,929	4,748	5,140	24	7	31,713	32,076

* Figures restated

The investment securities of the partner fund companies and the company Rio Debt Holdings Limited were not assigned to the Europe geographic segment in the previous year. The previous year's credit volume in the Europe segment rose by € 1,289 million as a result of the transfer from the Germany segment.

Notes on financial instruments

(59) Income according to category and reconciliation to the consolidated income statement

31 March 2012 in € million	IAS 39 category					Receivables from finance leases	Off-balance sheet transactions	Result from financial instru ments covered by IFRS 7 Total	Result from other financial instru ments not covered by IFRS 7	Total
	Loans and receivables	Available for sale	Held for trading	Fair value option	Other financial liabilities					
Net interest income	831.3	74.6	-120.9	-190.4	-593.0	164.5	0.3	166.4	-12.9	153.5
Interest income	831.3	74.6	485.2	69.0	-	181.7	2.4	1,644.2	30.9	1,675.1
Interest expenses	-	-	606.1	259.4	593.0	17.2	2.1	1,477.8	43.8	1,521.6
Net fee and commission income	14.0	-	-	-	-102.7	-0.4	-	-89.1	25.9	-63.2
Fee and commission income	18.9	-	-	-	-	-	-	18.9	29.6	48.5
Fee and commission expenses	4.9	-	-	-	102.7	0.4	-	108.0	3.7	111.7
Net gains/losses	-28.9	-5.0	53.5	-358.0	57.8	-1.6	-	-282.2	-16.3	-298.5
Net income from financial instruments at fair value	-	-	53.5	-358.3	-	-	-	-304.8	-	-304.8
Net income from investment securities	-11.8	-5.0	-	-	-	-	-	-16.8	-	-16.8
Provisions for possible loan losses	17.1	-	-	-	-	1.6	-	18.7	7.6	26.3
Other operating result	-	-	-	0.3	57.8	-	-	58.1	-8.7	49.4
Total	816.4	69.6	-67.4	-548.4	-637.9	162.5	0.3	-204.9	-3.3	-208.2

31 March 2011 in € million	IAS 39 category					Receivables from finance leases	Off-balance sheet transactions	Result from financial instru ments covered by IFRS 7 Total*	Result from other financial instru ments not covered by IFRS 7	Total*
	Loans and receivables*	Available for sale	Held for trading	Fair value option*	Other financial liabilities*					
Net interest income	896.1	45.3	-13.2	-303.1	-607.5	128.9	-	146.5	-2.9	143.6
Interest income	896.1	45.3	658.9	77.7	-	145.5	-	1,823.5	39.4	1,862.9
Interest expenses	-	-	672.1	380.8	607.5	16.6	-	1,677.0	42.3	1,719.3
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	-	-	-	-	-	-	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	-64.5	13.6	-157.0	184.3	322.5	1.9	-	300.8	-49.2	251.6
Net income from financial instruments at fair value	-	-	-157.0	202.2	-	-	-	45.2	-	45.2
Net income from investment securities	28.7	13.6	-	-	-	-	-	42.3	-	42.3
Provisions for possible loan losses	93.2	-	-	-	-	-1.9	-	91.3	-12.5	78.8
Other operating result	-	-	-	-17.9	322.5	-	-	304.6	-61.7	242.9
Total	870.0	58.9	-170.6	-119.3	-415.1	130.7	-	354.6	-62.4	302.2

* 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 financial assets 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 net interest income from hedged items and hedging transactions in the amount of € -2.6 million (previous year: € -5.9 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 net interest income for all IAS 39 categories.

(60) 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 (titles not identical to statement of financial position items):

The cash reserve is shown in the balance sheet. Amounts are recognised at nominal amount, which is a sufficient approximation of fair value. They are not considered again in the IFRS 7 information below.

IFRS 7 reporting categories for financial instruments in € million	31 Mar. 2012	31 Mar. 2011 *
Assets		
Fair value through profit or loss		
Held for trading	2,464.0	787.7
<i>Assets held for trading</i>	2,197.2	630.2
<i>Asset derivatives offset by non-derivative financial instruments measured at fair value</i>	266.8	157.5
Fair value option	2,073.7	2,291.2
<i>Loans and advances to customers</i>	9.0	-
<i>Investment securities</i>	2,064.7	2,291.2
Hedging derivatives		
<i>Assets held for trading</i>	15.2	27.8
Fair value in equity		
Available for sale	2,951.8	2,746.3
<i>Investment securities</i>	2,951.8	2,746.3
Carried at amortised cost		
Loans and receivables	21,724.2	23,612.2
<i>Loans and advances to banks</i>	3,023.6	2,316.2
<i>Loans and advances to customers (including hedge fair value adjustments)</i>	15,761.2	18,441.2
<i>Investment securities</i>	2,924.8	2,854.8
<i>Non-current assets held for sale</i>	14.6	-
Receivables from finance leases		
<i>Loans and advances to customers</i>	2,013.4	1,889.7
Other financial instruments not covered by IFRS 7		
<i>Investments accounted for using the equity method</i>	10.5	10.8
Total	31,252.8	31,365.7
Equity and liabilities		
Fair value through profit or loss		
Held for trading	3,597.8	1,890.8
<i>Liabilities held for trading</i>	3,181.5	1,593.4
<i>Asset derivatives with negative fair value offset by non-derivative financial instruments measured at fair value</i>	416.3	297.4
Fair value option	4,939.9	9,495.0
<i>Liabilities to banks</i>	655.2	653.0
<i>Liabilities to customers*</i>	1,840.8	1,625.5
<i>Securitised liabilities</i>	2,224.1	6,896.5
<i>Subordinated capital</i>	219.8	320.0
Hedging derivatives		
<i>Liabilities held for trading</i>	237.8	112.8
Carried at amortised cost		
Other financial liabilities	21,574.2	18,247.2
<i>Liabilities to banks</i>	12,566.6	10,540.6
<i>Liabilities to customers</i>	8,156.6	6,068.2
<i>Securitised liabilities *</i>	53.1	814.0
<i>Subordinated capital</i>	797.9	824.4
Total	30,349.7	29,745.8
Off-balance sheet transactions		
<i>Contingent liabilities</i>	340.1	496.5
<i>Other obligations</i>	1,609.7	1,664.2
Total	1,949.8	2,160.7

* Figures adjusted

(61) Fair value of financial assets and liabilities**Comparison of fair values and the corresponding carrying amounts:**

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/or credit ratings.

in € million	Fair value		Carrying amount		Difference	
	31 Mar. 2012	31 Mar. 2011*	31 Mar. 2012	31 Mar. 2011*	31 Mar. 2012	31 Mar. 2011*
Assets						
Loans and receivables	20,972.2	22,417.1	21,307.0	22,913.6	-334.8	-496.5
Loans and advances to banks	3,034.4	2,316.1	3,023.6	2,316.2	10.8	-0.1
Loans and advances to customers (including hedge fair value adjustments)	15,022.4	17,412.1	15,344.0	17,742.6	-321.6	-330.5
Financial assets	2,900.8	2,688.9	2,924.8	2,854.8	-24.0	-165.9
Non-current assets held for sale	14.6	-	14.6	-	-	-
Finance lease receivables	2,005.9	1,882.1	2,005.9	1,882.1	-	-
Loans and advances to customers	2,005.9	1,882.1	2,005.9	1,882.1	-	-
Assets after provision for possible loan losses	22,978.1	24,299.2	23,312.9	24,795.7	-334.8	-496.5
Equity and liabilities						
Other financial liabilities	21,806.7	18,031.3	21,574.2	18,247.2	232.5	-215.9
Liabilities to banks	12,823.9	10,585.2	12,566.6	10,540.6	257.3	44.6
Liabilities to customers	8,299.8	6,016.2	8,156.6	6,068.2	143.2	-52.0
Securitised liabilities (including hedge fair value adjustments)	28.3	780.8	53.1	814.0	-24.8	-33.2
Subordinated capital	654.7	649.1	797.9	824.4	-143.2	-175.3
Equity and liabilities	21,806.7	18,031.3	21,574.2	18,247.2	232.5	-215.9

The fair value of the amounts due to customers as at 31 March 2011 is shown € 320.9 million lower in the above table as a different distribution of cash flows over time was assumed in the original calculation of this value.

Level classification

IFRS 7 defines a three-level hierarchy (Levels 1 to 3) for 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.

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 (e.g. Bloomberg) and analysed using statistical methods (e.g. outlier method).

Level 2. Level 2 comprises all financial instruments whose input factors for calculating fair value can be observed directly, i.e. as a price, or indirectly, i.e. derived from prices. Fair values calculated using DCF procedures or option pricing models whose input parameters can be observed on the market 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 input factors cannot 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 financial 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. 2012	31 Mar. 2011	31 Mar. 2012	31 Mar. 2011*	31 Mar. 2012	31 Mar. 2011	31 Mar. 2012	31 Mar. 2011
Assets								
Fair value through profit or loss								
Held for trading	39.0	-	2,028.6	554.8	396.4	232.9	2,464.0	787.7
<i>Assets held for trading</i>	39.0	-	2,028.6	554.8	396.4	232.9	2,464.0	787.7
Fair value option	1,390.5	1,401.2	602.0	677.9	81.2	212.1	2,073.7	2,291.2
<i>Loans and advances to customers</i>	-	-	9.0	-	-	-	9.0	-
<i>Financial assets</i>	1,390.5	1,401.2	593.0	677.9	81.2	212.1	2,064.7	2,291.2
Hedging derivatives								
<i>Assets held for trading</i>	-	-	15.2	27.8	-	-	15.2	27.8
Fair value in equity								
Available for sale	2,735.9	2,303.4	199.9	426.9	-	-	2,935.8	2,730.3
<i>Financial assets</i>	2,735.9	2,303.4	199.9	426.9	-	-	2,935.8	2,730.3
Total	4,165.4	3,704.6	2,845.7	1,687.4	477.6	445.0	7,488.7	5,837.0
Equity and liabilities								
Fair value through profit or loss								
Held for trading	-	-	3,542.8	1,808.6	55.0	82.2	3,597.8	1,890.8
<i>Liabilities held for trading</i>	-	-	3,542.8	1,808.6	55.0	82.2	3,597.8	1,890.8
Fair value option	4.2	6,643.2	4,915.8	2,828.2	19.9	23.6	4,939.9	9,495.0
<i>Liabilities to banks</i>	-	-	655.2	653.0	-	-	655.2	653.0
<i>Liabilities to customers</i>	-	-	1,820.9	1,601.9	19.9	23.6	1,840.8	1,625.5
<i>Securitised liabilities</i>	-	6,604.3	2,224.1	292.2	-	-	2,224.1	6,896.5
<i>Subordinated capital</i>	4.2	38.9	215.6	281.1	-	-	219.8	320.0
Hedging derivatives								
<i>Liabilities held for trading</i>	-	-	237.8	112.8	-	-	237.8	112.8
Total	4.2	6,643.2	8,696.4	4,749.6	74.9	105.8	8,775.5	11,498.6

* Figures adjusted

Available for sale investment securities are reduced by financial investments in equity instruments measured at amortised cost as their fair value cannot be reliably determined.

Disclosures on level transfers

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. 2012	31 Mar. 2011	31 Mar. 2012	31 Mar. 2011	31 Mar. 2012	31 Mar. 2011	31 Mar. 2012	31 Mar. 2011	31 Mar. 2012	31 Mar. 2011	31 Mar. 2012	31 Mar. 2011	
Assets													
Fair value through profit or loss													
Held for trading	-	-	-	-	-	-	-	-	-	-	-	15.2	380.8
<i>Assets held for trading</i>	-	-	-	-	-	-	-	-	-	-	-	15.2	380.8
Fair value option	-	42.9	16.9	5.0	-5.2	-	-	-	-	-	-	-	-
<i>Investment securities</i>	-	42.9	16.9	5.0	-5.2	-	-	-	-	-	-	-	-
Total	-	42.9	16.9	5.0	-5.2	-	-	-	-	-	-	15.2	380.8
Equity and liabilities													
Fair value through profit or loss													
Held for trading	-	-	-	-	-	-	-	-	-	-	-	0.2	111.7
<i>Liabilities held for trading</i>	-	-	-	-	-	-	-	-	-	-	-	0.2	111.7
Fair value option	-	32.7	-	-	-	60.6	-	-	-	-	-	-	-
<i>Subordinated capital</i>	-	32.7	-	-	-	60.6	-	-	-	-	-	-	-
Total	-	32.7	-	-	-	60.6	-	-	-	-	-	0.2	111.7

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			Gains/losses on financial instruments held as at end of reporting period
	Including deferred interest	Deferred interest	Not including deferred interest	Income statement	Other income	Purchases	Sales	Settlements	Transfers to Level 3	Transfers from Level 3	Not including deferred interest	Deferred interest	Including deferred interest	
Assets														
Fair value through profit or loss														
Held for trading	232.9	15.0	217.9	157.0	-	77.2	-87.7	2.1	15.2	-	381.7	14.7	396.4	163.7
<i>Assets held for trading</i>	232.9	15.0	217.9	157.0	-	77.2	-87.7	2.1	15.2	-	381.7	14.7	396.4	163.7
Fair value option	212.1	0.4	211.7	-49.1	-	0.4	-64.9	-	-	-16.9	81.2	0.1	81.2	46.8
<i>Investment securities</i>	212.1	0.4	211.7	-49.1	-	0.4	-64.9	-	-	-16.9	81.2	-	81.2	46.8
Total	445.0	15.4	429.6	107.9	-	77.6	-152.6	2.1	15.2	-16.9	462.9	14.8	477.6	210.5
Equity and liabilities														
Fair value through profit or loss														
Held for trading	82.2	-0.8	83.0	-16.9	-	3.6	-14.9	-	0.2	-	55.0	-	55.0	18.2
<i>Liabilities held for trading</i>	82.2	-0.8	83.0	-16.9	-	3.6	-14.9	-	0.2	-	55.0	-	55.0	18.2
Fair value option	23.6	-	23.6	-	-	-	-	-3.7	-	-	20.0	-	19.9	-
<i>Liabilities to banks</i>	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<i>Liabilities to customers</i>	23.6	-	23.6	-	-	-	-	-3.7	-	-	20.0	-	19.9	-
Total	105.8	-0.8	106.6	-16.9	-	3.6	-14.9	-3.7	0.2	-	75.0	-	74.9	18.2

in € million	Opening balance			Total amount of gains/losses		Not including deferred interest					Closing balance			Gains/losses on financial instruments held as at end of reporting period
	Including deferred interest	Deferred interest	Not including deferred interest	Income statement	Other income	Purchases	Sales	Settlements	Transfers to Level 3	Transfers from Level 3	Not including deferred interest	Deferred interest	Including deferred interest	
Assets														
Fair value through profit or loss														
Held for trading	-	-	-	-161.6	-	-	-	-1.3	380.8	-	217.9	15.0	232.9	1.1
<i>Assets held for trading</i>	-	-	-	-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
<i>Investment securities</i>	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
<i>Liabilities held for trading</i>	-	-	-	-20.9	-	-	-	-7.8	111.7	-	83.0	-0.8	82.2	-33.5
Fair value option	296.1	15.6	280.5	-	-	-	-	-266.9	-	-	23.6	-	23.6	-25.6
<i>Liabilities to banks</i>	122.8	0.6	122.2	-	-	-	-	-122.2	-	-	-	-	-	-
<i>Liabilities to customers</i>	173.3	15.0	158.3	-	-	-	-	-134.7	-	-	23.6	-	23.6	-25.6
Total	296.1	15.6	280.5	-20.9	-	-	-	-264.7	111.7	-	106.6	-0.8	105.8	-59.1

The income statement column shows only measurement and realisation results and the gain on the amortisation of debt instruments. By contrast, accrued and deferred interest is not included.

As in the previous year, all derivatives whose risk of default is not covered by a collateral agreement are classified as level 3 instruments.

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 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 2012 would lead in total to a € -1.5 million decrease or a € -2.5 million increase 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. 2012	31 Mar. 2011	31 Mar. 2012	31 Mar. 2011
Private equity transactions	5.0	6.5	-5.0	-6.5
Instruments with credit derivative components	1.4	2.5	-1.2	-2.6
First-to-default bonds	1.4	2.5	-1.2	-2.6
Derivatives without cash collateral	-7.9	-2.3	3.7	1.6
Unobservable parameters in yield structure models	-	0.3	-	-0.4
Total	-1.5	7.0	-2.5	-7.9

The parameter observed for "Derivatives without cash collateral" 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 significant differences 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 € -673.6 million (previous year: € -730.6 million) and resulted from the following statement of financial position items:

in € million	Carrying amount		Difference between carrying amount and repayment amount on maturity	
	31 Mar. 2012	31 Mar. 2011*	31 Mar. 2012	31 Mar. 2011*
Liabilities to banks	655.2	653.0	50.2	18.0
Liabilities to customers	1,840.8	1,625.5	-232.9	-433.2
Securitised liabilities	2,224.1	6,896.4	-18.0	92.0
Subordinated capital	219.8	320.0	-472.9	-407.4
Total	4,939.9	9,494.9	-673.6	-730.6

*Figures adjusted

(62) 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 methods for financial instruments are shown in note (6).

The following table shows a breakdown of derivatives:

in € million	Nominal amount		Fair value					
			Positive		Negative		Total	
	31 Mar. 2012	31 Mar. 2011	31 Mar. 2012	31 Mar. 2011	31 Mar. 2012	31 Mar. 2011	31 Mar. 2012	31 Mar. 2011
Interest rate derivatives	68,096.1	57,353.7	2,277.8	673.3	3,665.4	1,881.0	-1,387.6	-1,207.7
Remaining term up to one year			389.3	243.0	365.9	212.2	23.4	30.8
Remaining term between one and five years			350.1	166.0	447.3	295.7	-97.2	-129.7
Remaining term more than five years			1,538.4	264.3	2,852.2	1,373.1	-1,313.8	-1,108.8
Credit derivatives	229.1	194.1	0.4	0.2	9.1	8.5	-8.7	-8.3
Remaining term up to one year			0.3	-	0.3	-	-	-
Remaining term between one and five years			0.1	0.2	8.8	8.5	-8.7	-8.3
Remaining term more than five years			-	-	-	-	-	-
Currency derivatives	3,776.9	2,190.8	137.9	109.9	161.1	114.1	-23.2	-4.2
Remaining term up to one year			42.5	21.1	73.9	9.4	-31.4	11.7
Remaining term between one and five years			41.2	45.6	62.3	85.8	-21.1	-40.2
Remaining term more than five years			54.2	43.2	24.9	18.9	29.3	24.3
Total	72,102.1	59,738.6	2,416.1	783.4	3,835.6	2,003.6	-1,419.5	-1,220.2

The following table shows a breakdown of derivatives by counterparties.

in € million	Fair values as of 31 Mar. 2012		Fair values as of 31 Mar. 2011	
	Positive	Negative	Positive	Negative
OECD banks	1,958.8	3,816.5	562.2	1,963.9
Other OECD companies and OECD private persons	457.3	19.1	221.2	39.7
Non-OECD	-	-	-	-
Total	2,416.1	3,835.6	783.4	2,003.6

(63) 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 off-balance sheet lending. Guarantees and other credit enhancements are not taken into account.

As of 31 March 2012, the maximum credit risk compared to the previous year was as follows:

In € million	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	
	31 Mar. 2012	31 Mar. 2011*	31 Mar. 2012	31 Mar. 2011*	31 Mar. 2012	31 Mar. 2011	31 Mar. 2012	31 Mar. 2011	31 Mar. 2012	31 Mar. 2011	31 Mar. 2012	31 Mar. 2011
Fair value through profit or loss												
Held for trading	2,464.0	787.7	2,464.0	787.7	-	-	-	-	-	-	-	-
Assets held for trading	2,464.0	787.7	2,464.0	787.7	-	-	-	-	-	-	-	-
Fair value option	2,073.7	2,291.2	2,073.7	2,291.2	-	-	-	-	-	-	-	-
Loans and advances to customers	9.0	-	9.0	-	-	-	-	-	-	-	-	-
Financial assets	2,064.7	2,291.2	2,064.7	2,291.2	-	-	-	-	-	-	-	-
Hedging derivatives												
Assets held for trading	15.2	27.8	15.2	27.8	-	-	-	-	-	-	-	-
Fair value in equity												
Available for sale	2,951.8	2,746.3	2,943.2	2,746.3	-	-	-	-	8.6	-	-	-
Financial assets	2,951.8	2,746.3	2,943.2	2,746.3	-	-	-	-	8.6	-	-	-
Amortised cost												
Loans and receivables	21,307.0	22,913.6	19,940.6	21,421.9	191.3	327.0	605.2	348.0	569.9	816.7	4,411.8	7,761.5
Loans and advances to banks	3,023.6	2,316.2	3,023.6	2,316.2	-	-	-	-	-	-	-	-
Loans and advances to customers (including hedge fair value adjustments)	15,344.0	17,742.6	14,112.3	16,394.1	191.3	327.0	605.2	348.0	435.2	673.5	4,411.8	7,761.5
Financial assets	2,924.8	2,854.8	2,790.1	2,711.6	-	-	-	-	134.7	143.2	0.0	0.0
Non-current assets held for sale	14.6	-	14.6	-	-	-	-	-	-	-	-	-
Receivables from finance leases	-	-	-	-	-	-	-	-	-	-	-	-
Loans and advances to customers	2,005.9	1,882.1	1,288.0	1,372.8	28.3	1.3	639.0	472.0	50.5	36.0	1,544.5	1,449.2
Less portfolio impairment	83.4	112.3	-	-	-	-	-	-	-	-	-	-
Off-balance sheet transactions												
Contingent liabilities	340.1	496.5	-	-	-	-	-	-	-	-	-	-
Other obligations	1,609.7	1,664.2	-	-	-	-	-	-	-	-	-	-
Total	32,684.0	32,697.1										

* Figures adjusted

At IKB, financial assets are classified as past due within the meaning of IFRS 7 when they are in arrears by one day or more. This relates to either interest or principal payments in arrears.

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, 25.7% of collateral currently relates to risk transfers (previous year: 35.4%), 23.8% to mortgages (previous year: 27.4%), 14.8% to transfers of ownership (previous year: 13.9%), 21.4% to assets in collateral agreements (previous year: 64%) and 14.3% to other collateral (previous year: 17.0%).

In addition to these forms of collateral, credit derivatives and similar instruments also contribute to reducing credit risk. There were no credit derivatives or similar instruments related to liabilities for which the fair value option has been exercised 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:

In € million	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		31 Mar. 2012	31 Mar. 2011*	
	31 Mar. 2012	31 Mar. 2011*	31 Mar. 2012	31 Mar. 2011*	31 Mar. 2012	31 Mar. 2011	31 Mar. 2012	31 Mar. 2011	31 Mar. 2012	31 Mar. 2011					
Fair value through profit or loss															
Held for trading	1,765.1	544.7	420.6	94.4	155.4	89.8	97.4	45.8	25.5	13.0	-	-	2,464.0	787.7	
Assets held for trading	1,765.1	544.7	420.6	94.4	155.4	89.8	97.4	45.8	25.5	13.0	-	-	2,464.0	787.7	
Fair value option	687.3	1,102.4	744.4	224.2	109.6	187.7	41.8	206.7	151.5	570.2	339.1	-	2,073.7	2,291.2	
Loans and advances to customers	-	-	9.0	-	-	-	-	-	-	-	-	-	-	9.0	
Financial assets	687.3	1,102.4	735.4	224.2	109.6	187.7	41.8	206.7	151.5	570.2	339.1	-	2,064.7	2,291.2	
Hedging derivatives															
Assets held for trading	-	-	-	-	-	-	-	-	-	-	-	15.2	27.8	15.2	27.8
Fair value in equity															
Available for sale	2,288.5	2,509.3	547.2	59.8	86.2	122.9	21.3	0.0	0.0	0.0	0.0	54.3	2,943.2	2,746.3	
Financial assets	2,288.5	2,509.3	547.2	59.8	86.2	122.9	21.3	-	-	-	0.0	54.3	2,943.2	2,746.3	
Amortised cost															
Loans and receivables	5,943.2	6,520.3	6,628.6	6,222.1	5,089.3	5,335.4	1,862.0	2,567.7	323.5	667.4	194.0	109.0	19,940.6	21,421.9	
Loans and advances to banks	2,500.0	2,279.7	354.1	24.2	146.5	-	22.0	11.5	1.0	0.8	-	-	3,023.6	2,316.2	
Loans and advances to customers (including hedge fair value adjustments)	1,040.5	1,903.0	6,056.7	6,011.4	4,734.5	5,335.4	1,783.0	2,515.4	303.6	519.9	194.0	109.0	14,112.3	16,394.1	
Financial assets	2,402.7	2,337.6	117.8	186.5	193.7	-	57.0	40.8	18.9	146.7	-	-	2,790.1	2,711.6	
Non-current assets held for sale	-	-	-	-	14.6	-	-	-	-	-	-	-	14.6	-	
Receivables from finance leases	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Loans and advances to customers	0.5	0.2	148.3	112.9	461.1	465.5	407.3	352.2	264.9	433.5	5.9	8.5	1,288.0	1,372.8	
Total	10,684.6	10,676.9	8,389.1	6,713.4	5,901.6	6,201.3	2,429.8	3,172.4	765.4	1,684.1	554.2	199.6	28,724.7	28,647.7	

* Figures adjusted

The loans with renegotiated 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 write-downs.

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. Please see the Group management report for more information on the calculation of the credit volume.

As of the balance sheet date 31 March 2012, the following financial assets were in arrears:

31 Mar. 2012 in Mio. €	Financial assets past due but not impaired						Total	Fair value of corresponding collateral
	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	500.6	20.5	18.0	23.1	22.7	20.3	605.2	138.7
<i>Loans and advances to customers (including hedge fair value adjustments)</i>	500.6	20.5	18.0	23.1	22.7	20.3	605.2	138.7
Receivables from finance leases								
Loans and advances to customers	204.5	280.3	98.9	30.8	9.2	15.2	639.0	492.0
Total	705.1	300.8	116.9	53.9	31.9	35.5	1,244.2	630.7

31 Mar. 2011 in Mio. €	Financial assets past due but not impaired						Total	Fair value of corresponding collateral
	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
<i>Loans and advances to customers (including hedge fair value adjustments)</i>	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 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. 2012	31 Mar. 2011	31 Mar. 2012	31 Mar. 2011	31 Mar. 2012	31 Mar. 2011	31 Mar. 2012	31 Mar. 2011
Amortised cost								
Loans and receivables	1,542.3	2,108.0	972.4	1,291.3	569.9	816.7	455.6	585.9
<i>Loans and advances to customers (including hedge fair value adjustments)</i>	852.4	1,372.1	417.2	698.6	435.2	673.5	455.6	585.9
<i>Financial assets</i>	689.9	735.9	555.2	592.7	134.7	143.2	-	-
Receivables from finance leases								
Loans and advances to customers	57.9	43.6	7.4	7.6	50.5	36.0	38.9	27.7
Total	1,600.2	2,151.6	979.8	1,298.9	620.4	852.7	494.5	613.6

In the financial year, the write-down for the reporting class "Available for sale financial assets at fair value in equity" amounted to € 8.6 million.

During the financial year, IKB generated collateral revenue in the amount of € 503.1 million (previous year: € 545.0 million).

Detailed information on risks can be found in the risk report in the Group management report.

Other disclosures

(64) Income taxes in other comprehensive income

in € million	Balance as of 1 Apr. 2011	Changes recognised directly in equity	Changes recognised in profit or loss	Balance before income tax effects as of 31 Mar. 2012	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. 2012
Financial assets available for sale	-35.0	29.2	6.5	0.7	-9.1	-2.1	-10.5
Derivatives hedging fluctuations in future cash flows	-1.5	-5.0	-	-6.5	1.6	-	-4.9
Currency translation reserve	-17.5	-1.6	-	-19.1	-	-	-19.1
Actuarial gains/losses (IAS 19)	-24.6	-30.9	-	-55.5	9.7	-	-45.8
Total comprehensive income	-78.6	-8.3	6.5	-80.3	2.2	-2.1	-80.3

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

(65) Contingent assets/liabilities and other commitments

IKB's contingent liabilities and other commitments break down as follows:

in € million	31 Mar. 2012	31 Mar. 2011
Contingent liabilities	340.1	496.5
Other obligations	1,609.7	1,664.2
Commitments up to one year	995.1	834.3
Commitments of more than one year	614.6	829.9
Total	1,949.8	2,160.7

Contingent liabilities are offset by contingent assets in the same amount.

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.

As part of the sale of 50% of the shares in Movesta Lease and Finance GmbH, Pullach i. Isartal (formerly: Düsseldorf), 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).

(66) Other financial obligations

As at the end of the reporting period, the Group's payment obligations from equities not fully paid in, investments in GmbHs, investments in non-consolidated subsidiaries, the interests held by IKB Private Equity GmbH and subordinated loans amounted to € 1.3 million (previous year: € 9.2 million).

Other financial obligations for rental agreements, leases and other agreements totalled € 279.3 million as at 31 March 2012 (previous year: € 302.1 million).

In accordance with section 5 (10) of the by-laws of the Deposit Protection Fund, IKB AG is required to indemnify the Association of German Banks from 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.

(67) Leases**Finance leases**

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 and loan agreements used in foreign companies, 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.

Receivables from lease transactions in € million	31 Mar. 2012	31 Mar. 2011
Gross investment value (maturities)		
up to one year	701.9	675.8
between one and five years	1,487.8	1,370.0
more than five years	91.4	107.4
Total gross investment value	2,281.1	2,153.2
of which:		
Non-guaranteed residual values	28.0	27.2
Unrealised financial income (maturities)		
up to one year	110.7	106.5
between one and five years	151.7	149.1
more than five years	5.3	8.0
Total unrealised financial income	267.7	263.6
Net investment value (maturities)		
up to one year	591.2	569.3
between one and five years	1,336.1	1,220.9
more than five years	86.1	99.5
Total net investment value	2,013.4	1,889.7
Contingent rent recognised in profit or loss	9.2	8.2
Cumulative impairment for irrecoverable outstanding minimum lease payments	0.5	0.9

Future minimum lease payments from non-cancellable finance leases are broken down by maturities as follows:

in € million	31 Mar. 2012	31 Mar. 2011
up to one year	562.1	614.1
between one and five years	1,155.2	1,243.2
more than five years	76.2	94.2
Total	1,793.5	1,951.5

Operating leases

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.

Future minimum lease payments from non-cancellable operating leases are broken by maturities as follows:

in € million	31 Mar. 2012	31 Mar. 2011
up to one year	6.2	8.3
between one and five years	8.7	11.8
more than five years	0.0	0.1
Total	14.9	20.2

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 (rent agreement). 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 concluded in 2006, 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. 2012	31 Mar. 2011
up to one year	9.9	9.9
between one and five years	53.0	53.0
more than five years	122.5	135.8
Total	185.4	198.7

IKB expects to receive rental payments from subleasing parts of the administrative buildings to third-party tenants of at least € 1.2 million p.a. (previous year: € 1.9 million).

(68) Disclosures on collaterals

Disclosures on collaterals 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. 2012	31 Mar. 2011
Assets		
Fair value through profit or loss		
Held for trading	12.3	13.7
Assets held for trading	12.3	13.7
Fair value option	843.5	820.7
Financial assets	843.5	820.7
Fair value in equity		
Available for sale	1,429.6	670.9
Financial assets	1,429.6	670.9
Carried at amortised cost		
Loans and receivables	10,974.8	11,097.9
Loans and advances to banks	1.4	1.6
Loans and advances to customers	9,144.4	10,320.4
Financial assets	1,829.0	775.9
Total	13,260.2	12,603.2

Fixed-income securities with a nominal volume of € 3.0 billion (previous year: € 6.1 billion) have been transferred as collateral for the tender business of the European Central Bank and for general collateral pooling with Eurex Repo GmbH. In addition, loan receivables with a nominal amount of € 0.2 billion (previous year: € 0.6 billion) have been deposited with Deutsche Bundesbank.

As at the end of the reporting period, these credit facilities had been utilised to a total of € 4.8 billion (previous year: € 2.2 billion).

IKB AG has transferred a total of € 10,973.4 million (previous year: € 11,096.3 million) in loans and advances to customers and financial assets to other banks (particularly KfW) as collateral.

As at the end of the reporting period, there were cash collateral payments amounting to € 1.5 million (previous year: € 2.2 million) in connection with lending business.

Cash collateral in the amount of € 2.0 billion (previous year: € 1.5 billion) was assigned for OTC derivatives as part of collateral management.

Securities with a nominal value of € 184.2 million (previous year: € 197.0 million) have been deposited with Clearstream Banking AG, Frankfurt/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 with a nominal volume of € 417.4 million (previous year: € 87.4 million) have been pledged to KfW, Frankfurt/Main, to help hedge joint business concepts and cash collateral of € 230.0 million (previous year: € 230.0 million) has been provided. € 30.0 million (previous year: € 40.0 million) has been pledged as cash collateral at other banks. Additional securities with a nominal volume of € 165.0 million (previous year: € 141.0 million) were pledged as collateral to various banks to secure global loans.

(69) Securities repurchase agreements

In the context of genuine repurchase agreement business, securities with a nominal volume of € 3.8 billion (previous year: € 1.4 billion) were transferred as at the end of the reporting period. The carrying amounts of the financial assets transferred as at the end of the reporting period were € 2.1 billion (previous year: € 954.4 million) (repo transactions). These assets included collateral that can be resold or re-pledged.

Securities with a nominal volume of € 0.5 billion (previous year: € 0.5 billion) were deposited with SIX SIS Ltd., Switzerland, to hedge repo transactions with various Swiss counterparties.

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The repurchase agreements resulted in deposits from other banks of € 2.0 billion (previous year: € 894.1 million).

in € million	Repurchase agreements		Corresponding purchase price liabilities (liabilities to banks or customers)	
	31 Mar. 2012	31 Mar. 2011	31 Mar. 2012	31 Mar. 2011
Assets				
Fair value through profit or loss				
Fair value option	257.7	169.8	248.8	165.6
Financial assets	257.7	169.8	248.8	165.6
Fair value in equity				
Available for sale	237.5	174.7	221.5	174.7
Financial assets	237.5	174.7	221.5	174.7
Carried at amortised cost				
Loans and receivables	1,601.6	609.9	1,511.4	553.8
Financial assets	1,601.6	609.9	1,511.4	553.8
Total	2,096.8	954.4	1,981.7	894.1

As a borrower, IKB no longer holds any government bonds (previous year: fair value of € 151.7 million; reverse repo transactions) with an option for resale or reassignment. As at 31 March 2011, this resulted in loans and advances to banks with a carrying amount of € 151.4 million. In line with the usual conditions for repo agreements, there was a return obligation in the same amount for the government bonds received.

(70) Statement of changes in non-current assets

Non-current assets developed as follows in the previous financial year:

in € million	Property, plant and equipment				Intangible assets				Total
	Land and buildings	Operating and office equipment including low-value assets	Lease assets from operating leases	Total	Internally generated intangible assets	Other intangible assets	Intangible assets in development	Total	
Cost									
As of 31 Mar. 2011	24.1	71.7	233.1	328.9	13.3	69.0	6.7	89.0	417.9
Changes in the scope of consolidation	-	-0.1	-0.9	-1.0	-	-	-	-	-1.0
Foreign exchange differences	-	-0.1	-1.9	-2.0	-	-	-	-	-2.0
Additions	0.4	4.7	70.6	75.7	0.9	11.1	0.7	12.7	88.4
Reclassification	-	-	0.1	0.1	-	6.7	-6.7	-	0.1
Disposals	-	10.1	41.9	52.0	0.7	3.0	-	3.7	55.7
As of 31 Mar. 2012	24.5	66.1	259.1	349.7	13.5	83.8	0.7	98.0	447.7
Depreciation and amortisation expense									
As of 31 Mar. 2011	12.0	55.2	94.2	161.4	9.9	59.8	-	69.7	231.1
Changes in the scope of consolidation	-	-	-0.6	-0.6	-	-	-	-	-0.6
Foreign exchange differences	-	-	-1.1	-1.1	-	-	-	-	-1.1
Depreciation and amortisation	0.3	5.4	40.1	45.8	1.1	5.4	-	6.5	52.3
Impairment	-	-	0.1	0.1	-	-	-	-	0.1
Disposals	-	9.6	29.8	39.4	0.1	3.0	-	3.1	42.5
As of 31 Mar. 2012	12.3	51.0	102.9	166.2	10.9	62.2	-	73.1	239.3
Carrying amounts									
As of 31 Mar. 2011	12.1	16.5	138.9	167.5	3.4	9.2	6.7	19.3	186.8
As of 31 Mar. 2012	12.2	15.1	156.2	183.5	2.6	21.6	0.7	24.9	208.4

(71) 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 Mar. 2012 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	2,964.7	7.9	43.8	7.2	3,023.6
Loans and advances to customers	1,668.1	2,603.2	9,712.8	3,799.5	17,783.6
Assets held for trading	361.4	83.6	421.6	1,612.6	2,479.2
Financial assets	318.0	560.0	3,481.2	3,582.1	7,941.3
Investments accounted for using the equity method	-	-	-	10.5	10.5
Non-current assets held for sale	14.6	-	-	-	14.6
Total	5,326.8	3,254.7	13,659.4	9,011.9	31,252.8
Liabilities to banks	2,291.8	2,867.1	6,321.2	1,741.7	13,221.8
Liabilities to customers	4,207.8	1,833.8	1,677.6	2,278.2	9,997.4
Securitised liabilities	97.4	2,083.7	73.9	22.2	2,277.2
Liabilities held for trading	317.6	122.4	518.4	2,877.2	3,835.6
Subordinated capital	15.2	95.1	669.5	237.9	1,017.7
Total	6,929.8	7,002.1	9,260.6	7,157.2	30,349.7
31 Mar. 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
Financial assets*	1,410.8	976.2	3,369.4	2,135.9	7,892.3
Investments accounted for using the equity method	-	-	-	10.8	10.8
Non-current assets held for sale	-	-	-	-	-
Total	5,516.1	3,778.7	14,579.6	7,491.3	31,365.7
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	2,405.8	7,693.7
Securitised liabilities*	1,276.6	4,204.1	2,202.5	27.3	7,710.5
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	6,278.6	7,112.6	9,769.4	6,585.2	29,745.8

*Figures adjusted

(72) Remaining contractual 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 Mar. 2012 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	795.6	1,525.7	3,053.1	6,957.9	1,955.2	14,287.4
Liabilities to customers	3,652.3	652.3	2,600.7	3,425.4	1,934.4	12,265.1
Securitised liabilities	46.8	36.6	2,158.0	75.7	-	2,317.1
Subordinated capital	193.1	41.0	393.6	1,296.0	810.6	2,734.3
Total	4,687.7	2,255.6	8,205.4	11,755.0	4,700.2	31,603.9
Off-balance sheet transactions	1,949.8	-	-	-	-	1,949.8

31 Mar. 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	-	-	-	-	2,160.7

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 Mar. 2012 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	31.9	122.4	328.9	1,429.0	3,627.9	5,540.1
Credit derivatives	-	-	0.3	8.8	-	9.1
Currency derivatives	2.4	0.6	61.6	27.3	6.4	98.3
Total	34.3	123.0	390.8	1,465.1	3,634.3	5,647.5

31 Mar. 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
Credit derivatives	-	-	-	8.5	-	8.5
Currency derivatives	5.1	-	2.9	70.2	9.9	88.1
Total	36.6	102.9	239.9	1,139.7	1,980.9	3,500.0

* Figures adjusted

The item "Credit derivatives" was not shown in the previous year's disclosures. 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.

(73) 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. 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 365 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 seven years). In order to ensure the diversification of cash inflows and outflows over 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 in accordance with MaRisk BTR 3.2 to determine whether the volume of highly liquid securities is sufficient for ensuring short-term liquidity.

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 and the liquidity situation are discussed by Treasury and Risk Controlling once a 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 and medium-term liquidity (365-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 reporting and a forecast is prepared as part of Treasury controlling. IKB seeks to always maintain a liquidity ratio of at least 1.2 (regulatory requirement: 1.0). This target was largely achieved in the 2011/12 financial year.

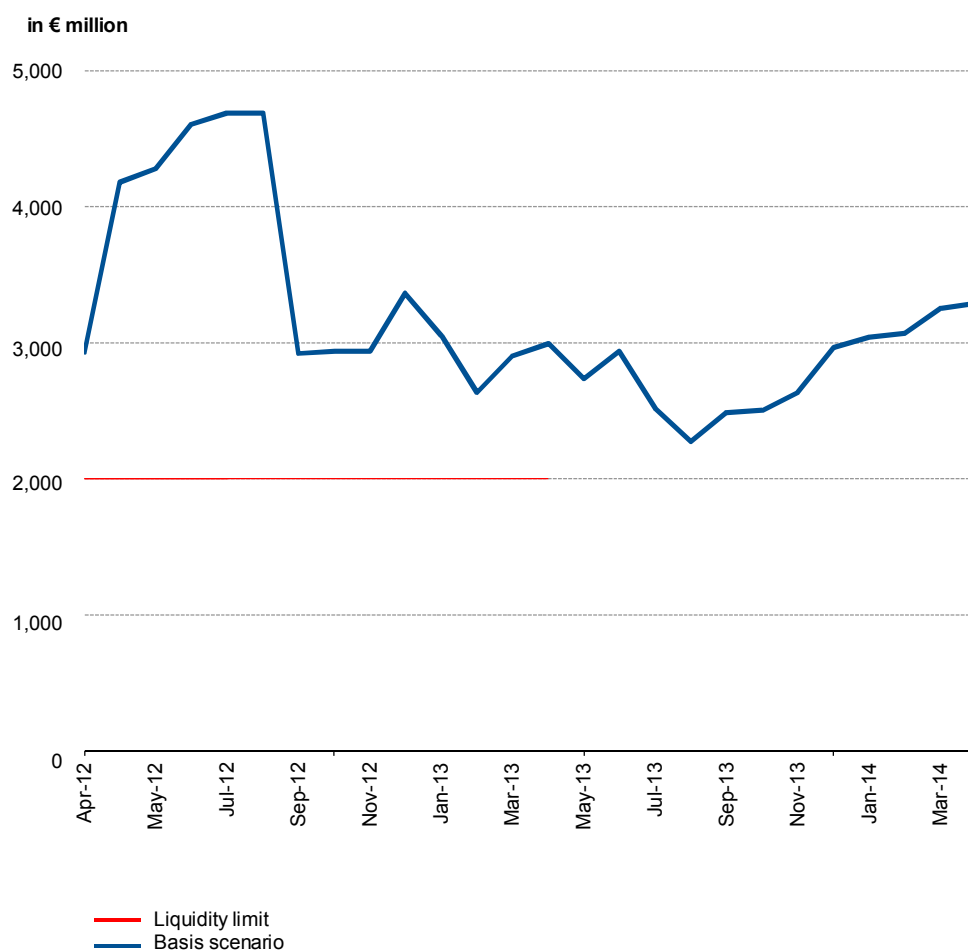
In addition, Treasury regularly examines access to the capital markets for the purposes of obtaining funds for refinancing (tactical liquidity). In the past 2011/12 financial year, IKB generated around € 3.2 billion in the form of fixed-term deposits and call money on the retail banking platform it launched at the start of the financial year. The Bank anticipates that this portfolio will continue to grow. Conversely, corporate client deposits (not including promissory note loans issues) gradually declined by almost € 1.0 billion to € 2.6 billion. The granularity of the customer deposit portfolio was increased further by way of selective steering measures.

IKB already returned € 1.8 billion in SoFFin guarantees to SoFFin before maturity in the 2011/12 financial year. Furthermore, maturing SoFFin guarantees with a total volume of € 3.2 billion were repaid on schedule, with the result that the outstanding SoFFin volume as at the end of the reporting period amounted to € 4.5 billion (€ 2.5 billion of which in the Bank's own portfolio).

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 (basis scenario) for a horizon of two years reflecting the agreed liquidity measures. The bottom line depicts the limit of € 2 billion (365 days); the limit is the minimum liquidity that the Bank wishes to maintain over a period of 365 days.

2-year funding matrix as of 30 March 2012



The components of the funding matrix include:

- capital and interest cash flows from contracted business and models
- the liquidity reserve (securities and loans eligible as collateral with central banks, and fund units)
- new loans business extrapolated based on observed portfolio development
- maintenance of the portfolio of customer deposits and promissory note loans recognised as liabilities in their current amounts.

(74) Average number of employees

	2011/12	2010/11
Men	968	957
Women	576	577
Total	1,544	1,534

(75) 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. 2012	31 Mar. 2011	31 Mar. 2012	31 Mar. 2011	31 Mar. 2012	31 Mar. 2011
Employee representatives in the Supervisory Board	5	29	21.8	22.8	5.0	5.0
Companies controlled by shareholder representatives	136,411	138,684	3.0	3.9	3.4	4.0
Total	136,416	138,713	3.0	3.9	3.4	4.0

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: 0.4 %) of the total credit extended by the Group. There were no individual write-downs on these loans.

The remuneration of employee representatives on the Supervisory Board amounted to € 362 thousand in the 2011/12 financial year (previous year: € 408 thousand).

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. 2012	31 Mar. 2011	31 Mar. 2012	31 Mar. 2011	31 Mar. 2012	31 Mar. 2011
Companies controlled by shareholder representatives	Interest rate swaps	31,239	33,563	2.9	3.9	IKB pays variably: EURIBOR 3M fixed: 4.23 - 4.57% receives variably: EURIBOR 6M fixed: 3.60%	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	-	0.2	-	IKB pays variably: EURIBOR 3M receives: 3.85% or EURIBOR 3M (depending on range)
Companies controlled by shareholder representatives	IHS	-	9,352	-	5.5	-	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 2012.

Receivables from and liabilities to non-consolidated subsidiaries and other investment companies

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 non-consolidated subsidiaries.

The following table shows the related parties in accordance with IAS 24.19:

in € million	Companies allocated to the parent company		Subsidiaries		Joint venture/ Associates		Total	
	31 Mar. 2012	31 Mar. 2011	31 Mar. 2012	31 Mar. 2011	31 Mar. 2012	31 Mar. 2011	31 Mar. 2012	31 Mar. 2011
Receivables								
Loans and advances to banks	6.9	3.6	-	-	-	-	6.9	3.6
Loans and advances to customers	-	-	18.6	60.0	50.1	73.9	68.7	133.9
Assets held for trading	-	-	3.2	1.4	2.2	1.8	5.4	3.2
Bonds and other fixed-income securities	-	-	0.4	0.5	2.5	2.4	2.9	2.9
Equities and other non-fixed-income securities	-	-	-	-	-	10.2	-	10.2
Total	6.9	3.6	22.2	61.9	54.8	88.3	83.9	153.8
Liabilities								
Liabilities to customers	311.4	343.7	-	1.2	-	1.0	311.4	345.9
Liabilities held for trading	6.8	3.3	-	-	-	0.7	6.8	4.0
Subordinated liabilities	-	13.4	-	-	-	-	-	13.4
Total	318.2	360.4	0.0	1.2	0.0	1.7	318.2	363.3

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 (80)) as protected by the letter of comfort are able to meet their contractual obligations with the exception of the event of political risk.

The letters of comfort for the foreign subsidiaries of IKB Leasing GmbH, Hamburg, and IKB Leasing GmbH, Berlin, were withdrawn. Subsequent liability risks could arise from existing liabilities to third parties of € 7 million.

IKB Projektentwicklung GmbH & Co. KG issued an unlimited letter of comfort for Lixxus Projektentwicklung GmbH & Co. KG so that this company can meet its obligations under a legal dispute.

IKB Private Equity GmbH issued a letter of comfort for IKB Equity Capital Fund GmbH (formerly: IKB Equity Capital Fund I GmbH & Co. KG) so that it can meet its obligations under loan and guarantee

agreements transferred to it under a spin-off and transfer agreement, including the reimbursement of prosecution and legal costs.

In addition to the existing letter of comfort, IKB also issued a commitment to provide sufficient capital and liquidity for IKB Projektentwicklung GmbH & Co. KG in the 2011/12 financial year.

(76) 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 2011/12 financial year breaks down as follows: € 2.0 million relates to fixed remuneration, € 1.0 million – subject to a resolution of the Supervisory Board – to variable remuneration, € 0.2 million to pension compensation and € 28 thousand to additional benefits. The variable remuneration for the 2011/12 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 2011/12 financial year, 40% of bonuses will become payable immediately after the resolution 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 bonuses will become payable 21 bank working days after the adoption of the consolidated financial statements for the first financial year and the remaining 30% of bonuses 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. 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 2011/12 financial year amounts to € 4.9 million.

Regarding the prior financial year 2010/11, in its meeting on 28 June 2011, the Supervisory Board set the bonuses for the members of the Board of Managing Directors for the 2010/11 financial year as follows: Mr Schüttler € 1,000 thousand, Dr Glüder € 630 thousand, Mr Momburg € 460 thousand and Dr Wiedmann € 530 thousand.

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 € 3.5 million (previous year: € 3.2 million). Provisions of € 43.5 million were recognised for pension obligations to former members of the Board of Managing Directors and their surviving dependents (previous year: € 39.9 million).

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 2011/12 financial year (including VAT) amounted to € 258 thousand (previous year: € 257 thousand). This includes € 10 thousand (previous year: € 10 thousand) in reimbursed expenses.

Remuneration of the Advisory Board

€ 289 thousand (previous year: € 258 thousand) including VAT was paid to the members of the Advisory Board. The prior-year figures were reported € 84 thousand too low in the notes in the previous year.

Loans extended to members of executive bodies and the Advisory Board

As of 31 March 2012, 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.

(77) German Corporate Governance Code

On 23 February 2012, 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).

(78) Events after 31 March 2012

Please see the supplementary report in the Group management report for information on events after 31 March 2012.

(79) 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)*
Düsseldorfer Hypothekenbank AG (Deputy Chairman)

Deputy Chairman

Dr Karsten von Köller, Frankfurt
Chairman, Lone Star Germany GmbH

- a) *Düsseldorfer Hypothekenbank AG (Chairman)*
MHB-Bank Aktiengesellschaft (Chairman)
COREALCREDIT BANK AG (Deputy Chairman)

- b) *W.P. Carey & Co. LLC*

Members

Stefan Baustert, Krefeld
Managing Director of RENA GmbH

- a) *NYCON ENERGY AG (Deputy Chairman)*

- b) *AptarGroup*

Olivier Brahin, London (until 25 May 2012)
Head of European Real Estate Investments, Lone Star Management Europe Ltd.

- a) *COREALCREDIT BANK AG*

Dr Lutz-Christian Funke, Oberursel
Director of KfW, Head of Business Strategy division of KfW Bankengruppe

- a) *Dedalus GmbH & Co. KGaA (Deputy Chairman)*

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Ulrich Grillo, Mülheim an der Ruhr
Chairman of the Board of Managing Directors, Grillo-Werke Aktiengesellschaft

- a) *Baumarkt Praktiker Deutschland GmbH*
mateco AG
Praktiker Bau- und Heimwerkermärkte Holding 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*
DEG – Deutsche Investitions- und Entwicklungsgesellschaft mbH
Großhaus GmbH (from 1 April 2011)
LEWA Attendorn GmbH

Bernd Klein, Mönchengladbach
Advisor on contracts and collateral, member of the Düsseldorf Works Council of
IKB Deutsche Industriebank AG

Dr Claus Nolting, Munich
Chairman of the Board of COREALCREDIT BANK AG

Dr Thomas Rabe, Berlin (until 21 February 2012)
CEO of Bertelsmann AG

- a) *Arvato AG (Chairman since 23 January 2012)*
BMG RM Germany GmbH (Chairman)
Druck- und Verlagshaus Gruner + Jahr Aktiengesellschaft (Chairman since 1 January 2012)
Symrise AG (Chairman since 18 May 2011)
- 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.

Nicole Riggers, Düsseldorf (from 7 September 2011)
Deputy Chairwoman of the Düsseldorf Works Council, Deputy Chairwoman of the Group Works Council of
IKB Deutsche Industriebank AG

Dr Carola Steingraber, Berlin
Branch analyst, Chairwoman of the Berlin Works Council, member of the Group Works Council
of IKB Deutsche Industriebank AG

Carmen Teufel, Neustetten
Sales analyst, Chairwoman of the Baden-Württemberg Works Council, member of the Group Works
Council of IKB Deutsche Industriebank AG

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Dr Andreas Tuczka, Vienna
Head of European Financial Institutions/Managing Director, Lone Star Management Europe Ltd.

a) *Düsseldorfer Hypothekenbank AG*

Ulrich Wernecke, Rommerskirchen
Chairman of the Düsseldorf Works Council, Chairman of the Group Works Council of
IKB Deutsche Industriebank AG

Andreas Wittmann, Munich (until 7 September 2011)
Corporate consultant, Chairman of the Munich Works Council, member of the Group Works Council
of IKB Deutsche Industriebank AG

Board of Managing Directors

Hans Jörg Schüttler (Chairman)

b) *IKB Autoleasing GmbH*
IKB Leasing Berlin Gesellschaft mit beschränkter Haftung
IKB Leasing Gesellschaft mit beschränkter Haftung
IKB Private Equity GmbH

Dr Dieter Glüder

b) *IKB Data GmbH (Chairman)*

Claus Momburg

b) *MD Capital Beteiligungsgesellschaft mbH (Chairman)*
Tempelhofer Hafen GmbH & Co. KG (Chairman since 15 April 2011)
IKB Autoleasing GmbH
IKB Leasing Berlin Gesellschaft mit beschränkter Haftung
IKB Leasing Gesellschaft mit beschränkter Haftung
IKB Private Equity GmbH

Dr Michael H. Wiedmann

b) *IKB Private Equity GmbH (Chairman)*
IKB Autoleasing GmbH
IKB Leasing Berlin Gesellschaft mit beschränkter Haftung
IKB Leasing Gesellschaft mit beschränkter Haftung

Offices held by employees

As of 31 March 2012, the following employees were represented in the statutory supervisory boards of large corporations:

Dr Reiner Dietrich
Tricor Packaging & Logistics AG

Dr Annette Littmann (until 30 June 2011)
Dortmunder Stadtwerke AG

Klaus Runzer
ae group ag
Oechsler AG

(80) Scope of consolidation as of 31 March 2012

	Letter of comfort	Share of capital in %
A. Consolidated subsidiaries		
1. Foreign banks		
IKB International S.A. in Liquidation, Luxembourg ³⁾	x	100
2. Other German companies		
Aleanta GmbH, Düsseldorf		100
Erste Equity Suporta GmbH, Düsseldorf		100 ¹⁾
Equity Fund GmbH, Düsseldorf		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 Holzhausen KG, Düsseldorf	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 i. L., 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
ISTOS Beteiligungsverwaltungs- und Grundstücks- Vermietungsgesellschaft mbH, Düsseldorf	x	100
ISTOS Dritte Beteiligungsverwaltungs- und Grundstücksvermietungsgesellschaft mbH & Co. KG, Düsseldorf		100
ISTOS Erste Beteiligungsverwaltungs- und Grundstücksvermietungsgesellschaft mbH & Co. KG, Düsseldorf	x	100
ISTOS Zweite Beteiligungsverwaltungs- und Grundstücksvermietungsgesellschaft mbH & Co. KG, Düsseldorf		100
Projektbeteiligung TH GmbH & Co. KG, Düsseldorf		89.8
Tempelhofer Hafen GmbH & Co. KG, Düsseldorf		94.9 ¹⁾
MATRONA GmbH, Düsseldorf		100 ¹⁾
Zweite Equity Suporta GmbH, Düsseldorf		100 ¹⁾

1) Indirect interest

2) Subordinated letter of comfort

3) In liquidation (bank licence returned)

4) In liquidation

	Letter of comfort	Share of capital in %
3. Other foreign companies		
IKB Capital Corporation, New York ⁴⁾		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		100 ¹⁾
IKB Leasing CR s.r.o., Praha 9		100 ¹⁾
IKB Leasing Finance IFN SA, Bucuresti		100 ¹⁾
IKB Leasing France S.A.R.L., Marne La Vallée Cedex 4		100 ¹⁾
IKB Leasing Korlátolt Felelősségű Társaság, Budapest		100 ¹⁾
IKB Leasing Polska Sp.z.o.o, Poznan (Posen)		100 ¹⁾
IKB Leasing SR, s.r.o, Bratislava		100 ¹⁾
IKB Leasing S.R.L., Bucharest / Sektor 1		100 ¹⁾
IKB Lux Beteiligungen S.à.r.l, Luxembourg	x	100
IKB Pénzügyi Lízing zártkörűen működő Részvénytársaság, Budapest		100 ¹⁾
STILL LOCATION S.à.r.l., Marne La Vallée Cedex 4		100 ¹⁾
IKBL Renting and Service S.r.l., Lainate (MI)		100 ¹⁾
IKB Leasing geschlossene Aktiengesellschaft, Moscow		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		
Partner Fonds Government & Covered Select, Luxembourg		
Rio Debt Holdings Ltd., Dublin		

1) Indirect interest

2) Subordinated letter of comfort

3) In liquidation (bank licence returned)

4) In liquidation

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	482.1	448.9	1.5	26.8
MD Capital Beteiligungsgesellschaft mbH, Düsseldorf	1.7	0.0	-0.5	0.1

(81) List of shareholdings as of 31 March 2012

Share holdings of IKB Deutsche Industriebank AG in accordance with section 313 (2) HGB on the consolidated financial statements and the disclosures of section 285 no. 11 and 11a HGB	Financial Year	Letter of comfort	Share of capital in %	Equity in € thousand	Earnings in € thousand
1. Domestic subsidiaries (fully consolidated)					
Aleanta GmbH, Düsseldorf	1 Apr. - 31 Mar.		100.00	1,463	229
Equity Fund GmbH, Düsseldorf	1 Apr. - 31 Mar.		100.00	13,521	0
Erste Equity Suporta GmbH, Düsseldorf	1 Apr. - 31 Mar.		100.00	1,296	0
IKB Autoleasing GmbH, Hamburg	1 Apr. - 31 Mar.	X	100.00	14,000	0
IKB Beteiligungen GmbH, Düsseldorf	1 Apr. - 31 Mar.	X	100.00	724,966	0
IKB Data GmbH, Düsseldorf	1 Apr. - 31 Mar.	X	100.00	15,000	0
IKB Equity Capital Fund GmbH, Düsseldorf	1 Apr. - 31 Mar.	X	100.00	31,353	2,110
IKB Grundstücks GmbH & Co. Objekt Holzhausen KG, Düsseldorf	1 Jan. - 31 Dec.	X	100.00	4,930	538 ³⁾
IKB Grundstücks GmbH, Düsseldorf	1 Jan. - 31 Dec.	X	100.00	112	-15
IKB Leasing Berlin Gesellschaft mit beschränkter Haftung, Erkner	1 Apr. - 31 Mar.	X	100.00	8,000	0
IKB Leasing Gesellschaft mit beschränkter Haftung, Hamburg	1 Apr. - 31 Mar.	X	100.00	60,056	0
IKB Private Equity GmbH, Düsseldorf	1 Apr. - 31 Mar.	X	100.00	479,867	0
IKB Projektentwicklung GmbH & Co. KG i. L., Düsseldorf	1 Jan. - 31 Dec.	X	100.00	-3,020	-6,441 ³⁾
IKB Struktur GmbH, Düsseldorf	1 Apr. - 31 Mar.		100.00	103,750	0
IMAS Grundstücks-Vermietungsgesellschaft mbH, Düsseldorf	1 Apr. - 31 Mar.	X	100.00	2,919	31
Istop 1 GmbH, Düsseldorf	1 Apr. - 31 Mar.		100.00	122,525	0
Istop 2 GmbH, Düsseldorf	1 Apr. - 31 Mar.		100.00	155,025	0
Istop 4 GmbH, Düsseldorf	1 Apr. - 31 Mar.		100.00	190,025	0
Istop 5 GmbH, Düsseldorf	1 Apr. - 31 Mar.		100.00	91,525	0
ISTOS Beteiligungsverwaltungs- und Grundstücks- Vermietungsgesellschaft mbH, Düsseldorf	1 Jan. - 31 Dec.	X	100.00	78	2
ISTOS Dritte Beteiligungsverwaltungs- und Grundstücks-Vermietungsgesellschaft mbH & Co. KG, Düsseldorf	1 Jan. - 31 Dec.		100.00	271	-8 ³⁾
ISTOS Erste Beteiligungsverwaltungs- und Grundstücks-Vermietungsgesellschaft mbH & Co. KG, Düsseldorf	1 Jan. - 31 Dec.	X	100.00	25	-9 ³⁾
ISTOS Zweite Beteiligungsverwaltungs- und Grundstücks-Vermietungsgesellschaft mbH & Co. KG, Düsseldorf	1 Jan. - 31 Dec.		100.00	136	-9 ³⁾
MATRONA GmbH, Düsseldorf	1 Apr. - 31 Mar.		100.00	525	0
Projektbeteiligung TH GmbH & Co. KG, Düsseldorf	1 Jan. - 31 Dec.		89.80	22	6 ³⁾
Tempelhofer Hafen GmbH & Co. KG, Düsseldorf	1 Jan. - 31 Dec.		94.90	-10,675	-1,865
Zweite Equity Suporta GmbH, Düsseldorf	1 Apr. - 31 Mar.		100.00	70,080	0
2. Foreign subsidiaries (fully consolidated)					
IKB Capital Corporation, New York ⁴⁾	1 Apr. - 31 Mar.		100.00	2,594	265
IKB Finance B.V., Amsterdam Zuidoost	1 Apr. - 31 Mar.	X	100.00	-2,678	120
IKB Funding LLC II, Wilmington	1 Apr. - 31 Mar.	X ²⁾	100.00	21,336	12,805
IKB Funding LLC I, Wilmington	1 Apr. - 31 Mar.	X ²⁾	100.00	2,734	2,215
IKB International S.A. in Liquidation, Luxembourg	1 Apr. - 31 Mar.	X	100.00	27,853	-3,413
IKB Leasing Austria GmbH, Vienna	1 Jan. - 31 Dec.		100.00	438	33
IKB Leasing CR s.r.o., Praha 9	1 Jan. - 31 Dec.		100.00	4,243	-695
IKB Leasing Finance IFN SA, Bucuresti	1 Jan. - 31 Dec.		100.00	1,194	-816
IKB Leasing France S.A.R.L., Marne La Vallée Cedex 4	1 Jan. - 31 Dec.		100.00	702	-85
IKB Leasing geschlossene Aktiengesellschaft, Moscow	1 Jan. - 31 Dec.		100.00	3,369	2,252
IKB Leasing Korlátolt Felelősségű Társaság, Budapest	1 Jan. - 31 Dec.		100.00	2,676	-1,545
IKB Leasing Polska Sp.z.o.o., Poznan (Posen)	1 Jan. - 31 Dec.		100.00	8,182	1,789
IKB Leasing S.R.L., Bucharest / Sektor 1	1 Jan. - 31 Dec.		100.00	394	108
IKB Leasing SR, s.r.o., Bratislava	1 Jan. - 31 Dec.		100.00	1,061	-929
IKBL Renting and Service S.r.l., Lainate (MI)	1 Jan. - 31 Dec.		100.00	990	-10
IKB Lux Beteiligungen S.à r.l., Luxembourg	1 Apr. - 31 Mar.	X	100.00	8,479	0
IKB Pénzügyi Lizing zártkörűen működő Részvénytársaság, Budapest	1 Jan. - 31 Dec.		100.00	794	-458
STILL LOCATION S.à.r.l., Marne La Vallée Cedex 4	1 Jan. - 31 Dec.		100.00	13,421	-1,659

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2) Subordinated letter of comfort

3) Company exercised option under in line with section 264b HGB and has not prepared its own notes

4) In liquidation

	Financial Year	Letter of comfort	Share of capital in %
3. Domestic subsidiaries (not fully consolidated due to immateriality)¹⁾			
Bella GmbH, Düsseldorf	1 Apr. - 31 Mar.		100.00
Boxhagener Str. 76/78 Berlin GmbH i.L., Düsseldorf	1 Jan. - 31 Dec.		100.00
Brunnenstraße 105-109 Berlin Grundbesitz GmbH, Münster	1 Jan. - 31 Dec.		94.90
Büroprojekt sechste Verwaltungsgesellschaft mbH i.L., Düsseldorf	1 Jan. - 31 Dec.		100.00
Büroprojekt vierte Verwaltungsgesellschaft mbH, Düsseldorf	1 Jan. - 31 Dec.		100.00
Eaton Place 98 London GmbH, Norderfriedrichskoog	1 Jan. - 31 Dec.		100.00
Einsteinufer 63-65 Berlin GmbH i.L., Düsseldorf	1 Jan. - 31 Dec.		100.00
Feldmühleplatz 1 Verwaltungsgesellschaft mbH, Düsseldorf	1 Jan. - 31 Dec.		100.00
FRANA Grundstücks-Vermietungsgesellschaft mbH, Düsseldorf	1 Jan. - 31 Dec.		100.00
GAP 15 GmbH, Düsseldorf	1 Jan. - 31 Dec.		92.80
GARUMNA GmbH, Düsseldorf	1 Apr. - 31 Mar.		100.00
HARPE Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Schloß Schweinsburg KG, Düsseldorf	1 Jan. - 31 Dec.		88.70
HAUSTUS Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Yachtzentrum Berlin KG, Düsseldorf	1 Jan. - 31 Dec.		94.67
IKB Projektentwicklungsverwaltungsgesellschaft mbH i.L., Düsseldorf	1 Jan. - 31 Dec.	X	100.00
IKB SWE GmbH, Düsseldorf	1 Apr. - 31 Mar.		100.00
ILF Immobilien-Leasing-Fonds Verwaltung GmbH & Co. Objekt Boxdorf KG, Düsseldorf	1 Jan. - 31 Dec.		93.44
ilmenau center Verwaltungsgesellschaft mbH, Düsseldorf	1 Jan. - 31 Dec.		100.00
INCO Ingenieur Consult Geschäftsführungsgesellschaft mbH, Düsseldorf	1 Jan. - 31 Dec.		100.00
INCO Ingenieur Consult GmbH & Co. KG, Düsseldorf	1 Jan. - 31 Dec.		100.00
Istop 3 GmbH, Düsseldorf	1 Jan. - 31 Dec.		100.00
MD Capital Solingen Verwaltungsgesellschaft mbH, Düsseldorf	1 Jan. - 31 Dec.		100.00
MD Capital Stromstrasse Verwaltungsgesellschaft mbH, Düsseldorf	1 Jan. - 31 Dec.		100.00
MD Capital Verwaltungs GmbH, Düsseldorf	1 Jan. - 31 Dec.		100.00
MD Objekt Lorsch Verwaltungs GmbH, Düsseldorf	1 Jan. - 31 Dec.		100.00
MD Objekt Solingen Verwaltungsgesellschaft mbH, Düsseldorf	1 Jan. - 31 Dec.		100.00
MD Objekt Stromstrasse Verwaltungsgesellschaft mbH, Düsseldorf	1 Jan. - 31 Dec.		100.00
MFRSI Beteiligungsholding Verwaltungsgesellschaft mbH, Düsseldorf	1 Jan. - 31 Dec.		100.00
Objekt Pankow Verwaltungsgesellschaft mbH i.L., Düsseldorf	1 Jan. - 31 Dec.		100.00
Paxum GmbH, Düsseldorf	1 Apr. - 31 Mar.		100.00
RAVENNA Vermögensverwaltungs AG, Berlin	1 Jan. - 31 Dec.		100.00
Restruktur 1 GmbH i.L., Düsseldorf	1 Jan. - 31 Dec.		100.00
Restruktur 2 GmbH i.L., Düsseldorf	1 Apr. - 31 Mar.		100.00
Restruktur 3 GmbH, Düsseldorf	1 Apr. - 31 Mar.		100.00
Robert Adams Str. 12 London GmbH i.L., Norderfriedrichskoog	1 Jan. - 31 Dec.		100.00
SEQUANA GmbH, Düsseldorf	1 Apr. - 31 Mar.		100.00
4. Foreign subsidiaries (not fully consolidated due to immateriality)¹⁾			
Eukelade G.m.b.H., Luxembourg	1 Apr. - 31 Mar.		100.00
Helike G.m.b.H., Luxembourg	1 Apr. - 31 Mar.		100.00
IKB Funding Trust II, Wilmington	1 Apr. - 31 Mar.		100.00
IKB Funding Trust I, Wilmington	1 Apr. - 31 Mar.		100.00
Kore G.m.b.H., Luxembourg	1 Apr. - 31 Mar.		100.00
Valin Funds GP S.à.r.l., Luxembourg	1 Apr. - 31 Mar.		100.00
Valin Funds S.C.A., SICAV-SIF, Luxembourg	1 Apr. - 31 Mar.		100.00
5. German associated companies/Joint ventures (measured at equity)¹⁾			
Linde Leasing GmbH, Wiesbaden	1 Jan. - 31 Dec.		30.00
MD Capital Beteiligungsgesellschaft mbH, Düsseldorf	1 Jan. - 31 Dec.		50.00

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4) In liquidation

	Financial Year	Letter of comfort	Share of capital in %
6. Domestic subsidiaries/Joint ventures (not measured at equity due to immateriality) and/or in accordance with IAS 28.1(a))¹⁾			
alu-druckguss GmbH & Co. Brandenburg KG, Brieselang	1 Jan. - 31 Dec.		49.00
alu-druckguss Verwaltungs GmbH, Brieselang	1 Jan. - 31 Dec.		49.04
Argantis GmbH, Cologne	1 Jan. - 31 Dec.		50.00
Argantis Private Equity GmbH & Co. KG, Cologne	1 Jan. - 31 Dec.		28.86
Argantis Private Equity Gründer GmbH & Co. KG, Cologne	1 Jan. - 31 Dec.		36.46
AWEBA Werkzeugbau GmbH Aue, Aue	1 Jan. - 31 Dec.		25.10
AxIT AG, Frankenthal/Pfalz	1 Jan. - 31 Dec.		29.88
Chemtura Verwaltungs GmbH, Bergkamen	1 Jan. - 31 Dec.		50.00
equiNotes Management GmbH, Düsseldorf	1 Jan. - 31 Dec.		50.00
EWeko GmbH, Hattingen	1 Jan. - 31 Dec.		30.08
FMD Feinmechanik GmbH, Weilheim	1 Apr. - 31 Mar.		49.03
FUNDIS Projektentwicklungsholding GmbH & Co. KG, Düsseldorf	1 Jan. - 31 Dec.		50.00
FUNDIS Verwaltungsgesellschaft mbH, Düsseldorf	1 Jan. - 31 Dec.		50.00
GIP Management GmbH & Co. KG, Eschborn	1 Jan. - 31 Dec.		47.50
GIP Verwaltungs GmbH, Eschborn	1 Jan. - 31 Dec.		50.00
GIP WestSite-Entwicklung GmbH & Co. KG, Eschborn	1 Jan. - 31 Dec.		47.50
Hafenspitze Verwaltungsgesellschaft mbH, Hamburg	1 Jan. - 31 Dec.		25.00
ilmenau center GmbH & Co. KG, Lüneburg	1 Jan. - 31 Dec.		50.00
MFRSI Beteiligungsholding GmbH & Co. KG, Düsseldorf	1 Jan. - 31 Dec.		50.00
microTEC Gesellschaft für Mikrotechnologie mbH, Duisburg	1 Jan. - 31 Dec.		48.18
Mike's Sandwich GmbH, Hamburg	1 Jan. - 31 Dec.		35.59
MM Mezzanine Beratungsberatung GmbH i. L., Düsseldorf	1 Apr. - 31 Mar.		50.00
MOTORRAD-ECKE GmbH, Villingen-Schwenningen	1 Jan. - 31 Dec.		38.86
OCP GmbH Office Chemie Produktion, Hattingen	1 Jan. - 31 Dec.		25.10
ODS Business Services Group GmbH, Hamburg	1 Jan. - 31 Dec.		32.00
Projektgesellschaft Justus-von-Liebig-Straße mbH, Kronberg / Taunus	1 Jan. - 31 Dec.		50.00
Vermögensverwaltungsgesellschaft DVD Dassow GmbH, Dassow	1 Jan. - 31 Dec.		30.00
7. Domestic subsidiaries/Joint ventures (not measured at equity due to immateriality) and/or in accordance with IAS 28.1(a))¹⁾			
Alu Druckguss Sp.z.o.o., Nowa Sól	1 Jan. - 31 Dec.		49.00
Infinigate Holding AG, Rotkreuz	1 Jan. - 31 Dec.		24.52
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.		12.40
AXA Immoselect Hauptverwaltungsgebäude GmbH Co Objekt Düsseldorf Uerdinger Straße KG, Düsseldorf	1 Jan. - 31 Dec.		5.10
CoBaLe Immobilien GmbH & Co. Objekt Stuttgart KG, Frankfurt am Main	1 Jan. - 31 Dec.		5.10
Feldmühleplatz 1 GmbH & Co. KG, Düsseldorf	1 Jan. - 31 Dec.		5.10
Global Safety Textiles HoldCo One GmbH, Maulburg	1 Jan. - 31 Dec.		8.82
Oechsler Aktiengesellschaft, Ansbach	1 Jan. - 31 Dec.		10.00
9. Foreign equity investments in corporations and partnerships in which the interest exceeds 5% of voting rights¹⁾			
EPL Acquisitions (SUB) N.V. in liquidatie, AZ Amsterdam	1 Jan. - 31 Dec.		5.70
Old HG Limited, Berkshire	1 Apr. - 31 Mar.		6.12
PSE Newco Limited, Yeadon Leeds	1 Jan. - 31 Dec.		5.70
Ring International Holding AG, Vienna	1 Jan. - 31 Dec.		9.37
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, Luxembourg			
Partner Fonds Europa Renten Teilfonds II, Luxembourg			
Partner Fonds Europa Renten Teilfonds I, Luxembourg			
Partner Fonds Government & Covered Select, Luxembourg			
Rio Debt Holdings (Ireland) Limited, Dublin 2			

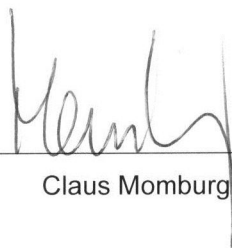
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Düsseldorf, 1 June 2012

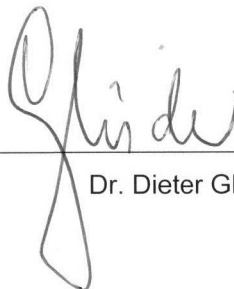
IKB Deutsche Industriebank AG
The Board of Managing Directors



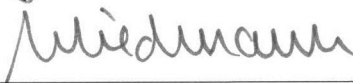
Hans Jörg Schüttler



Claus Momburg



Dr. Dieter Glüder



Dr. Michael H. Wiedmann

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 financial year from 1 April 2011, to 31 March 2012. 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, 6 June 2012

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

(Mark Maternus)
Wirtschaftsprüfer
(German Public Auditor)

(ppa. Michael Meteling)
Wirtschaftsprüfer
(German Public Auditor)

**Responsibility statement in accordance with section 297 (2) sentence 4 HGB,
section 315 (1) sentence 6 HGB**

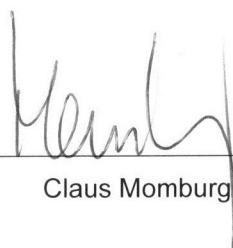
To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements present a true and fair view of the assets, liabilities, and profit or loss of the Group, and the Group management report includes a fair review of the development and performance 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 2012

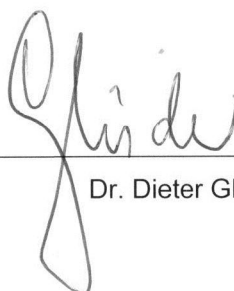
IKB Deutsche Industriebank AG
The Board of Managing Directors



Hans Jörg Schüttler



Claus Momburg



Dr. Dieter Glüder



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 IKB's 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 relate only to the day on which they are made. IKB accepts no obligation to update such statements in light of new information or future events.

Forward-looking statements naturally include risks and uncertainty factors. A large number of important factors can contribute towards actual results deviating considerably from forward-looking statements. Such factors include the condition and development of the financial markets in Germany, Europe, the US and other locations where IKB generates a substantial portion of its income from securities trading, the potential default of borrowers or counterparties in trades, the implementation of the management agenda, the reliability of the risk management policies, procedures and methods applied, and the liquidity situation (not a comprehensive list).

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