Annual Report 2012/2013

IKB
Deutsche Industriebank

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Letter from the Chairman of the Board of Managing Directors

Dear Shareholders,

Dear business partners of IKB,

IKB is gradually working its way forward. In an environment dominated by the ongoing European debt crisis and major uncertainty, the consolidated net loss in the 2012/13 financial year was € 143 million, lower than the previous year (€ -424 million). At the end of last year, the EU Commission found that IKB had essentially fulfilled all its stipulated conditions. In December 2012, we repaid the last of the SoFFin guarantees ahead of schedule; in total we paid fees of € 343 million. Furthermore, the legal risks resulting from the IKB crisis were essentially settled.

Thanks to the smoothing of the maturity profile of our liabilities caused by the repayment of the SoFFin guarantees and the positive development in deposit business with retail and corporate clients, we consider our liquidity to be secure. We recently added bearer bonds to our investment range and have since placed sales of almost € 100 million.

IKB's focus is on financing and advisory services for German SMEs. Corporate clients are assisted by an on-site manager who works closely with industry and product experts. Thus, the Bank's expertise is quickly and comprehensively available. Short decision-making paths and the extended product portfolio promote the implementation of complex transactions and the selective expansion of the customer base.

Many companies are seeking alternatives to loan financing as heightened banking regulation will make long-term borrowing more difficult and more expensive. Our customers see us not just as a creditor, but also increasingly as an advisor, risk manager and link to the capital market. More than 100 new customers in the financial year show that our extended range is well accepted. New business is being subjected to strict profitability criteria and is showing a positive trend over the years. We have launched a first fund to provide customers with access to risk capital from international investors.

The optimisation of risk-weighted assets improved the tier 1 capital ratio slightly to 9.65 %. Basel III means tougher capital requirements. Hence, IKB is further reducing its non-strategic assets. PIIGS state risks have been limited to Italy; we disposed of our Cyprus risk early on. The value of our liquidity portfolio recovered along with the positive market development. Defaults on loans were moderate by multi-year comparison.

The rapidly increasing density of regulation is causing high costs and making it difficult to lower administrative expenses. Strict cost discipline is still needed; the downsizing is being implemented in line with the redundancy scheme in place. We are simplifying the Bank's processes and structures wherever possible in order to reduce spending. One example of this is the change in stock market segment of IKB's securities, which have moved from the regulated market to the quality segments of the unregulated market. As a result, we were able to end the elaborate reporting under IFRS and have therefore prepared this combined management report in accordance with the German Commercial Code.

Our goal is to achieve operating profitability. The challenges caused by the repercussions of the euro debt crisis and regulation remain considerable, especially for a relatively small bank like IKB. In this environment, German SMEs are proving a significant stability and growth factor. Our financing and advisory solutions create business freedom for our customers so that they can remain successful in international competition.

Düsseldorf, June 2013

Hans Jörg Schüttler

SMEs – Sales surge thanks to international outlook

Most German companies in the upper small and medium-sized enterprise segment can be satisfied with the past financial year, even though the economy in Germany, not to mention the rest of Europe, contracted significantly in 2012. These are the findings of an IKB analysis of the 2012 annual financial statements of around 130 listed industrial and service industry SMEs with sales of between € 50 million and € 3 billion.

Admittedly, the economic slowdown did not pass by the companies looked at unscathed. One in four companies suffered a loss of income. On average, however, sales rose by around 4% – mainly thanks to improving sales outside Germany. Many companies have further stepped up their international orientation and are profiting from the ongoing growth momentum in the emerging economies. The average share of international sales climbed year-on-year from 62.5% to 64%.

Working under more difficult overall conditions, companies were unable to fully maintain their good income levels of 2011. Operating income was in decline at almost half of companies. EBIT as a percentage of sales declined by approximately one percentage point on average to around 7%. Nonetheless, the income situation as a whole is still positive. As in the previous year, only around one in every ten companies reported a loss for the year.

Companies expanded their business activities to highly varying degrees in 2012. A somewhat cautious approach took the upper hand in light of the uncertain economic situation.

Total assets were down at almost 40% of firms; the average increase in this respect was almost 2.5% (after around 7.5% one year previously). Savings in working capital were on the agenda – as was limiting investments. While M&A activity was relatively weak, most companies again raised their capital expenditure, often focusing on projects abroad. The capital expenditure ratio was stable overall; i.e. investments in intangible assets and property, plant and equipment rose parallel to (moderately expanding) sales.

Corporate spending policy was restrained on the whole, which was reflected in the development of cash flow figures. Operating cash flow (including changes in current assets) and free cash flow (also deducting payments for property, plant and equipment and equity investments) showed a rising trend in relation to sales. In line with this, cash and cash equivalents have risen slightly to an average level of roughly 12% of total assets. Thanks not least to the low growth in total assets, companies' equity ratios have increased again – by almost one percentage point – to over 47% on average. Almost two thirds of companies reported growth in this figure. The share of financial liabilities in relation to total assets was stable on average at around 17%.

Overall, the figures give the impression that the larger SMEs are mostly in good condition – and well positioned to start expanding their excellent standing on the international markets.

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

Report of the Supervisory Board

In the financial year 2012/13, 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 regular 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 2013/14, 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 6-Month Report and quarterly financial reporting 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 or intercompany loans.

The Supervisory Board held five meetings in the financial year 2012/13. Regular meetings were held in June, August, November and February. The Supervisory Board also convened in August, following the Annual General Meeting for the financial year 2011/12, for a constitutive meeting which elected Dr Karsten von Köller again as Deputy 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 some meetings of the Supervisory Board and sent their apologies.

Topics of the Supervisory Board plenary meeting

At all Supervisory Board meetings in the reporting year 2012/13, the Supervisory Board was able to form a detailed opinion on the general development of the bank based on written and oral reporting by the Board of Managing Directors. In this respect, the Board of Managing Directors also provided the Supervisory Board with explanations concerning the development of business volume and result of the Group. Furthermore, the Board of Managing Directors examined in detail the development in the individual business segments and reported on the capital position, financial situation and Group risk. 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, as in the previous year, 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. An important issue during the entire reporting period was in addition IKB's change of segment from the regulated market to quality

segments of the unofficial stock exchange market. The Supervisory Board was continuously informed about the progress of the change of segment and was involved in all material decisions concerning further action and the changeover of accounting from IFRS to German HGB.

At its meeting convened to review the annual financial statements, the Supervisory Board examined inter alia the annual financial statements, 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 2011/12. 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 at 31 March 2012 with the management reports and dependent company report for the financial year 2011/12. 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 2011/12 and the Corporate Governance Declaration respectively the Corporate Governance Report for the financial year 2011/12 were approved. Further topics explained by the Board of Managing Directors in written and oral form were the business and risk strategy, the five-year plan and the remuneration systems. The Supervisory Board also addressed the agenda for the Annual General Meeting 2012 of IKB and approved the Supervisory Board's proposed resolutions to the Annual General Meeting including an amendment of the Articles of Association to reduce the Supervisory Board of IKB from fifteen to twelve members. Furthermore, the Supervisory Board determined the targets of the individual members of the Board of Managing Directors for the financial year 2012/13, deliberated on the achievement of the respective targets for the financial year 2011/12 and accordingly determined the variable remuneration for the individual members of the Board of Managing Directors for the financial year 2011/12. The activities of the Finance and Audit Committee were also reported.

At its following quarterly meetings, the Supervisory Board deliberated respectively on the business development and Group risk, and also addressed in this context the regulatory capital position including the current status of the premature and scheduled return of the SoFFin guarantees. The Board of Managing Directors informed the Supervisory Board on this both in written and oral form.

Where resolutions were passed by the Supervisory Board Executive Committee, this was also reported to the Supervisory Board.

Further topics in the reporting period were the business and risk strategy and the new appointment respectively reappointment of the members of the Advisory Board. The Supervisory Board also deliberated on medium-term quantitative and qualitative HR planning and development and had key data concerning the reconciliation of interests and social plan explained by the Board of Managing Directors. The Board of Managing Directors informed the Supervisory Board continuously concerning the status of implementation and the potential impact of proposed new legislation such as Basel III or other pending changes in the context of the reform of the German Banking Act (*KWG*).

The Board of Managing Directors gave the Supervisory Board a timely and comprehensive written and oral explanation of the business policy and key management issues. This also involved the Supervisory Board in the strategic further development of IKB in view of expanding private customer business or implementing new legal requirements for linking with a central clearing counterparty. In addition, the Supervisory Board once again deliberated on special projects e.g. for restructuring hybrid capital and optimising the company structure of the IKB leasing segment or the repurchase offer with respect to the IKB Funding Trust I and II issues.

In organisational terms, the Supervisory Board deliberated on the rules of procedure for the Board of Managing Directors and Supervisory Board, and adapted these to new requirements of MaRisk and MaComp.

The annual report of the Chief Compliance Officer was adjourned to the first meeting in the financial year 2013/14 because of the marked extension of reporting obligations in MaComp. In connection with the abolition of capital market orientation through the change of segment from regulated market to quality segments of the unofficial stock exchange market, the Supervisory Board also decided to repeal formally the concrete objectives for its composition which it had laid down itself in the last financial year and to waive the submission of the Corporate Governance Report.

The Board of Managing Directors regularly notified the Supervisory Board in written and oral form about the current development in pending litigation. The focus here was on different investor claims, lawsuits in the USA and contestation suits against resolutions of the Annual General Meeting. In addition, the Supervisory Board again deliberated on the progress of diverse ongoing lawsuits against former members of the Board of Managing Directors such as several proceedings which were brought against the bank by the former members of the Board of Managing Directors Stefan Ortseifen respectively Joachim Neupel. Both cases here involved respectively involve inter alia IKB's claim for the repayment of bonuses for the financial year 2006/07 and damage claims by the bank in connection with the measures, which were implemented by the two foregoing former members of the Board of Managing Directors on two residences owned by the bank, and which the bank considered were not justified. In the proceedings against Mr Neupel, IKB was successful on almost all counts. Only a residual amount of € 3,450 is still pending before Düsseldorf Regional Court. Furthermore, these decisions are final.

Mr Ortseifen's case also involves the determination of the invalidity of the termination of his Board of Managing Directors employment contract without notice for good cause. Proceedings were suspended in view of the criminal proceedings against Mr Ortseifen. An oral hearing was held before Düsseldorf Regional Court for the first time in this respect in November 2012.

The Supervisory Board also deliberated on the further handling of the crisis of IKB and the assertion of any further damage claims against former members of the Board of Managing Directors. As hitherto and until further notice, 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. 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 sees itself confronted with potential, not insignificant claims abroad. Claims could be asserted and, where appropriate, pursued against the company 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 especially high-volume litigation involving FGIC/Calyon, King County, Iowa Student Loan Liquidity Corporation and other claimants has 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. IKB is currently also pursuing damage claims in the USA by way of legal action because of

diverse investments. The Supervisory Board believes it would also not be in the company's best interest here to present the respective opposing parties with the means, indirectly through a public D&O liability process against former members of the Board of Managing Directors, required to allow them to pursue their claims.

Against this background, the Supervisory Board believes that the assertion of any internal liability claims within the limitation periods should in the best interest of the company 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. 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.

Declaration of Conformity with respect to the German Corporate Governance Code

Following abolition of the official stock exchange listing, the submission of a declaration of conformity is no longer required by law.

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 been delegated to the committees themselves.

The Supervisory Board Executive Committee essentially prepared the meetings of the Supervisory Board and 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 on questions of corporate governance, the preparation of the Annual General Meeting and matters concerning the Board of Managing Directors.

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 partiality 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 discussed the proposals to the Supervisory Board regarding the election of Supervisory Board members by the Annual General Meeting on 23 August 2012.

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.

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 2012/13. PwC audited the annual financial statements of IKB AG and the Group as well as the consolidated management report for IKB AG and the Group and issued an unqualified audit opinion. Following the abolition of capital market orientation, the consolidated financial statements were also prepared for the first time in years based on the German Commercial Code. 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 2012/13.

Examination of and deliberation on the annual financial statements, the consolidated financial statements and the relevant consolidated management report as well as the related written audit reports of PwC for the financial year 2012/13 by the Finance and Audit Committee and the plenary meeting of the Supervisory Board took place on 27 June 2013. All members of Supervisory Board respectively Committees received these documents in due time prior to the respective meeting. This enabled them therefore to deal with the respective contents in due time prior to the meeting. 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 27 June 2013. In accordance with the final result of the Supervisory Board’s own review of the annual financial statements and the consolidated financial statements as well as the consolidated management report, no objections were raised. The Supervisory Board approved the annual financial statements and consolidated financial statements of 28 May 2013, prepared by the Board of Managing Directors, at its meeting on 27 June 2013. The annual financial statements have thus been adopted.

Review and Approval of the Dependent Company Report for the Financial Year 2012/13

The report on business relationships with affiliated companies for the financial year 2012/13 (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 27 June 2013, 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 27 June 2013.

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 Olivier Brahin retired from office with effect from 25 May 2012. Dr Karsten von Köller and Dr Claus Nolting, whose terms of office each ended at the close of the Annual General Meeting of 23 August 2012 were again elected to the Supervisory Board, by resolutions of the Annual General Meeting of 23 August 2012, 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 2014/15. Furthermore, the Annual General Meeting elected Mr Michael Kolbeck on 23 August 2012, in place of Dr Thomas Rabe who had already retired from the Supervisory Board with effect from 21 February 2012, 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 2014/15, and elected Mr Jordi Goetstouwers as a new member, in place of Mr Olivier Brahin who had retired from the Supervisory Board, 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 2012/13. In the course of the constitutive meetings of the Supervisory Board and Finance and Audit Committee on 23 August 2012 following the Annual General Meeting, Dr Karsten von Köller was again elected as Deputy Chairman of the Supervisory Board and as Chairman of the Finance and Audit Committee. Ms Carmen Teufel and Mr Bernd Klein, whose terms of office also ended at the close of the Annual General Meeting on 23 August 2012, were again elected to the Supervisory Board by virtue of their election by the employee representatives.

Due to the ending of his active employment contract, Mr Ulrich Wernecke retired from office on the Supervisory Board of IKB with effect from 28 February 2013. The Supervisory Board elected Ms Nicole Riggers as Mr Wernecke's successor as member of the Supervisory Board Executive Committee. In order to further maintain the ratio of shareholder representatives to employee representatives on the Supervisory Board according to the German One-Third Employee Participation Act (*Drittelbeteiligungsgesetz*) and to allow the reduction of the Supervisory Board from fifteen to twelve members, decided by the Annual General Meeting on 23 August 2012, to be implemented early, Messrs Michael Kolbeck and Jordi Goetstouwers resigned their offices with effect from 1 March 2013. Employee representative Mr Dieter Schnitzler had previously not taken up office as deputy member for Mr Wernecke so that since 1 March 2013 the Supervisory Board has comprised only twelve members instead of the previous fifteen.

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

Personalia – Board of Managing Directors

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, 27 June 2013

The Supervisory Board

Bruno Scherrer

Chairman

Transforming financing patterns

Corporate financing is undergoing a transformation. This can be seen in the development in corporate loans. After reducing debt during and shortly after the crisis, one could have expected a strong surge in loan volumes starting from 2010. But corporate borrowing remained at a low level during the upswing. At the end of 2012, loans extended by banks to companies and the self-employed were still 3.5% or more than € 30 billion below the level at the end of 2008.

There are no indications that the trend in lending is being fenced in by a shortage of credit on offer. Companies are hardly rating bank lending policies as restrictive. The reasons for the modest rise in financing are therefore more to do with the demand situation. On the one hand, the fact that companies have stepped up their investment activities only very cautiously plays a role here. Capital investments in the economy as a whole have not yet returned to the peak levels of 2007/08. Corporate acquisitions have also remained restrained. Mainly smaller transactions with lower financing volumes have been performed. Finally, companies have also been cautious in their handling of working capital. Here, too, funding requirements were limited thanks to a range of optimisation measures.

Overall, companies have managed the latest upswing without greatly expanding their net assets positions (and thereby their financing volumes as well). According to Bundesbank statistics, the aggregate total assets of companies increased only half as much as sales between 2009 and 2011, while in prior recovery phases these figures have risen virtually in parallel.

A key second factor behind modest credit development is the greater use of other financing elements. Firstly, goods results of operations have afforded companies a high share of self-finance. Secondly, major corporations and large SMEs have increasingly chosen direct access to the capital market, procuring long-term funds through bonds. In addition, approximately 60 bonds were issued on the new SME markets set up by stock exchanges in 2011 and 2012. Issuers took advantage of the strong interest among investors in the current low-interest environment. Many also deliberately sought to diversify their financing as they anticipate that heightened banking regulation will make long-term borrowing more difficult and more expensive. In net terms – i.e. after deducting repayments – Deutsche Bundesbank registered a domestic issue volume of around € 23 billion for corporate bonds in the two-year 2011/12 period, significantly outpacing the growth in bank lending volumes. Promissory note loans, tranches in which are now increasingly being placed abroad, have also been greeted with strong interest.

However, demand for bank loans will rise again as soon as the financial market environment changes and the economy recovers sustainably. This is because bank loans are still the ideal financing instrument for a large number of applications. However, much is pointing to more diverse patterns in corporate financing in future, in which capital market elements will play a larger role. This trend will also be amplified by growing internationalisation among companies.

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

Consolidated Management Report

1. Business and general conditions

With regard to development on the capital markets, global economic development and the supply of credit to the economy, the 2012/13 financial year was again influenced by the euro crisis, which the euro zone countries have still not yet resolved. The financial year split roughly into two halves. In spring, the effect of the cautiously more optimistic market sentiment resulting from the European Central Bank (ECB)'s generous liquidity provision at the start of the year, which reduced the acute refinancing needs of numerous banks in the euro zone, began to wear off. The still unresolved economic policy problems in the euro zone gave rise to increasing doubts about even the large euro member states and their banking systems. The problems escalated in Spain especially. Major banks in Spain faced increasing write-off and provisioning requirements, especially in the real estate business, meaning that they required new equity. Many market participants around the world prepared for or speculated on the collapse of the European Monetary Union. This resulted in the drastic increase of risk premiums for certain euro zone countries, very low interest rates and a rush towards "safe" investments.

In autumn 2012, the ECB responded with an announcement that it would make essentially unlimited supporting purchases of individual countries' government bonds, subject to certain conditions, thus calming the financial markets. In addition, the EU summit in June signalled the political will to promote initiatives towards stronger integration, such as joint banking supervision. Spain also received aid from the euro group for bank recapitalisation and Greece to support the adjustment process respectively. From the market participants' perspective, the ECB announcement in particular decisively reduced the danger of extreme scenarios occurring. As a consequence, cash outflow from the crisis-hit countries, such as Spain, decreased. Risk premiums for assets from particularly vulnerable countries decreased. Even the uncertain political landscape in Italy following the elections and the problems with the Cyprus bailout only interrupted this positive trend for a few days. Significant support for this trend is also likely to arise from the very expansionary monetary policy worldwide.

The ECB has bought time for the European governments. They still have to come to important economic policy decisions together, such as:

- The configuration of the banking union and the support for failing banks, in order to dissolve the shared fate of highly indebted countries and their creditor banks.
- The balance between consolidating budgets and appropriate growth, in order to enable restructuring and the acceptance of austerity measures.
- The restoration of money, credit and capital markets that work across borders.
- Securing long-term funding, for example for the required infrastructure as a precondition for productivity increases.

The more clearly and reliably the approach can be communicated to the capital markets, the higher the probability that the euro crisis will gradually subside.

General conditions for core business

Despite initially favourable economic signals at the start of 2012, the expansion of the global economy remained modest over the rest of the year. Signs of an upturn were not seen again until the end of 2012. In the United States, there was a moderate upward trend in the economy until the end of the year, when it slowed considerably due to the threat of severe spending cuts ("fiscal cliff"). However, this threat was reduced by US financial policy. Despite ongoing uncertainty over fiscal policy, the US economy has been showing marked signs of an upturn since the start of 2013.

In view of ongoing tensions and the necessity of consolidation measures, the economic weakness in the euro zone continued in the reporting period; in the last quarter of 2012 it was still increasing. Overall, the euro zone is still characterised by very diverse economic trends. The crisis-hit countries in particular, whose consolidation, under pressure from the markets, is very pronounced in places, reported considerably declines in economic output. The recession deepened again in Italy and Spain. In these countries, gross domestic product (GDP) for 2012 contracted by 2.4% and 1.4% respectively. The French economy is stagnating. In many euro zone countries, high unemployment in connection with austerity measures is increasingly becoming a strain in terms of public support for further consolidation measures and the euro zone as a whole.

The British economy also felt the crisis on the European sales markets. Although the Olympic Games provided stimulus in the short term, overall the UK saw only weak GDP growth of 0.3% in 2012.

The economy in Germany likewise lost momentum in 2012. Real GDP increased only moderately at 0.7% after the very strong growth of the previous years. The slowdown of economic growth is attributable to the completion of the catching-up process after the deep recession of 2008/09 and the accompanying normalisation of the rate of expansion. Another particular negative factor is the difficult international environment. This includes the uncertainty in connection with the debt crises and the severe adjustment recessions in parts of the euro zone. The German economy was unable to escape these difficulties despite its good structural condition. Corporate investment in particular was affected by the lack of confidence in the further economic development of the euro zone, and is still lower than the level it was at in 2008 before the crisis. By contrast, housing construction benefited from the uncertainty as a safe investment. Private consumption continued its modest upward trend. This was supported by increasing employment and rising incomes.

In recent months, the situation on the financial markets in the euro zone became less strained due to the ECB's announcement in autumn 2012. Risk premiums for problem countries fell, excess liquidity in the banking sector decreased and the disequilibrium in the balance of payments – visible in the Euro system's TARGET2 balances, which increased considerably up to around the middle of last year – declined. The ECB did not take new, greater measures to support the markets, and the key interest rates remained unchanged. The fragmentation of the money and capital markets is continuing, and the situation in the banking sector of some countries remains precarious. Susceptibility to new problems therefore remains.

The fragmentation of the euro zone is also reflected in the credit markets; financing conditions remain considerably influenced by country-specific factors. In the crisis-hit countries, weak economic performance is negatively affecting demand for credit. However, this is compounded in particular by supply-side constraints in the form of tighter credit restrictions and poorer conditions. The substantial volume of non-performing loans on the balance sheets is a burden on banks' equity. The ECB's bank lending survey also indicates a supply-side restriction in the crisis-hit countries. In Germany, by contrast, there were no signs of restrictive lending from the banks. Nevertheless, new borrowing by businesses – as in the previous year – remained relatively weak. This is because companies, in addition to showing restraint in capital expenditure, are increasingly taking the option of internal or capital market financing. But the uncertain macroeconomic situation is even making a mark on capital market financing and M&A transactions. In a rather pessimistic transaction environment, it showed limited development.

Under continuing problematic conditions in 2012, the German banking industry was increasingly faced with the challenge of bringing profitability targets into line with tightened regulations for securing the capital base, credit quality and liquidity. While the general economic situation in Germany still had a stabilising effect, the global downturn and the temporarily escalating sovereign debt crisis made a clear mark on risk provisioning and returns. In addition, the persistently low money market and capital market interest rates and the flat yield curve negatively affected net interest income. Competition in traditional lending business, which banks

are increasingly focussing on, also remained intense. The same applies to deposit business, where competition for affordable or stable sources of refinancing intensified greatly.

IKB's strategic positioning

The IKB Group's extensive restructuring measures have essentially been implemented, and the fundamental changes to the business model have been made. The Bank has a solid tier I capital base, risks were successively reduced and the liquidity base sustainably secured and diversified. The EU conditions have also been met, and the SoFFin (German Financial Market Stabilisation Fund) guarantee was fully repaid at the end of 2012.

The largely completed restructuring enables IKB to concentrate more intently on customer business and its advisory, capital market, credit management and asset management activities. The integrated business strategy, consisting of regional sales, industry groups and product groups, ensures a comprehensive advisory service for the customers. Despite the ongoing European sovereign debt crisis and financial and real economic uncertainty, IKB has succeeded in acquiring new customers and building on existing customer relationships. IKB's target customers are predominantly industrial SMEs, often fast-growing companies that will increase their sales in the next few years and that have already internationalised.

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 14 leasing companies in ten European countries (Germany, France, Italy, Austria, Poland, Romania, Russia, Slovakia, Czech Republic and Hungary).

The Bank held a share of the market for long-term corporate loans to the German manufacturing industry of around 7.0%. For public subsidy loans, the specific market share is much higher in some areas. IKB also succeeded in using and developing its expertise in syndication and placement for SMEs in capital market business.

In terms of acquisition finance, IKB works with private equity companies, which are supervised by an independent industry group. In addition, IKB has positioned itself as an asset manager for institutional investors by launching a fund of funds in Luxembourg. With this broader approach, IKB satisfies its customers' investment requirements with regard to various asset classes.

Given the efforts of the banking authorities to comprehensively redesign 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.

IKB makes the deposits raised available to its SME customers as medium-term equity loans. Development funds are primarily used to cover companies' long-term financing requirements adequately. In order to bring companies to the capital market successfully, IKB makes limited trading transactions and develops its indus-

try groups. Fund solutions are used to supply companies with a broader range of products (including mezzanine financing) and thus indirectly to make the capital market accessible to them.

As well as secured financing, the key components of IKB's refinancing mix are the active utilisation of programme loans and global loans from government development banks and deposit business with institutional, corporate and retail customers. Thus, IKB is preparing for a decline in demand among traditional investors (banks, insurance companies) for unsecured bank bonds due to Basel III and Solvency II.

The increasingly complex regulatory environment and the uncertainty this brings pose a significant burden in terms of the cost of equity and increased regulatory administrative expenses. This is compounded by numerous projects that entail specific taxes for banks and could have far-reaching steering effects for certain transactions (e.g. financial transaction tax). 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, the optimisation of risk-weighted assets and the anticipation of the steering effects of taxes.

2. Significant events in the reporting period

Implementation of EU conditions

By way of a letter dated 23 October 2012, the European Commission issued an opinion on the final report on the implementation of the EU conditions and stated that IKB had largely met the obligations arising from its ruling dated 21 October 2008. Specifically, the European Commission confirmed the following:

- The restructuring plan has been implemented properly. In particular, the change in the ownership of IKB was successful. IKB is now fully privatised and this is reflected in its presence on the market.
- IKB has reduced its total assets to € 32.1 billion, which is lower than the figure of € 33.5 billion required by the European Commission.
- The Real Estate Finance segment (including IKB Management GmbH, IKB Projektentwicklungs GmbH & Co. KG and IKB Projektentwicklungsverwaltungsgesellschaft mbH) has been sold or wound up.
- The winding-up of the Luxembourg location is in progress. There are still legal reasons preventing IKB International S.A. and the Luxembourg branch of IKB from being wound up in full. No new business is being conducted in these areas and the measures that have already been implemented cannot be reversed.
- IKB Capital Corporation has been wound up.
- IKB's business activities in Amsterdam have been wound up.
- According to the European Commission, the sale or winding-up of the business activities of Movesta Lease and Finance GmbH, 50% of whose shares were previously held by IKB, is not yet complete. Although irreversible measures have been initiated, the European Commission stated that there were still legal reasons delaying completion.
- Due to legal restrictions, the winding-up of other non-strategic assets originally reported in the balance sheet in the amount of € 1.7 billion was only completed in part; however, this is no longer required due to IKB's total assets falling below € 33.5 billion.

Accordingly, the European Commission restricted its monitoring of the conditions arising from its ruling dated 21 October 2008 to the full winding-up of IKB International S.A. and IKB's former 50% equity interest in Movesta Lease and Finance GmbH.

The obligations imposed on IKB as a result of the ruling by the European Commission dated 17 August 2009 on the extension of the SoFFin guarantee volume comprised

- restrictions on proprietary trading and
- extensive restrictions on the repurchase of own liabilities

and ceased to apply when the approved SoFFin guarantees were returned in full in December 2012.

By way of letter dated 14 February 2013, IKB reported to the EU Commission on the status of the winding-up of IKB S.A. and the 50% equity interest in Movesta Lease and Finance GmbH and suggested ending the monitoring of IKB under State Aid law by confirming the fulfilment of the conditions. A response from the EU Commission is currently still being awaited.

Return of SoFFin guarantees

In the 2012/13 financial year, IKB returned the remaining SoFFin guarantees as at 1 April 2012, amounting to € 4.5 billion, in full. Development over time was as follows:

Table: SoFFin guarantee returns in the 2012/13 financial year

Date	Volume returned	Maturity	Total remaining
18 May 2012	€ 250 million (early)	2 February 2015	€ 4.25 billion
2 August 2012	€ 250 million (early)	2 February 2015	€ 4.00 billion
24 August 2012	€ 250 million (early)	2 February 2015	€ 3.75 billion
10 September 2012	€ 2.0 billion (at maturity)	10 September 2012	€ 1.75 billion
27 September 2012	€ 250 million (early)	2 February 2015	€ 1.50 billion
26 October 2012	€ 650 million (early)	1 February 2013	€ 850 million
31 October 2012	€ 100 million (early)	1 February 2013	€ 750 million
29 November 2012	€ 400 million (early)	2 February 2015	€ 350 million
14 December 2012	€ 350 million (early)	2 February 2015	€ 0

The repayments were made possible by available liquidity reserves and served to reduce the SoFFin commission payable by IKB, which amounted to a total of € 343 million since the utilisation of the SoFFin guarantees. The maximum guarantee volume was € 12 billion. € 10 billion of this was utilised.

After the return of the last remaining SoFFin-guaranteed bonds on 14 December 2012, SoFFin agreed to cease regular reporting and to suspend the conditions of the guarantee agreement. In particular, the full return meant the lifting of SoFFin restrictions relating to the tier I ratio and the repurchase of liabilities.

Changes in the Group

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

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

The liquidation proceedings for MD Capital Verwaltungs GmbH i.L. and MD Objekt Lorsch Verwaltungs GmbH i.L. were initiated in June 2012. The companies are no longer active and are being wound up. The liquidation proceedings for MD Capital Beteiligungsgesellschaft mbH were initiated on 31 December 2012. Furthermore, MD Capital Stromstraße Verwaltungsgesellschaft mbH, Düsseldorf, and MD Objekt Stromstraße Verwaltungsgesellschaft mbH, Düsseldorf, also entered liquidation on 31 January 2013.

On 11 September 2012, IKB SWE GmbH was renamed IKB Leasing Beteiligungsgesellschaft mbH. Since that date, the previously inactive company has been used as a holding company for the IKB Leasing Group.

On 6 December 2012, IKB Leasing GmbH, Hamburg, and IKB Leasing Berlin GmbH, Erkner, were merged into IKB Autoleasing GmbH, Hamburg, effective from the merger date, 1 April 2012. The leasing business, which was previously operated in IKB Leasing GmbH and IKB Leasing Berlin GmbH, has thus been transferred to IKB Autoleasing GmbH. At the same time as the entry of the double merger into the commercial register, IKB Autoleasing GmbH was renamed IKB Leasing GmbH, meaning leasing business will from now on be continued consistently under the IKB Leasing GmbH name.

Legally relevant events

On 25 June 2012, King County, Iowa Student Loan Liquidity Corporation and IKB signed an agreement ending the legal disputes between these parties that had been 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 signatory parties. 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.

Please see the “Legal risks” subsection in the risk report for further information.

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 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. 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.

Appeals by IKB against the court appointment of the special auditor were unsuccessful on the basis of legal rulings of December 2009 and March 2010. Subsequent to these legal rulings, Dr Ring resumed his duties as special auditor.

IKB has not yet received the results of this audit.

Debt issuance programme

The debt issuance programme was updated on 20 September 2012 with a reduced volume of € 10 billion. This programme has since been used for various new issues.

Personnel changes

Mr Olivier Brahin stepped down from his position as a Supervisory Board member effective 25 May 2012.

Dr Karsten von Köller and Dr Claus Nolting, whose terms of office expired at the end of the Annual General Meeting on 23 August 2012, were re-elected to the Supervisory Board by resolutions of the Annual General Meeting on 23 August 2012. In addition, the Annual General Meeting on 23 August 2012 appointed Mr Michael Kolbeck to the Supervisory Board to replace Dr Thomas Rabe, who had stepped down effective 21 February 2012, and appointed Mr Jordi Goetstouwers to the Supervisory Board to replace Mr Oliver Brahin. During the constituent meeting of the Supervisory Board and the Finance and Audit Committee on 23 August 2012, Dr Karsten von Köller was re-elected as Deputy Chairman of the Supervisory Board and Chairman of the Finance and Audit Committee.

As scheduled, Ms Carmen Teufel and Mr Bernd Klein stepped down from the Supervisory Board at the end of the Annual General Meeting on 23 August 2012. They were re-elected to the Supervisory Board following an election of employee representatives.

Due to the termination of his active employment, Mr Ulrich Wernecke stepped down from his post on the IKB Supervisory Board effective 28 February 2013. The Supervisory Board elected Ms Nicole Riggers as a member of the Supervisory Board Executive Committee as Mr. Wernecke’s successor. In order to secure the ratio of shareholder and employee representatives in the Supervisory Board in accordance with the *Drittelbeteiligungsgesetz* (German One-Third Employee Participation Act) and to enable early implementation of

the reduction in the size of the Supervisory Board from 15 to twelve members as resolved at the Annual General Meeting on 23 August 2012, Mr Michael Kolbeck and Mr Jordi Goetstouwers resigned their posts effective 1 March 2013. Previously, the employee representative Mr Dieter Schnitzler had not entered office as an alternate member for Mr Wernecke, meaning that the Supervisory Board has comprised just twelve members instead of the previous 15 since 1 March 2013.

Reconciliation of interests and redundancy scheme

The Bank is currently implementing the reconciliation of interests and redundancy scheme concluded on 7 May 2012 in order to reduce the workforce by a total of 173 full-time equivalents (FTEs) within two years. The first phase, which involved the reduction of around 100 FTEs, has already been effected.

Annual General Meeting on 23 August 2012

The Annual General Meeting of IKB for the 2011/12 financial year was held in Düsseldorf on 23 August 2012. 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.

Bonds with reference to Greece and Cyprus

All remaining Greek bonds were sold after the balance sheet date of 31 March 2012. The resulting expenses were recognised under bonds carried at amortised cost as at 31 March 2012 as an adjusting event. In October 2012, the Bank sold its last remaining first-to-default security. The reference countries for this security included Cyprus. Since then, there have no longer been any counterparty default risks with regard to Cyprus.

Mandatory conversion of convertible bonds

In December 2008, IKB 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 no-par value bearer shares at the conversion ratio defined in the issue conditions. The mandatory conversion increased the total number of voting rights by 57,222, from 633,327,701 to 633,384,923, and the subscribed capital by € 146,488.32, from € 1,621,318,914.56 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 resolved, with the approval of the Supervisory Board, to implement 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.

IKB applied for the admission of its shares to the General Standard of the regulated market of Deutsche Börse AG, Frankfurt, to be revoked, coupled with an application for the introduction of the shares to the Entry Standard of the unregulated market of Deutsche Börse AG, Frankfurt. The revocation of the admission of IKB's shares to trading on the regulated market of Deutsche Börse AG, Frankfurt, took effect on 26 October 2012. IKB's shares were introduced to the Entry Standard on 29 October 2012. In addition, IKB's shares were included in the Primary Market of the Düsseldorf Stock Exchange on 19 July 2012.

IKB's other securities have also been admitted to the quality segments of the unregulated market of a German stock exchange. Following a corresponding application by IKB, the securities ISIN XS0118282481, XS0163286007, XS0163773251, XS0165828673, XS0165937458, XS0169197646, XS0171797219, XS0200612355, XS0241326924, XS0266017622, XS0282589505, XS0238155088, DE000A0EUEZ7 were admitted to trading on the Primary Market of the Düsseldorf Stock Exchange on 9 July 2012. IKB's application for the admission of these securities to the regulated market of the Luxembourg Stock Exchange to be revoked came into effect on 27 July 2012.

In addition, IKB applied for the admission of the securities ISIN DE0002197761, DE0002731304, DE0002731445, DE0002731494, DE000A0SMPA3, DE000A0SMPB1, DE0002731429, DE0002731197 to the regulated market of the Düsseldorf Stock Exchange to be revoked, coupled with an application for these securities to be introduced to the Primary Market (unregulated market) of the Düsseldorf Stock Exchange. This revocation came into effect on 28 September 2012. The IKB securities ISIN DE0002197761, DE0002731304, DE0002731445, DE0002731494, DE000A0SMPA3, DE000A0SMPB1, DE0002731429, DE0002731197 were admitted to trading on the Primary Market of the Düsseldorf Stock Exchange on 1 October 2012.

The final security still admitted to the regulated market of the Luxembourg Stock Exchange (ISIN XS0233836161) matured on 7 November 2012. The change of stock market segment was thus complete.

Conversion of Group accounting to HGB

With the segment change complete, IKB is no longer a listed company subject to special legal regulations. In accordance with the publication requirements of the new stock exchange segments, IKB publishes an annual financial report and a half-yearly financial report. Group accounting was converted from International Financial Reporting Standards (IFRS) to HGB, with the result that external accounting is now carried out fully on the basis of HGB. IKB does not expect the change in accounting standards to have a material impact in terms of transparency.

Purchase programme for IKB Funding Trust I and IKB Funding Trust II hybrid securities

On 17 August 2012, Matrona GmbH, a company of the IKB Group, invited holders of the listed securities issued by IKB Funding Trust I, ISIN DE0008592759, and IKB Funding Trust II, ISIN XS0194701487, to submit offers for sale. The acceptance of the offer was subject to the approval of the proposed contractual amendments relating to IKB Funding Trust I by the investors with an approval rate of not less than 66 2/3%. This figure was not achieved by 30 October 2012 and the purchase programme ended without the planned repurchase taking place.

Subletting to Helaba

In March 2013, a long-term subletting agreement was concluded with Landesbank Hessen-Thüringen (Helaba) concerning parts of the IKB central administration building in Düsseldorf. This sublet will reduce administrative expenses.

3. Net assets, financial position and results of operations

Unless noted otherwise, the comments below apply to both the Group management report (Group) and the management report of IKB AG (IKB AG). The comparative figures for the previous year were calculated in line with German commercial law and disclosed in accordance with section 298(1) in conjunction with section 265(2) HGB. The effects of the change in Group accounting from IFRS back to HGB are shown separately in the notes in a statement of equity reconciliation as at 1 April 2011 (date of the opening HGB balance sheet for the Group).

Business development

Despite the difficult economic environment, the Group generated a slightly lower new business volume of € 3.0 billion in the period under review (previous year: € 3.3 billion). The majority of this relates to IKB AG. The credit rating structure of the new business was improved and the proportion of public programme loans increased.

Results of operations

The consolidated net loss for the 2012/13 financial year was € 143 million. Thus, the consolidated net loss was reduced by € 281 million as against the previous year. The net loss of IKB AG improved by € 93 million to € 162 million.

Net interest and lease income

Net interest income includes current income from financial instruments, equity investments and investments in affiliated companies and income from profit transfer agreements. Net lease income consists of lease income, expenses and write-downs. Net interest and lease income in the Group amounted to € 210 million (previous year: € 211 million). Net interest income at IKB AG amounted to € 150 million (previous year: € 517 million, € 385 million of which from extraordinary effects due to the transfer within the Group of financial instruments and a distribution of free reserves by IKB International S.A.).

The current income from financial instruments, equity investments and investments in affiliated companies and income from profit transfer agreements included in net interest income rose by € 54 million to € 60 million in the Group. The corresponding income at IKB AG amounted to € 83 million (previous year: € 404 million, essentially as a result of the extraordinary effects described above).

Current income from equity investments and investments in affiliated companies at IKB AG was significantly affected by income from the profit and loss transfer agreement with IKB Beteiligungen GmbH amounting to € 71 million in the reporting year.

Net fee and commission income

Net fee and commission income was positive again in the Group for the first time in several years at € 5 million (IKB AG: € 9 million). By comparison, expenses of € 59 million (IKB AG: € 51 million) had been incurred in the previous year. The major reason for the increase in the reporting period was the € 69 million decline in SoFFin guarantee commissions to be paid to € 33 million (previous year: € 102 million).

Administrative expenses

Administrative expenses in the Group increased by € 2 million to € 304 million (IKB AG: by € 3 million to € 258 million).

Personnel expenses in the Group decreased by € 5 million to € 159 million (IKB AG: by € 4 million to € 124 million). This was due in particular to the decrease in the average workforce by 66 full-time equivalents (FTEs) to 1,478 in the Group and by 63 to 996 at IKB AG.

Other administrative expenses, depreciation and write downs of intangible and tangible assets in the Group rose by € 7 million to € 145 million (IKB AG: by € 7 million to € 134 million). In addition to additional expenses for the implementation of regulatory requirements, the increase is essentially due in part to higher liabilities to customers and expenses for the Deposit Protection Fund, which rose by € 8 million due to a general increase in fees, among other things, and it was limited by continued cost-cutting measures.

Net other income

Net other income comprises other operating and extraordinary income and expenses and write-downs and reversals thereof on equity investments, investments in affiliated companies and long-term investments plus income from the reversal of section 340g HGB reserves.

Net other income in the Group climbed by € 273 million to € 21 million (IKB AG: by € 462 million to € 8 million).

The measurement of equity investments and investments affiliated companies resulted in a net expense of € 17 million at IKB AG. This was primarily influenced by the € 15 million write-down on the equity investment in IKB Projektentwicklung GmbH. The previous year's figure at IKB AG had been reduced by extraordinary effects of € 192 million due to the write-down of the carrying amount of the equity investment in IKB International S.A. corresponding to the distribution of free reserves.

The measurement and sale of long-term investments in the Group resulted in net income of € 108 million (IKB AG: € 100 million) after net expenses of € 262 million (IKB AG: € 257 million) in the previous year. The previous year's result was negatively affected by write-downs on Greek bonds and first-to-default bonds relating to Greece in the amount of € 256 million.

As part of the reduction of hidden charges by liquidating liability derivatives, net expenses for close-out payments of € 49 million in the Group (IKB AG: net expenses of € 47 million) are included in net other income.

Additions to and reversals of provisions resulted in net expenses of € 24 million in other operating income and expenses for the Group (IKB AG: € 31 million).

The cancellation of the fund for general banking risk (section 340g HGB reserves), to the extent that this was recognised for transactions of the Luxembourg branch, resulted in income of € 19 million (IKB AG: € 19 million).

Net risk provisioning

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

Net risk provisioning included in amortisation/depreciation and write-downs of receivables, specific securities and additions to loan loss provisions in the Group rose by € 55 million from € -16 million to € -71 million (IKB AG: by € 68 million to € -72 million).

The net addition to risk provisioning in the Group increased by € 41 million to € 80 million (IKB AG: by € 67 million to € 81 million), but remained at a low level when compared over several years.

Provisions for possible loan losses in the Group include € 48 million (IKB AG: € 47 million) in net additions to specific valuation allowances, income from recoveries on receivables written off, provisions and write-downs, which increased by € 17 million year-on-year (IKB AG: by € 22 million). The higher net addition to

risk provisions was due in particular to the declining level of reversals. The addition to the global valuation allowance for lending business in the Group increased by € 24 million to € 32 million (IKB AG: by € 45 million to € 34 million). This takes into account the elevated risks of lending to companies in euro zone countries that are in or imminently facing recession (France, Italy, Spain).

The net income from securities and derivatives in the liquidity reserve in the Group amounted to € 9 million (IKB AG: € 9 million). The previous year's figure for the Group was € 24 million (IKB AG: € 9 million).

Taxes

Tax expenses in the Group amounted to € 6 million in the reporting period after € 8 million in the previous year. IKB AG incurred tax expenses of € 1 million in the reporting period after € 8 million in the previous year.

Result

Overall, the net losses for the financial year were reduced in the Group and at IKB AG. The Group's consolidated net loss for the financial year improved by € 281 million to € 143 million (IKB AG: net loss for the financial year improved by € 93 million to € 162 million).

In the 2012/13 financial year, the profit participation capital of IKB AG shared in the losses in the amount of € 4 million, resulting in a loss after loss participation of € 139 million in the Group (IKB AG: € 159 million). In addition, other revenue reserves of € 22 million were reversed to reduce the net accumulated losses. Including the loss carried forward of € 2,291 million for the Group (IKB AG: € 2,031 million), the net accumulated losses amounted to € 2,408 million in the Group (IKB AG: € 2,167 million).

Net assets

In the reporting period, the Group's total assets fell by € 5.0 billion and were € 27.6 billion on the reporting date (IKB AG: € 5.3 billion decline to € 27.0 billion).

The gross credit volume, which also includes off-balance sheet business (see also the risk report in chapter 4), amounted to € 29.7 billion in the Group on the reporting date, down € 2.4 billion on the same figure for the previous year (IKB AG: by € -1.6 billion to € 30.7 billion), and includes medium and long-term loans to banks, loans to customers, liabilities held for trading, non-trading book derivatives that are assets and guarantees.

Assets

Receivables from banks in the Group fell by € 0.4 billion to € 2.2 billion (IKB AG: € 0.3 billion decrease to € 2.1 billion), essentially as a result of the shift in counterparties from banks to customers.

Receivables from customers decreased by € 1.3 billion to € 14.7 billion (IKB AG: € 1.3 billion decrease to € 16.8 billion). The drop is mainly due to selective lending.

Bonds and other fixed-income securities fell by € 2.7 billion to € 7.9 billion (IKB AG: € 2.9 billion decrease to € 7.0 billion), primarily as a result of maturities, especially of the SoFFin-guaranteed bonds held.

Equity and liabilities

Liabilities to banks decreased by € 1.3 billion to € 11.9 billion (IKB AG: € 1.3 billion decrease to € 11.9 billion). This was primarily due to the lower level of borrowing on the interbank market.

Liabilities to customers increased by € 0.9 billion to € 10.9 billion (IKB AG: by € 0.7 billion to € 10.9 billion), largely as a result of the growth in the volume of customer deposits obtained via the "IKB direkt" retail customer platform.

Holdings of securitised liabilities fell by € 4.4 billion to € 1.0 billion (IKB AG: € 4.4 billion decrease to € 0.4 billion). This decline was due to maturities and early returns of remaining SoFFin-guaranteed bonds in the amount of € 4.5 billion.

Other liabilities were virtually unchanged at € 0.5 billion (IKB AG: € 0.1 billion decrease to € 0.6 billion). The drop at IKB AG is mainly due to lower liabilities from securitisation transactions.

Provisions were virtually unchanged at € 0.5 billion (IKB AG: nearly unchanged at € 0.4 billion).

Largely as a result of the consolidated net loss for the year the equity declined from € 1,090 million, by € 138 million to € 952 million (IKB AG: by € 159 million from € 1,366 million to € 1,207 million). The calculation of regulatory own funds based on the final carrying amounts produced a figure of € 2.2 billion for the IKB Group (IKB AG: € 2.0 billion). Derived from this, the tier I capital ratio for the IKB Group was 9.6% (IKB AG: 10.1%) with an overall capital ratio of 13.8% (IKB AG: 15.3%).

Hidden charges have arisen in recent financial years from interest rate positions in the banking book in the form of long-term securities, from derivatives and from the refinancing of IKB AG's loan book without matching maturities as a result of changes in market interest rates and interest rate volatilities; these hidden charges amounted to € 773 million as at the reporting date. This could lead to reductions in net interest income or losses on disposal in future financial years. As against the reporting date of the last financial year, hidden charges were reduced by € 99 million. The calculation in accordance with IDW RS BFA3 did not result in any provision requirements.

Financial position

The liquidity situation at IKB is stable. This development has been driven in particular by the cost-optimised expansion of the funding mix. IKB accepts revolving deposits from a number of corporate clients and retail customers. IKB issued bearer bonds in the reporting period. The Bank is also further reducing its volume of non-strategic assets in order to generate liquidity and being selective when it comes to entering into new lending business recognised in the balance sheet. Regarding the change in cash flows from operating and financing activities, please see the notes on the preparation of the consolidated cash flow statement.

Overall assessment

The net assets, financial position and results of operations are consistent with the annual financial statements and present the opportunities and risks of future development.

The result of operations is characterised by a significant reduction in loss as against the previous year. The net assets and financial position are in order.

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 in terms of transaction-related risk monitoring, intensive support and problem exposure management is held by Mr Momburg. Dr Glüder is responsible for risk controlling and monitoring earnings management and capital resources. Responsibility for legal and compliance risks lies with Mr Schüttler. 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. This includes the voting process, independent of front office, for investments in securities and derivative instruments. 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, which are also responsible for the impairment process for these exposures. 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.

The credit approval and impairment process for securitisation and structured credit products is likewise performed by a specialised Credit Risk Management unit.

Risk controlling

The Risk Controlling divison 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.

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 management reports to the Board of Managing Directors on a weekly basis, in which deviations from planning in income and assets are identified and analysed. 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 carries out 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 work flows 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 or scenario matrix method). The Bank continues to use the regulatory netting approach to determine the net basis of measurement for derivatives, taking account of existing netting agreements. 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)

in € million	31 Mar. 2013	31 Mar. 2012	31 Mar. 2011
Risk-weighted assets	15,016	16,143	16,776
Market risk equivalent	460	661	663
Operational risk	287	497	782
Risk position	**15,763**	**17,301**	**18,221**
Tier I capital	1,542	1,698	2,120
Tier II capital	672	695	919
Tier III capital	-	-	-
Deductions[1)]	-44	-137	-149
Own funds	**2,170**	**2,256**	**2,890**
Tier I ratio in %	9.6	9.4	11.2
Overall capital ratio in %	13.8	13.0	15.9

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.

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

in € million	31 Mar. 2013	31 Mar. 2012	31 Mar. 2011
Risk-weighted assets	12,624	14,554	16,053
Market risk equivalent	292	501	324
Operational risk	263	423	581
Risk position	**13,179**	**15,478**	**16,958**
Tier I capital	1,330	1,505	1,746
Tier II capital	693	742	913
Tier III capital	-	-	19
Deductions[1)]	-	-	-41
Own funds	**2,022**	**2,247**	**2,637**
Tier I ratio in %	10.1	9.7	10.2
Overall capital ratio in %	15.3	14.5	15.6

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

1) Deductions relate solely to securitisation positions.

The decrease in risk-weighted assets as at 31 March 2013 is primarily attributable to scheduled repayments, unscheduled repayments and asset sales accompanied by limited new business.

At 10.1% at individual Bank level and 9.6% at Group level, the tier I capital ratios have increased as against the previous year and remain considerably higher than the current statutory minimum of 4.0%. At 15.3% at

individual Bank level and 13.8% at Group level, the overall capital ratio is also significantly higher than the statutory minimum requirement of 8.0%.

The Board of Managing Directors expects it to be possible to meet the statutory minimum requirements in the future (see also outlook). The entry into force of the CRD IV banking reform package (EU Capital Requirement Directive) will lead to significant additional equity requirements. For this reason, the Bank will actively control its risk-weighted assets by the sale or synthetic hedging of balance sheet assets and the use of a central counterparty for standardised derivatives trading. There is still considerable uncertainty due to the fact that the results of the international banking regulation process remain unforeseeable. This is not yet complete, although CRD IV has been passed by the European Parliament and the new regulations are to come into effect on 1 January 2014. A large number of regulatory standards to be announced by the European Banking Authority (EBA) are not currently available.

Risk-bearing capacity

The maintenance of risk-bearing capacity is fundamental to risk-related bank management. The legislature laid the foundation for the maintenance of risk-bearing capacity as a major target value in section 25a KWG. The banking authorities subsequently made clarifications to this in the Minimum Requirements for Risk Management (MaRisk). According to MaRisk, banks must ensure on the basis of their overall risk profile that all risks classified as significant are covered by the available economic risk coverage capital.

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

The economic capital requirements in order to cover unexpected bank-wide risk [counterparty default risk, market price risk, liquidity risk (only in the going-concern perspective) and general business and operational risk] are determined using the Bank’s own quantitative models. As reputation risks are ultimately reflected in business and liquidity risk, they are not explicitly included again in the calculations of bank-wide risk. Economic capital is not currently calculated for investment risks; however, these are also subject to ongoing monitoring. Legal risks are part of operational risk.

After an evaluation of the “Supervisory assessment of bank-internal capital adequacy concepts” guideline published by the German Federal Financial Supervisory Authority (BaFin), IKB developed the concept of the going-concern perspective into a fully accounting-based perspective on 31 December 2012. On the basis of the regulatory equity items, the risk coverage potential is determined in such a way that all minimum capital requirements would be met in the analysis period even if the risk coverage funds were completely exhausted. If the regulatory minimum capital requirements change during the analysis period, this is accounted for in the calculation of the risk cover. In addition, when the risk coverage potential is determined, it is ensured that capital items that do not participate in current losses are not included.

Like the accounting-based derivation of risk coverage potential, all risks considered in the going-concern perspective are also calculated on the basis of accounting in order to determine the necessary economic capital requirements.

The following table compares the economic capital requirements in the going-concern perspective that could arise mathematically in a year to cover unexpected losses at a confidence level of 90% (value at risk) with the risk coverage potential that will be available in the next twelve months (all previous-year figures were adjusted according to the changes in methodology).

Table: Economic capital requirements – going-concern perspective

	31 Mar. 2013 in € million	31 Mar. 2013 in %	31 Mar. 2012 in € million	31 Mar. 2012 in %
Counterparty default risk	154	52%	166	54%
Market price risk	25	8%	25	8%
Operational risk	29	10%	29	9%
Business risk	76	26%	76	25%
Liquidity risk	13	4%	12	4%
Total	**296**	**100%**	**309**	**100%**
Minus diversification effects	-60		-58	
Overall risk position	**237**		**250**	
Risk coverage potential	**505**		**491**	

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

As at the reporting date, the risk cover of € 5,305 million is slightly higher (by € 14 million) than in the previous year (31 March 2012). This resulted primarily from the reduction of the minimum regulatory capital that must be held on the basis of the reduction of risk-weighted assets that has taken place so far and that will be further accelerated in the risk horizon of the next twelve months. This reduction is compensated for by the increased minimum capital requirements expected on 1 January 2014 in connection with the introduction of Basel III.

The overall risk position declined by € 13 million year-on-year to € 237 million. This is largely the result of the lower counterparty default risk. A particular contribution to this was made by the reduction of weaker existing business and problem exposure cases, which more than compensated for the downgrades of Southern European bank and government securities.

As at 31 March 2013, the overall risk position amounted to 47% of the risk coverage potential (31 March 2012: 51%). This means that, as previously, the risk coverage potential is comfortably sufficient to cover the economic capital requirements arising from the occurrence of unexpected risks across the risk horizon. All regulatory minimum capital requirements will continue to be met should these unexpected risks occur.

In addition to the above going-concern perspective, the Bank also observes and analyses the overall risk position and risk coverage potential from a liquidation perspective, even if this is not directly relevant for risk management as described above. In the past financial year, the methodology of the liquidation perspective was also developed after an evaluation of the BaFin guideline. Unlike the going-concern perspective, risk coverage potential from the liquidation perspective is calculated as the sum of all the equity components available to the Bank, including profit participation capital and subordinated capital. At the same time, however, all hidden charges on securities and derivatives are deducted in full. In contrast to the going-concern perspective, risks from the liquidation perspective are presented not on the basis of accounting but based on value.

In the liquidation view, risk assets are significantly lower than in the previous year, primarily because less subordinated capital is available for creditor protection. Overall, risk coverage potential in the liquidation view amounts to € 698 million, thereby covering the overall risk position at a confidence level of 97.24%. At the confidence level used in the liquidation view of 99.76% (derived from IKB's earlier BBB rating), the overall risk position with the theoretical sale of all assets amounts to € 1.35 billion. However, the liquidation perspective is significantly affected by the long-term Italian government bonds held by the Bank as liquidity investments in terms of both risks and risk coverage potential. Not including these government bonds in the risk (total risk contribution: € 292 million) and the hidden charges (pro rata: € 342 million), the current cover-

age potential would be sufficient to cover the risks at a confidence level of 99.74%. IKB does not expect this Italy risk to result in losses in the risk horizon.

Forecast calculations and stress tests

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

However, the analysis of 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 severe economic downturn, would mean that risk cover would no longer be sufficient to fully cover the overall risk position even in the going-concern perspective.

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 2012/13 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. Its low-level activities outside Germany (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 fact that securities issued by customers with the aim of promptly reselling them to third-party investors are accepted in the trading book. 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 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 and participation in the ECB tender procedure. The SoFFin guarantees were returned in full in the 2012/13 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.

Loan and collateral agreements and subsequent adjustments are prepared by employees of Credit & Treasury Operations working independently of front-office, with the involvement of the Legal department in more complex individual cases.

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, there is 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 investments in securities, securitisation, portfolio investments and other loan products are made either by the person holding powers of approval in the Credit Risk 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 on an annual basis. Regular portfolio analysis and measurement for all security investments, securitisations, portfolio investments and other structured loan products are carried out by the Credit Risk Management central division.

Rating process and systems

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

In the case of classic corporate financing, IKB uses the “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 a basis for decision-making.

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 2013 was composed as follows:

Table: Credit volume

	Group			IKB AG		
in € million	**31 Mar. 2013**	**31 Mar. 2012**	**Change**	**31 Mar. 2013**	**31 Mar. 2012**	**Change**
Receivables from banks	2,219	2,580	-361	2,091	2,445	-354
Receivables from customers	14,707	16,045	-1,338	16,752	18,058	-1,306
Bonds and other fixed-income securities not including own bonds	7,161	7,491	-330	6,991	7,415	-424
Equities and other non-fixed-income securities	497	1,125	-628	28	78	-50
Liabilities held for trading	266	222	44	266	222	44
Investments[1)]	27	38	-11	-	-	-
Leased assets	1,365	1,411	-46	-	-	-
Other assets: Assets held for sale	91	99	-8	-	-	-
Subtotal: balance sheet assets	**26,333**	**29,011**	**-2,678**	**26,128**	**28,218**	**-2,090**
Contingent liabilities[2)]	941	469	472	2,024	1,405	619
Asset derivatives in the non-trading book	2,148	2,238	-90	2,146	2,247	-101
Write-downs[3)]	531	604	-73	480	512	-32
Leasing: Deferred income and down-payments for intangible assets	-138	-114	-24			-
Provisions for expected losses for embedded derivatives	-120	-119	-1	-120	-115	-5
less portions attributable to third parties bonds and receivables from banks	-13	-10	-3	-	-	-
Gross credit volume	**29,682**	**32,079**	**-2,397**	**30,658**	**32,267**	**-1,609**
for information purposes: other significant counter-party default risks outside the gross credit volume						
Irrevocable loan commitments	1,211	1,610	-399	1,066	1,455	-389
Investments[1)] and shares in associated and affiliated companies	44	59	-15	136	791	-655

1) In the Group, investments after consolidation are part of the gross credit volume, at IKB AG they are outside the gross credit volume.

2) not including derivative components of non-separated structured products (CDS), which are reported under “Bonds and other fixed-income securities”

3) not including provisions for expected losses for embedded derivatives in structured products; credit volume after deduction of valuation allowances on bonds and other fixed-income securities

In this and all subsequent structure tables, the credit risk disclosures for the Group, including disclosures for the previous year, were converted to accounting according to the German Commercial Code (HGB). In comparison to the previous reporting on the basis of Group accounting according to IFRS, this increases the credit volume slightly. The main reason is the recognition of long-term investments at amortised cost, where they had been measured at their current fair value under IFRS. The prior-year figures for IKB AG were adjusted by € 115 million on the basis of the deduction of provisions for expected losses on embedded derivatives.

The € 2.4 billion decrease in the Group’s gross credit volume is primarily attributable to the € 1,338 million decline in receivables from customers, the € 628 million decline in partner fund assets reported in equities and other non-fixed-income securities and the € 330 million decline in bonds and other fixed-income securities. The asset derivatives in the non-trading book and receivables from banks fell by € 90 million or € 223 million respectively. However, contingent liabilities increased by around € 472 million as a result of protection seller CDSs.

The gross credit volume at IKB AG decreased by € 1.6 billion to € 30.7 billion.

Table: Credit volume by size – Group

	31 Mar. 2013 in € million	31 Mar. 2013 in %	31 Mar. 2013 Number[1)]	31 Mar. 2012 in € million	31 Mar. 2012 in %
Under € 5 million	3,726	13%	21,434	4,736	15%
Between € 5 million and € 10 million	2,105	7%	298	2,446	8%
Between € 10 million and € 20 million	3,050	10%	222	3,457	11%
Between € 20 million and € 50 million	2,994	10%	102	3,275	10%
Over € 50 million	14,350	48%	94	13,335	42%
Subtotal	**26,225**	**88%**	**22,150**	**27,249**	**85%**
Risk transferred to third parties[2)]	3,457	12%	-	4,830	15%
Total	**29,682**	**100%**	**22,150**	**32,079**	**100%**

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

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

The increase in the “over € 50 million” category from € 13.3 billion to € 14.4 billion is due primarily to loans to the public sector, the volume of which rose from € 2.3 billion to € 3.2 billion, including € 0.5 billion from protection seller CDSs. The volume attributable to banks and the financial sector in this size class fell slightly, from € 9.6 billion to € 9.3 billion. Corporate financing saw an increase from € 1.4 billion to € 1.9 billion in this category.

The average exposure per borrower unit in this class is € 153 million (previous year: € 190 million).

The volume of risks transferred to third parties declined by € 1.4 billion to € 3.5 billion, largely as a result of repayments of loans transferred or secured by way of securitisation transactions. They comprise liability sub-participations by banks (primarily KfW) of € 1.7 billion, public guarantees including Hermes cover of € 0.2 billion and synthetic securitisations of € 1.6 billion, in which KfW Bankengruppe (KfW) hedges the credit risk. The Bank is secured against counterparty default risks by means of synthetic securitisations, although the loans are still reported in the balance sheet and continue to be managed by IKB.

The synthetic securitisations of € 1.6 billion (previous year: € 2.6 billion) are comprised as follows:

- € 0.1 billion for loans for which the Bank has retained only first loss risks of € 11.2 million (originally € 15.3 million).
- Loans with a volume of € 0.3 billion relate to risk transfers for which only the expected, and parts of the unexpected, loss in the amount of € 32.3 million (originally € 39.2 million) has been transferred. This subordination is still considered sufficient.
- Hedging in the amount of € 224.1 million remains for loans of € 0.9 billion, which is considered sufficient subordination.
- The credit risk for loans with a volume of € 0.3 billion has been transferred in full.

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

Table: Credit volume by size – IKB AG

	31 Mar. 2013 in € million	31 Mar. 2013 in %	31 Mar. 2013 Number[1)]	31 Mar. 2012 in € million	31 Mar. 2012 in %
Under € 5 million	1,831	6%	1,464	2,526	8%
Between € 5 million and € 10 million	1,975	6%	274	2,220	7%
Between € 10 million and € 20 million	2,881	9%	208	3,300	10%
Between € 20 million and € 50 million	3,140	10%	105	3,183	10%
Over € 50 million	12,907	42%	75	11,481	36%
Subtotal	**22,734**	**74%**	**2,126**	**22,710**	**70%**
Risk transferred to third parties[2)]	3,457	11%	-	4,826	15%
Internal transactions	4,467	15%	-	4,731	15%
Total	**30,658**	**100%**	**2,126**	**32,267**	**100%**

Prior-year figures were adjusted.

1) Borrower groups in accordance with section 19 KWG

2) Hermes guarantees, indemnifications, risks transferred

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 – Group

	31 Mar. 2013 in € million	31 Mar. 2013 in %	31 Mar. 2012 in € million	31 Mar. 2012 in %
Property liens and charges	4,202	14%	4,473	14%
Transfers of ownership and leased assets	2,799	9%	2,779	9%
Other collateral[1)]	2,546	9%	2,677	8%
Collateralised[2)]	2,418	8%	2,273	7%
Secured credit volume[3)]	**11,965**	**40%**	**12,202**	**38%**
Without collateral	14,260	48%	15,047	47%
Subtotal	**26,225**	**88%**	**27,249**	**85%**
Risk transferred to third parties[4)]	3,457	12%	4,830	15%
Total	**29,682**	**100%**	**32,079**	**100%**

1) e.g. assignment of receivables, participation rights, assignment of shares, ownership rights, subordinations, positive/negative pledges

2) Derivatives with positive fair values that relate to collateral agreements, i.e. with corresponding liability positions

3) including credit portions beyond collateral value

4) Hermes guarantees, indemnifications, risks transferred

Exposures secured by means of mortgage loans, transfers of ownership and other collateral decreased by a total of € 0.4 billion in the past financial year following repayments.

The majority of unsecured loans relates to banks and the financial sector (€ 7.7 billion; previous year: € 8.4 billion), the public sector (€ 3.3 billion; previous year: € 2.6 billion) and the rest to corporate financing (€ 3.3 billion; previous year: € 4.0 billion).

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, currently including € 3.0 billion in mortgage bonds and covered bonds.

The "Collateralised" item is used to report derivatives with positive fair values that relate to collateral agreements, i.e. with corresponding liability positions. In the previous year, IKB AG had also reported € 2.0 billion in call accounts for collateral agreements, which are now assigned to the "Without collateral" item.

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

Leased assets are assigned to the "Transfers of ownership" category.

Table: Credit volume by type of collateral – IKB AG

	31 Mar. 2013 in € million	31 Mar. 2013 in %	31 Mar. 2012 in € million	31 Mar. 2012 in %
Property liens and charges	4,197	14%	4,463	14%
Transfers of ownership	470	2%	429	1%
Other collateral[1)]	2,544	8%	2,676	8%
Collateralised[2)]	2,416	8%	1,938	6%
Secured credit volume[3)]	**9,627**	**31%**	**9,506**	**29%**
Without collateral	13,107	43%	13,204	41%
Subtotal	**22,734**	**74%**	**22,710**	**70%**
Risk transferred to third parties[4)]	3,457	11%	4,826	15%
Internal transactions	4,467	15%	4,731	15%
Total	**30,658**	**100%**	**32,267**	**100%**

Prior-year figures were adjusted.

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

Geographical structure

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

Table: Credit volume by region – Group

	31 Mar. 2013 in € million	31 Mar. 2013 in %	31 Mar. 2012 in € million	31 Mar. 2012 in %
Germany	13,062	44%	13,701	43%
Outside Germany	13,163	44%	13,548	42%
Western Europe	9,880	33%	10,276	32%
Eastern Europe	1,039	4%	779	2%
North America	2,156	7%	2,322	7%
Other	88	0%	171	1%
Subtotal	**26,225**	**88%**	**27,249**	**85%**
Risk transferred to third parties[1)]	3,457	12%	4,830	15%
Total	**29,682**	**100%**	**32,079**	**100%**

1) Hermes guarantees, indemnifications, risks transferred

With the credit volume falling overall, the share of domestic financing in the credit volume rose slightly despite a decrease of € 0.6 billion. The volume attributable to Eastern Europe was increased by protection seller CDSs and the purchase of bonds from Poland, Slovakia and the Czech Republic.

Table: Credit volume by region – IKB AG

	31 Mar. 2013 in € million	31 Mar. 2013 in %	31 Mar. 2012 in € million	31 Mar. 2012 in %
Germany	10,969	36%	10,975	34%
Outside Germany	11,765	38%	11,735	36%
Western Europe	9,191	30%	9,132	28%
Eastern Europe	404	1%	191	1%
North America	2,082	7%	2,241	7%
Other	88	0%	171	1%
Subtotal	**22,734**	**74%**	**22,710**	**70%**
Risk transferred to third parties[1]	3,457	11%	4,826	15%
Internal transactions	4,467	15%	4,731	15%
Total	**30,658**	**100%**	**32,267**	**100%**

Prior-year figures were adjusted.

1) Hermes guarantees, indemnifications, risks transferred

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

31 Mar. 2013 in € million	Total[2]	Country ratings[1] 1-6	7-9	10-12	13-15	16-19
Western Europe	9,880	8,108	1,706	66	-	-
Eastern Europe	1,039	801	50	188	-	-
North America	2,156	2,156	-	-	-	-
Other	88	65	2	13	8	-
Total	**13,163**	**11,130**	**1,758**	**267**	**8**	**-**

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

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

In the Group, 85% of the credit volume attributable to countries outside Germany was assigned to the six best country ratings, 1-6. In addition, risk transfers (e.g. secured by Hermes guarantees) of € 0.2 billion related to borrowers outside Germany.

The utilisation of loans in risk classes 13-15 primarily relates to Iran (€ 7.6 million) and Egypt (€ 0.8 million).

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

31 Mar. 2013 in € million	Total[2]	Country ratings[1] 1-6	7-9	10-12	13-15	16-19
Western Europe	9,191	7,669	1,456	66	-	-
Eastern Europe	404	384	-	20	-	-
North America	2,082	2,082	-	-	-	-
Other	88	65	2	13	8	-
Total	**11,765**	**10,200**	**1,458**	**99**	**8**	**-**

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

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

Within Western Europe, risks relate to the following states:

Table: Credit volume in Western Europe by risk – Group

31 Mar. 2013 in € million	Credit volume after risk mitigation	thereof public sector	thereof banks and financial sector[1]	thereof other counterparty default risks
UK	2,083	-	1,322	761
France	1,866	156	1,049	661
Italy	1,705	1,119	199	387
Spain	1,330	140	667	523
EU[2]	1,093	549	544	-
Netherlands	393	73	194	126
Ireland	376	98	190[3]	88
Austria	235	78	101	56
Switzerland	224	-	128	96
Sweden	151	-	100	51
Denmark	106	98	8	-
Finland	78	-	16	62
Portugal	66	-	25	41
Other	174	-	73	101
Total	**9,880**	**2,311**	**4,616**	**2,953**

1) Bank exposures in Spain and Italy contain primarily mortgage covered bonds.
2) European Commission, European Financial Stability Facility (EFSF) and European Investment Bank
3) The figure for Ireland contains portfolio investments of € 181 million held via special purpose entities in Ireland

Table: Credit volume in Western Europe by risk – IKB AG

31 Mar. 2013 in € million	Credit volume after risk mitigation	thereof public sector	thereof banks and financial sector[1]	thereof other counterparty default risks
UK	2,075	-	1,314	761
France	1,602	156	987	459
Italy	1,567	1,119	61	387
EU[2]	1,093	549	544	-
Spain	1,087	140	424	523
Netherlands	393	73	194	126
Ireland	368	98	182[3]	88
Switzerland	224	-	128	96
Austria	217	78	101	38
Sweden	151	-	100	51
Denmark	106	98	8	-
Finland	78	-	16	62
Portugal	66	-	25	41
Other	164	-	71	93
Total	**9,191**	**2,311**	**4,155**	**2,725**

1) Bank exposures in Spain and Italy contain primarily mortgage covered bonds.
2) European Commission, European Financial Stability Facility (EFSF) and European Investment Bank
3) The figure for Ireland contains portfolio investments of € 181 million held via special purpose entities in Ireland

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 Spain and Cyprus. 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 and Cyprus.

The Bank no longer holds any Greek bonds and has sold its last remaining first-to-default security in the amount of € 50 million, meaning that there are no longer any additional default risks with regard to the reference countries for these securities, namely 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. In addition, to cover country risks, a global valuation allowance was recognised for the first time for the credit volume for which risk is not transferred in high-risk countries with internal ratings of 13 or higher; the resulting total global valuation allowance amounted to less than € 1 million due to the low credit volumes and collateralisation.

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 – Group

	31 Mar. 2013 in € million	31 Mar. 2013 in %	31 Mar. 2012 in € million	31 Mar. 2012 in %
Industrial sectors	12,220	41%	12,857	40%
Mechanical engineering	1,139	4%	1,069	3%
Services	905	3%	934	3%
Retail	850	3%	659	2%
Metal products	830	3%	811	3%
Energy supply	777	3%	851	3%
Other industrial sectors	7,719	26%	8,533	27%
Real estate	1,001	3%	1,370	4%
Financial sector	2,188	7%	1,043	3%
Banks	7,466	25%	9,416	29%
Public sector	3,350	11%	2,563	8%
Subtotal	**26,225**	**88%**	**27,249**	**85%**
Risk transferred to third parties[1)]	3,457	12%	4,830	15%
Total	**29,682**	**100%**	**32,079**	**100%**

1) Hermes guarantees, indemnifications, risks transferred

The credit volume decreased by € 0.6 billion in the industrial sectors and by € 0.4 billion in the real estate industry year-on-year. At the same time, derivative transactions were shifted from banks to the financial sector in connection with the Dodd-Frank Act (Dodd–Frank Wall Street Reform and Consumer Protection Act). The decrease of € 2.0 billion in the banking sector is also attributable to the decline in fair values of derivatives. The degree of diversification in the industrial sectors is still high, with no single sector accounting for more than 4% of the portfolio. While volume was increased in the core business sectors (e.g. mechanical engineering +7%), volume in the other sectors fell (e.g. energy supply -9%).

Table: Credit volume by sector – IKB AG

	31 Mar. 2013 in € million	31 Mar. 2013 in %	31 Mar. 2012 in € million	31 Mar. 2012 in %
Industrial sectors	9,880	32%	10,204	32%
Mechanical engineering	824	3%	743	2%
Retail	815	3%	624	2%
Energy supply	774	3%	850	3%
Services	677	2%	788	2%
Metal products	544	2%	518	2%
Other industrial sectors	6,246	20%	6,681	21%
Real estate	968	3%	1,355	4%
Financial sector	2,060	7%	870	3%
Banks	6,478	21%	7,912	25%
Public sector	3,348	11%	2,369	7%
Subtotal	**22,734**	**74%**	**22,710**	**70%**
Risk transferred to third parties[1]	3,457	11%	4,826	15%
Internal transactions	4,467	15%	4,731	15%
Total	**30,658**	**100%**	**32,267**	**100%**

Prior-year figures were adjusted.

1) Hermes guarantees, indemnifications, risks transferred

Credit rating structure

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

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

	31 Mar. 2013 in € million	31 Mar. 2013 in %	31 Mar. 2012 in € million	31 Mar. 2012 in %
1-4	7,606	26%	10,238	32%
5-7	8,689	29%	6,518	20%
8-10	5,669	19%	5,255	16%
11-13	2,159	7%	2,648	8%
14-15	482	2%	741	2%
Lehman assets[2]	344	1%	339	1%
Problem exposures[3]	1,276	4%	1,510	5%
Subtotal	**26,225**	**88%**	**27,249**	**85%**
Risk transferred to third parties[4]	3,457	12%	4,830	15%
Total	**29,682**	**100%**	**32,079**	**100%**

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

The € 2.2 billion increase in credit rating levels 5-7 and the € 2.6 billion decrease in credit rating levels 1-4 are 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 11-15 also declined due to loan repayments and improvements in creditworthiness. The majority of the 14-15 credit ratings relate to lease exposures. For these exposures, the leased assets serve as collateral.

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

	31 Mar. 2013 in € million	31 Mar. 2013 in %	31 Mar. 2012 in € million	31 Mar. 2012 in %
1-4	7,072	23%	8,616	27%
5-7	8,080	26%	6,163	19%
8-10	4,578	15%	4,201	13%
11-13	1,373	4%	1,857	6%
14-15	145	0%	239	1%
Lehman assets[2]	344	1%	339	1%
Problem exposures[3]	1,142	4%	1,295	4%
Subtotal	**22,734**	**74%**	**22,710**	**70%**
Risk transferred to third parties[4]	3,457	11%	4,826	15%
Internal transactions	4,467	15%	4,731	15%
Total	**30,658**	**100%**	**32,267**	**100%**

Prior-year figures were adjusted.

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

Problem exposures

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

Table: Problem exposures[1] – Group

	31 Mar. 2013 in € million	31 Mar. 2012 in € million	Change in € million	Change in %
Impaired (non-performing assets)	1,064	1,273	-209	-16%
Non-impaired	265	365	-100	-27%
Total	**1,329**	**1,638**	**-309**	**-19%**
as % of credit volume	4.5%	5.1%		

1) Credit volumes including losses from impaired securities (31 March 2013: € 54 million; 31 March 2012: € 128 million).

Table: Problem exposures[1] – IKB AG

	31 Mar. 2013 in € million	31 Mar. 2012 in € million	Change in € million	Change in %
Impaired (non-performing assets)	953	1,123	-170	-15%
Non-impaired	232	282	-50	-18%
Total	**1,185**	**1,405**	**-220**	**-16%**
as % of credit volume	3.9%	4.3%		

Prior-year figures were adjusted.

1) Credit volumes including losses from impaired securities (31 March 2013: € 43 million; 31 March 2012: € 111 million).

Problem exposures decreased further due to the reduction of non-performing assets and improvements in the credit quality of non-impaired problem exposures.

The presentation for IKB AG and the Group has been harmonised. The credit volume plus losses on impaired securities are reported.

An asset is classified as impaired or "non-performing" if (i) insolvency proceedings have been initiated (ii) interest or redemption payments have been in default for more than 90 consecutive days or if (iii) there are other clear indications that the debtor cannot fulfil its contractual obligations and there are no indications that they can be collected by way of later payment or the liquidation of collateral. IKB takes the liquidation value of the available collateral into account.

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

Table: Non-performing assets – Group

	31 Mar. 2013 in € million	31 Mar. 2012 in € million	Change in € million	Change in %
Germany	618	676	-58	-9%
Outside Germany	349	378	-29	-8%
Impaired loans	**967**	**1,054**	**-87**	**-8%**
Impaired securities[1)]	97	219	-122	-56%
Impaired (non-performing assets), total	**1,064**	**1,273**	**-209**	**-16%**
as % of credit volume	3.6%	4.0%		

1) Carrying amounts plus losses from impaired securities (31 March 2013: € 54 million; 31 March 2012: € 128 million)

€ 122 million of the € 209 million reduction in non-performing assets is the result of the sale and repayment of impaired securities. The impaired loans also fell by € 87 million or 8% due to settlement and sales measures in Germany and outside Germany.

Table: Non-performing assets – IKB AG

	31 Mar. 2013 in € million	31 Mar. 2012 in € million	Change in € million	Change in %
Germany	558	619	-61	-10%
Outside Germany	310	340	-30	-9%
Impaired loans	**868**	**959**	**-91**	**-9%**
Impaired securities[1)]	85	164	-79	-48%
Impaired (non-performing assets), total	**953**	**1,123**	**-170**	**-15%**
as % of credit volume	3.1%	3.5%		

Prior-year figures were adjusted.

1) Carrying amounts plus losses from impaired securities (31 March 2013: € 43 million; 31 March 2012: € 111 million)

Risk provisioning

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

Table: Provisions for possible loan losses – Group

	31 Mar. 2013 in € million	31 Mar. 2012 in € million	Change in %
Additions to specific impairment losses/provisions	171.7	211.7	-19%
Direct write-downs	9.5	15.1	-37%
Recoveries on loans previously written off	-10.5	-8.2	28%
Reversal and unwinding of specific impairment losses/provisions	-101.9	-181.5	-44%
Additions to/reversals of global valuation allowances	31.6	8.1	>100%
Provisions for possible loan losses	**100.4**	**45.2**	**>100%**
Embedded derivatives/income from recoveries on receivables written off Portfolio investments	-20.9	-5.7	>100%
Net addition to risk provisioning	**79.5**	**39.5**	**>100%**
Net income from securities and derivatives in the liquidity reserve	**-8.9**	**-23.5**	-62%
Net risk provisioning	**70.6**	**16.0**	**>100%**
Development of specific impairment losses/provisions[1)]			
Opening balance	525.8	807.9	-35%
Utilisation	-182.5	-326.5	-44%
Reversal	-83.5	-156.6	-47%
Reclassification and net interest expense and discounting	0.2	10.1	-98%
Unwinding	-18.4	-25.5	-28%
Additions to specific impairment losses/provisions	171.7	211.7	-19%
Effect of changes in exchange rates	1.3	4.7	-72%
Total specific impairment losses/provisions	**414.6**	**525.8**	**-21%**
Global valuation allowances			
Opening balance	103.6	95.5	8%
Addition/reversal	31.6	8.1	>100%
Total global valuation allowances	**135.2**	**103.6**	**31%**
Total provision for possible loan losses (including provisions)	**549.8**	**629.4**	**-13%**

1) not including provisions for embedded derivatives

The net addition to provisions for possible loan losses increased from € 45 million to € 100 million. One reason for this is the € 31.6 million year-on-year increase in global valuation allowances to € 135 million. This reflects a generally more cautious assessment to the economic situation; the Bank also sees specific event risks in connection with the continued European sovereign debt crisis for acquisition, project and real estate financing in France, Italy, Spain and the UK.

Another component of the higher provision for possible loan losses is due to the declining level of reversals, which more than offsets the likewise declining additions to the provision. The additions to risk provisioning focus on international acquisition finance. By contrast, a low level of additions to risk provisions was still observed in the German corporate and real estate sectors.

Risk reporting

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

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 mostly referencing corporate and state risks and the retention of IKB's own securitisation. IKB now has economic risks from investments with sub-prime content only for some of the assets transferred to the special-purpose entity Rio Debt Holdings.

The portfolio investments sub-segment included the following elements as at 31 March 2013:

- Securitisation positions with a nominal amount of € 182 million (31 March 2012: € 214 million) and a carrying amount of € 122 million (31 March 2012: € 147 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 (31 March 2012: € 200 million) and a carrying amount of € 200 million (31 March 2012: € 200 million). The transactions have an external rating of Baa.
- Securities with a nominal volume of € 643 million (31 March 2012: € 688 million) and a carrying amount of € 82 million (31 March 2012: € 89 million) that were transferred to Rio Debt Holdings. IKB's sub-prime risks have a carrying amount of € 33 million (31 March 2012: € 27 million). The residual income from the portfolio 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 € 69 million (31 March 2012: € 79 million).
- Owing to the Lehman insolvency, four synthetic transactions with a nominal value of € 344 million (31 March 2012: € 339 million) and a carrying amount of € 344 million (31 March 2012: € 339 million) are being wound up. The risks for IKB resulting from these transactions are limited to legal risks (see "Legal risks – CDOs arranged by Lehman Brothers") 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 therefore amounted to € 391 million as at 31 March 2013 (31 March 2012: € 426 million). € 122 million (31 March 2012: € 147 million) of this figure relates to the securitisation positions from IKB's core business listed under point 1, € 200 million (31 March 2012: € 200 million) relates to the synthetic transactions listed under point 2, and € 69 million (31 March 2012: € 79 million) relates to the IKB risks from the Rio assets listed under point 3. In terms of asset classes, the focus is on investments with corporate underlyings (CDOs of corporates and CLOs) in the amount of € 313 million (31 March 2012: € 337 million). The economic risk of assets with ABS underlyings (ABS and CDO of ABS) amounted to € 78 million (31 March 2012: € 89 million). Furthermore, there are the legal risks shown under point 4 of € 344 million (31 March 2012: € 339 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).

In addition to secured financing on the interbank market, 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. IKB AG has also begun issuing bearer bonds again.

The volume of new customer deposits again developed positively in the reporting period. These amounted to € 7.0 billion as at 31 March 2013 (previous year: € 5.7 billion).

The improved short and medium-term liquidity situation allowed the Bank to reduce its SoFFin guarantee volume completely in the financial year 2012/13 (previous year: € 4.5 billion).

Depending on the development of its new business, the Bank expects its liquidity requirements to amount to between € 7 billion and € 8 billion over the next twelve months. As previously, the main options currently

available for refinancing these requirements are accepting customer deposits and promissory note loans, secured borrowing on the interbank market (cash and term deposits), participating in ECB tenders, bearer bonds and selling balance sheet assets. A further option for the Bank lies in collateralised refinancing structures.

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 are largely held in USD, GBP, JPY and CHF. Loans 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 (in-

terest, volatilities, exchange rates, spreads, equity prices). In order to give consideration to the specific features of all products, a complete measurement 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 90% (going-concern perspective) or 99.76% (liquidation 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. 2013	31 Mar. 2012
Basis point value[1)]	**-0.4**	**0.3**
Vega[2)]	**0.5**	**0.1**
VaR[3)] – foreign currency	-1.0	-2.5
VaR[3)] – interest rate and volatility	-10.0	-5.2
VaR[3)] – spread	-48.0	-53.3
Correlation effect	13.0	4.9
VaR[3)] total	**-46.0**	**-56.1**

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

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

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

The elections in Italy on 24 February 2013 led to a jump in the credit spreads of Italian government bonds, which are reflected in the total VaR. The Bank sees this as a singular market disruption and aims to continue reducing VaR utilisation without affecting results.

The credit spread sensitivities of the securities and derivative positions (change in value per basis point of additional credit spread widening) amounted to between € -5.26 million and € -6.13 million at the quarterly reporting date during the year under review.

Limiting

Value-at-risk limits are derived from risk-bearing capacity. Operative steering consists of a value-at-risk limit for the Group based on a 99% confidence level and assuming a holding period of one day. Furthermore, currency risks in aggregate holdings are restricted by way of a volume limit for the open positions.

Risk reporting

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

Moreover, the Board of Managing Directors is provided with detailed information once a month on relevant market developments, changes in the portfolio, measurement 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 and operational risks that become critical 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 € 2.6 million at Group level. Around € 2.1 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”). The extremely low loss volume compared with the previous year (Group: € 18.5 million and IKB AG: € 12.4 million) can be attributed to extraordinary loss events in the previous year and some outstanding current cases whose losses have not yet occurred as at the reporting date.

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

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 particularly monitored in the same manner.

In legal proceedings, the Legal central division ensures that the legal positions of the company and the Group are maintained and that general legal conditions are observed by deploying specialised resources which obtain access to information available in the Company and the Group as well as by using an efficient, technical infrastructure.

In managing its legal positions, IKB enters into agreements on the suspension of the statute of limitations and composition agreements with potential claimants and defendants. Corresponding provisions are recognised for identified risks.

There are the following significant legal risks:

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 related 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 were 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.

More than 130 of these suits by investors have since been finally concluded, e.g. with legally binding rulings in favour of the Bank or the withdrawal of the respective suits; in two cases, the Bank has been ordered to make payment. Seven 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 € 0.75 million) and the out-of-court claims for damages to be unfounded. Nonetheless, even after more than five 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

There is a possibility that 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 LLC, Delaware, (RFCC), the Havenrock transactions and/or Rhinebridge by parties involved in these transactions. Nevertheless, the company has succeeded in entering composition agreements with the major parties to the Havenrock transactions and thus largely eliminating the legal risks associated with these transactions. A further reduction of the legal risks was achieved with a settlement in the proceedings with Iowa Student Loan and King County in the context of the Rhinebridge transaction.

In an agreement dated 10/16 September 2008, KfW provided a degree of indemnification to IKB for claims from legal disputes against IKB (including the relevant court costs) in connection with the RFCC, Rhinebridge, or Havenrock entities for events that occurred before 29 October 2008.

Although the indemnification amount is limited, IKB assumes that the identifiable legal risks from the transactions covered by the declaration of indemnity are covered by the indemnification. In this connection, IKB has extensive duties to KfW in respect of information, disclosure, participation and action. Claims from IKB shareholders of investors in financial instruments linked to the development of IKB shares are not covered by the indemnification.

If IKB culpably violates a specific obligation in the indemnification agreement in connection with a specific claim covered by the indemnification agreement, under certain circumstances, the indemnification claim to this specific claim may be extinguished. The Board of Managing Directors regards the risk of a dereliction of duty as slight. This is because, to assure the contractual obligations of the IKB, the necessary implementation steps for securing behaviour in line with the agreement were specified in detail and documented in writing following in close coordination and cooperation with KfW. The indemnification claims of IKB are also extinguished retroactively if the share sale and transfer agreement or the share transfer in rem between KfW and LSF6 Europe 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 coving the obligation. Furthermore the claims from the indemnification agreement are extinguished if, also taking into account the claims for the indemnification agreement, there is reason for insolvency at IKB or insolvency proceedings have been instituted against the assets of IKB.

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 US. 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 restructuring period from the ruling expired on 30 September 2011. IKB implemented the measures set out in the restructuring plan on time to the extent that they were permitted by law and could be carried out. The final report on the implementation of the EU conditions was submitted by the German government to the European Commission at the turn of the year 2011/12.

By way of a letter dated 23 October 2012, the European Commission issued an opinion thereon and stated that IKB had largely met the obligations arising from its ruling dated 21 October 2008. A detailed account of the content of this statement is included in section 2 "Significant events in the reporting period" under the "Implementation of EU conditions".

With the above-mentioned statement, the European Commission restricted its monitoring of the conditions arising from its ruling dated 21 October 2008 to the full winding-up of IKB International S.A. and IKB's former 50% equity interest in Movesta Lease and Finance GmbH. In both cases, the European Commission acknowledged that there were still legal reasons delaying completion.

If the conditions are not met, the Bank may be significantly disadvantaged, both legally and economically.

Furthermore, the European Commission's ruling of 17 August 2009 on the admissibility of the extended SoFFin guarantee entailed strict obligations with regard to IKB's operations. These ceased to apply when the approved SoFFin guarantees were returned in full in December 2012.

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 (including 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 26 August 2010 (including 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 and 25 March 2009, compulsory information proceedings have also been filed with the court in accordance with section 132 of the German Stock Corporation Act (AktG).

Derivatives trading

In the 2012/13 financial year, customers criticised the consulting services provided by the Bank in connection with certain swap products. The corresponding suits are pending in six cases. The provisional total value in dispute is approximately € 17.5 million. In one of these cases, the appeal proceedings are already ongoing. The Bank is defending itself against the accusations.

Risks in connection with SoFFin conditions

After the return of the last remaining SoFFin-guaranteed bonds on 14 December 2012, SoFFin agreed to cease regular reporting and to suspend the conditions of the guarantee agreement.

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) is regularly 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), which 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 et seq. of the WpHG (MaComp), which were most recently updated in January 2013, must still be implemented. For the prevention of money laundering, the latest BaFin circulars, among other things, must be observed.

The statutory requirements are complied with via a two-level organisational structure. In the first line of defence, the employees in the front office and supporting back office departments observe documentation requirements and rules of conduct. The second line of defence, i.e. the Compliance Office for legal securities trading issues and the anti-money laundering officers, provides technical advice on compliance requirements to front office, performs control activities and manages central directories and registers. The Bank's Compliance Officer and the anti-money laundering officers report to the Board of Managing Directors annually and as required, and to the Supervisory Board in individual compliance cases since January 2013.

IKB's newly developed business activities in recent years give rise to legal obligations for trading with financial instruments, rendering investment services and providing investment advice to customers. Extensive new product processes have to be carried out for new products, which are supervised by compliance and money laundering prevention. In individual cases, the above activities may hold regulatory risks.

With the predominantly professional customers, a large amount of sensitive information is exchanged for the lending and consulting business. Due to the associated high number of insiders in the Bank, varied compliance measures are required to protect this information against use that could cause conflicts of interest. Similarly, the IT requirements for storing information behind Chinese walls are being developed.

In order to meet the various requirements for the first line of defence, training and individual measures are regularly offered to employees. On the second line of defence, the registers for conflicts of interest, inducements, financial analyses/securities bulletins and the directory of insiders are administered in the Compliance Office. The central complaints register is held in the Legal division.

Overall, on account of its specific operations, IKB is exposed to 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. Abnormalities in private customer deposit business are monitored.

As part of the risk inventory and the annual update to the threat analysis (anti-money laundering and fraud prevention), the business activities of IKB indicate slightly elevated risks of money laundering or terrorist financing compared to previous years. This is due to the increase of business with contractual partners and economic beneficiaries outside the EU and Switzerland as well as business activities with complex configurations for the benefit of third parties, e.g. funds. These risks are accounted for by means of appropriate case-by-case assessments. The focus of business policy on consulting products is connected with a reduced money-laundering risk.

The risks arising from fraudulent and other illegal acts to the detriment of the Bank are also analysed and evaluated in the threat analysis by the central office set up in 2011 in accordance with section 25c KWG. Overall, a low to medium risk is seen here. IKB is therefore not facing any non-standard or exaggerated risk of fraud.

The regulations on combating money laundering and preventing fraudulent and other illegal acts are contained in special organisational instructions for IKB as well as in specific documents 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 adjusted. Thanks to the clear regulations in the reconciliation of interests and the redundancy scheme of 7 May 2012 and the consistently stable management structures, the reorganisation was successful without notable inefficiencies or elevated propensity to error. The cost reduction and restructuring measures still to come relate primarily to the Düsseldorf location. With a view to this, uncertainty among employees can be expected during the decision-making and implementation phase.

In the 2012/13 financial year, the number of people leaving the Bank exceeded the number of new appointments. The workforce reduction focused in particular on central functions at the Düsseldorf location. The anticipated personnel bottlenecks owing to the headcount reduction in the context of the restructuring only occurred in a handful of isolated cases. One factor that can be considered to have reduced risk in this regard is that the Bank has continued to succeed 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 optimisation measures.

Regarding the implementation of the EU conditions, please see section 2 “Significant events in the reporting period” under the “Implementation of EU conditions”.

Reputation risks are the risk of losses, falling income, increasing costs and reduced enterprise value as a result of 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.

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. The Finance division prepares monthly performance analyses for existing and new business in the context of performance controlling and presents management reports to the Board of Managing Directors on a weekly basis, in which deviations from planning in income and assets are identified and analysed. This provides a basis for ensuring 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.

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

Deviations from planning and target figures in terms of risk 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 of equity investments 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 have been scaled back or liquidated. Even after the implementation of the EU conditions, IKB pursues the objective of minimising the number of subsidiaries and investments.

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 (cooperation/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; in a few defined cases (such as investment decisions relating to less than € 500,000 or mandate decisions), the authority resides solely with the relevant responsible member of the Board of Managing Directors. 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 Leasing Group, IKB Finance B.V. and IKB Capital Corporation i.L., with Dr Glüder for MD Capital Beteiligungsgesellschaft mbH, IKB International S.A. in liquidation and the real estate subsidiaries being wound up or sold, with Mr Momburg for IKB Data GmbH and with Mr Schüttler for the IKB Invest Group.

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 maintain an appropriate tier I capital ratio for IKB AG and the IKB Group, internal transactions are conducted within the Group to reallocate risk-weighted assets and to balance capital ratios.

Overall assessment of the risk situation

In the 2012/13 financial year, IKB's overall risk situation was again influenced to a significant extent by the European government debt crisis, which has been continuing since 2009. Since autumn 2012, when the ECB's announced that it would make essentially unlimited supporting purchases of individual countries' government bonds, subject to certain conditions, a certain calming has been observed over a longer period. The risk premiums for the euro zone's problem countries have since fallen overall – albeit with fluctuations – and volatility on the capital markets has lessened. Interest rates have reached a record low and some euro countries have slid into recession. Although it is no longer assumed that the euro zone will break apart, low interest rates and recurrent increases of the generally declining risk premiums for European countries remain likely as long as the euro zone's economic policy does not adopt enough confidence-building measures. It can be expected that businesses and banks in southern euro countries will remain under pressure. IKB's securities portfolio has increase in value considerably due to the easing of tension on the capital markets. The major borrowers in the portfolio, such as Italy, are not expected to default in the near future. For lending business with customers, there is a stable situation with regard to German companies. This is reflected in the low risk provisioning and continually declining problem exposures. The corporate financing situation must be assessed differently in Italy, Spain and France, but these countries now only make up a minor portion of the company portfolio. Various indicators point to growing risks for the economies of these countries. In view of the opaque situation of banks in the various euro countries, it remains advisable to continue focussing the Bank's securities holdings almost exclusively on good-quality covered debt securities

(mortgage bonds, covered bonds, etc.), as well as spreading them among the counterparty states. The low interest rates impede the generation of interest income and the reduction of interest rate positions.

Taking the Bank's forecasts into account, risk-bearing capacity (going concern) as at 31 March 2013 remains secure for the 2013/14 financial year and another two years. The planning also considers the fact that the banking regulation requirements for the level of equity and thus for risk-bearing capacity will successively increase on an annual basis. In view of this, the Bank also plans to continue reducing risk-weighted assets and making market price gains in a timely manner in order to increase the tier 1 ratio and the risk cover.

Looking at risk-bearing capacity from a liquidation perspective shows that it is still strongly determined by the disruptions of the capital markets via market price risks in the zenith of the euro crisis. In IKB's view, however, there is currently no threat that Italy-risks will take effect in the near future and thus endanger the Bank. IKB also considers the occurrence of certain examined stress scenarios and their consequences unlikely.

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 by intensifying deposit business with corporate clients, institutional clients, retail customers and repos (ECB and general collateral pooling). Secured refinancing on the capital market, which has already been used successfully in the financial year, remains a liquidity option for the Bank. According to planning, liquidity is ensured with a sufficient buffer. An expansion of new lending business beyond the planned scope leading to rising liquidity requirements is not expected. It remains to be seen in the near future how the EU's plans for further banking regulation will interfere with banks' refinancing of banks and, as regards deposit protection, especially that of German banks. IKB has again increased the tier I capital ratios. This provides a foundation for that transition to the new Basel III/CRD IV standards from 1 January 2014. If the supervisory authorities do not set out any more major surprises in the implementation, which is now to be specified in detail, IKB will be able to start at a distance from the minimum requirements of Basel III.

It will remain important for IKB's success that the expansion of business with customer-related capital market products, advisory services and derivatives is continued in the next financial year in order to increase income. This income serves to supplement the interest income from traditional lending business, which increased once again in new business with higher overall margins. In the past financial year, new lending business increased slightly despite the difficult macroeconomic environment, beyond original expectations. However, the increase in commission income was below expectations because the sovereign debt crisis curbed development on the credit markets, particularly corporate takeovers.

Despite the recession in many European countries, German companies are enjoying good to very good sentiment. This is reflected in the low level of risk provisioning, although it is not expected to remain at this level in the longer term. Some German companies are also increasingly feeling the effects of the drops in demand in the European crisis countries, which could delay or diminish a new revival in German economic growth.

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

Despite the unresolved sovereign debt crisis in the euro zone, the Board of Managing Directors expects that the remaining restructuring measures at IKB will be completed soon and that operating business will continue to grow. Uncertainty will continue to result in particular from the duration and severity of the government debt crisis in the euro zone and the incalculable effects of a larger number of regulation and taxation projects.

5. Events after 31 March 2013 (supplementary report)

The following new developments have arisen since 31 March 2013:

Valin Funds

On 18 April 2013, IKB Deutsche Industriebank AG and Seer Capital Management LP launched their first joint fund: Valin Funds Mittelstand Mezzanine 1 (MM1). The fund has a target capitalisation of € 300 million, and as of the initial closing had a capitalisation of € 105 million. The fund will primarily invest in mezzanine loans to German Mittelstand companies with annual sales above € 50 million.

6. Outlook

Future general economic conditions

In spring 2013, the global economy revived slightly. Particularly significant sentiment indicators for businesses and consumers had already improved in the autumn, and global trade was already picking up again. This was helped not least by the fact that the risk of the breakup of the euro zone was lowered by the ECB announcement of the purchase of government bonds. This picture seems not to have been fundamentally altered by the banking and financial crisis in Cyprus or the political uncertainty in Italy. With the interest rate cut in May 2013, the ECB again supported confidence building on the markets by promising full liquidity support (of banks) for as long as necessary.

In their spring economic reports, the research institutes predict the global economy to pick up again somewhat this year and next year. In the euro zone, too, the economy is to revive slowly. However, the downside risks are considerable. A central assumption is that the crisis in the euro zone will not get worse again. The consistent continuation and success of reform efforts in crisis-hit countries are not yet secure, however.

The global economy received vital stimuli from the US economy as well as the fast-growing emerging economies. The US economy started the current year with momentum despite the intensified fiscal contraction. The research institutes expect GDP growth of 2% for the US this year. The momentum is therefore likely to be somewhat lower than last year. Next year, the growth rate is expected to rise to 2.5%.

For the euro zone, it is assumed, as described, that the debt and confidence crisis will not escalate again. Under this assumption, the economy is likely to stabilise over the course of 2013, although this will result in an average GDP contraction of 0.4% for the current year. In 2014, there should then be growth of just under 1%. At the same time, further declines in GDP in the current year and low positive growth rates next year are expected for Italy and Spain. For France, too, positive growth will not be seen until 2014, with the economy in the current year practically stagnating. Fundamentally, the dynamics in the euro zone will remain rather restrained due to the policy of consolidation and ongoing structural problems. For the UK, the institutes expect the economy to revive in next year with GDP growth of 1.7%; in 2013, however, they expect growth of only 0.7%.

For Germany, the institutes forecast that the economy will pick up over the course of the year. The conditions are right for an increase in overall economic production. Interest rates are low and the conditions for lending are favourable. Moreover, German companies are very competitive on global markets, and they have a strong presence is Asia’s fast-growing emerging countries. In addition, the employment market in Germany is still robust. As a result, and in view of the wage agreements so far, prospects for income remain good, which is likely to support private consumption. Over the course of this year, the increase of demand from abroad should gradually accelerate. This will brighten businesses’ sales prospects, meaning that they will gradually abandon their investment restraint. According to the institutes, GDP will grow by 0.8% in 2013 and by almost 2% next year. However, sentiment in the German economy darkened in April 2013.

In the industrialised nations, monetary policy remains expansionary for the time being. The central banks in the US and Japan have announced that they will leave interest rates at their current extremely low level and continue quantitative easing until the economy has visibly recovered. The ECB’s monetary policy also remains very expansionary, especially as there are currently no signs of an increase in inflation rates. Overall, short-term interest rates will remain low and stable in the medium term following the announcement by the ECB in May 2013, while the long-term interest rates could increase in a few months – but only moderately. Monetary conditions in Germany will therefore remain favourable. In the wake of the gradual alleviation of the debt and confidence crisis in the euro zone, investors will nevertheless turn more readily to other mar-

kets, meaning that the supply of funding on the German capital market will fall again and capital market interest rates could increase slightly. Similarly, interest on borrowing in Germany will not increase notably.

The flatter economic situation in the euro zone and persistently low interest margins are likely to limit the earnings potential for (German or euro) banks in 2013. In addition, earnings performance could come under pressure in the medium term because of several structural developments (explained below) and the competitive pressure on individual markets could increase. This can already be seen in the competition for customer deposits. The experience of the confidence crisis on the interbank market and the search for alternative affordable or stable sources of refinancing – not least in view of the liquidity requirements to be observed in future – are making this business area an increasingly central issue in banks' business policy. In this context, it is very important that the system of deposit protection established and proven in Germany endures and is not eroded by a European solution – with lower standards and potentially liability on the part of German banks for weak banks in other countries. Otherwise, there would be a risk that investors' confidence in the security of their deposits would be seriously threatened, which would damage an increasingly important source of refinancing for credit financing.

In the traditional core business of corporate financing, banks could – not least due to the higher burden of regulation – be driven back and lose market share in their function as financial intermediaries, because, in substitution, corporate financing would increasingly be secured via the capital market and the banks operating there. The capital markets are of particular importance for the provision of longer-term funds. In its recent "Green Paper on the long-term financing of the European economy", the European Commission points to the fact and necessity of increased utilisation of capital market products on the part of businesses. This applies not least for large SMEs in Germany, which are diversifying their financing with bonds and promissory note loans, while simultaneously reducing bank debt. For banks, this gives rise to the challenge of compensating for earnings from traditional financing business with those from consulting activities.

In addition, regulatory measures that are currently due to be implemented and that will be followed by others are inevitably introduced at the cost of earnings if they cannot be passed on to bank customers. The primary aim is initially to strengthen equity on a sustainable basis – including with the possible consequence that some banks will have to scale back their lending activities. Further regulations concerning areas such as liquidity are set to follow, although the cumulative impact of the various measures on the lending and deposit-taking business of banks remains unclear. Banks' derivatives trading will change considerably and probably become more expensive due to the use of a central counterparty and additional equity requirements, which will not only limit companies' hedging options but also fundamentally transform bank management and issuing business. In the medium term, a separation of traditional business and investment banking could be in store for larger banks, the effect of which on costs and above all on liquidity in the capital markets is still entirely unclear. Additional burdens for the banking sector are expected primarily from the planned introduction of a financial transaction tax, which, for example, could suppress secured or unsecured refinancing between banks. Such a tax would have negative effects on the real economy if, for example, it affected transactions for corporate financing or pension funds. Banks' earnings power would be weakened if non-banks provided the services in question in future. Against this backdrop, banks will be faced with new questions on the balance between their segments. Banks are therefore faced with the task of adapting their business models to the changing environment.

In the medium term, the planned European banking union can make an important contribution to stabilising the European banking system and thus to resolving the euro crisis. The banking union includes areas of regulation of particular interest to German banks depending on their configuration. Shared deposit protection – as described above – entails considerably risks. It would also be significant for German SMEs if the protection level on deposits from companies were lowered so that their payment deposits were no longer protected. There are also many details still to be clarified for the specific configuration of a shared restructur-

ing and bank resolution mechanism. An important point is the clarification of which banks are to be classified as systemically important and accordingly subject to the European supervisory authorities. At present, it is envisaged that the limit will be drawn at total assets of € 30 billion. For banks potentially affected, it is not currently possible to estimate the conversion cost or work such a change could involve and when they will grow to become this size. The consequences also depend on the rights of the relevant supervisory authorities to intervene, which could include the obligation to adopt IFRS accounting.

Generally, a general easing of the risk situation is emerging. For the euro zone, the environment has improved since the ECB announcement last autumn. Nevertheless, the situation for the euro zone remains susceptible to setbacks. This is due to risks for banks and governments resulting from continued economic and growth weakness and political resistance to reform. There are still economic risks in the US as well, as imponderables remain in the dispute between the two political camps, which could trigger further shocks of uncertainty, for example in connection with the necessary increase of the debt ceiling.

Opportunities of future development

IKB has adjusted its business model and focussed on services for SMEs with extensive advisory and financing requirements. All significant costs, dependencies and restrictions on conduct that existed in addition to already close and comprehensive bank supervision were eliminated by the fulfilment of the EU conditions and the return of all SoFFin guarantees. The Bank has been recapitalised, and total assets and risk-weighted assets significantly reduced. Risk management has been developed and conceptually extended. The risks that the IKB crisis triggered at the time have lessened considerably. Liquidity has been secured by reducing the requirements and by establishing targeted deposit business. On this basis, IKB is concentrating on the consistent expansion of its operating business with its target customers in order to successively increase earnings. At the same time, the requirements of the new banking regulations are to be fulfilled. These regulations are a challenge, especially because of their high level of uncertainty and sophistication, but they also present opportunities.

IKB believes there are good prospects for an expansion of its activities in the areas of advisory, hedging and credit products. Despite the difficult environment (euro crisis, companies' restraint), new business with loans has proved stronger than expected and met expectations of margins that cover costs. As the euro crisis dies down, IKB expects companies' investment activities to increase. On the basis of existing customer relationships, IKB will participate in this at least to the extent it did in the last, difficult financial year. Although there are lengthy start-up times for the advisory and hedging products, a revival of the capital markets and diminishing fears of a euro crisis will ensure increasingly profitable business here. IKB is already in a logical position to advise businesses that want to intensify their use of the capital markets in line with the effects of Basel III. 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 mandates and the level of income from customer-related commission business have increased. Capital market-related business has revived since autumn 2012. For investors, an initial fund was launched, which will be followed by further funds depending on investor interest, access to the corporate loan asset class and regulatory requirements for insurance companies or other institutional investors. IKB believes there are growing opportunities for capital market business with customers and for investment products from corporate loans as the euro crisis dies down.

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 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. The overall aim is to ensure a sufficiently high tier I capital

ratio to meet Basel III requirements comfortably. To this end, the Bank is planning to place credit risks and risk-weighted assets in the market. With the improvement on the European capital markets following the ECB interventions, securities holdings can also be profitably reduced in order to create more capital flexibility for new lending in conjunction with reviving investment activity. For the risk transfer, IKB can build on the many years of experience from its own securitisation activities. Overall, the most recent transactions made show a noticeable improvement in the market situation for transactions for transferring risk or generating liquidity. In view of the expansionary monetary policies around the world, in the longer term this will give rise to opportunities enabling efficient balance sheet management with regard to Basel III.

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 currently reducing its 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.

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 13.8% (IKB AG: 15.3%) and 9.6% (IKB AG: 10.1%) respectively, the overall capital ratio (solvency ratio) and tier I capital ratio of the IKB Group are higher than in the previous year and significantly in excess of the valid minimum statutory requirements according to the German Banking Act (Basel II). Effective 18 December 2012, IKB is no longer contractually required by SoFFin to maintain minimum tier I capital of 8% at IKB AG and in the Group.

With the implementation of Basel III, higher or "harder" minimum capital requirements will generally come into effect (prospectively from 1 January 2014, see below). These are already effective as expected values in the calculation of risk-bearing capacity prescribed by the regulations, which standardises an additional common equity tier 1 capital buffer or risk-bearing capacity beyond the minimum requirements of Basel III. The risk coverage potential thus becomes the limiting control parameter in view of these increased minimum capital requirements under the regulations of CRD IV.

To comply with growing capital requirements, IKB will cut/sell or synthetically hedge additional risk-weighted assets. Further, IKB will grant loans to companies and transfer them to funds in which third parties can also invest. Against this backdrop, the Valin Fund Mittelstand Mezzanine 1 was launched with an initial capitalisation of € 105 million. In addition, further funds for other types of loans to companies are to be launched. The Bank is expected to comply with the legally required capital ratio in the forecast period.

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 impact IKB's situation and make it difficult to keep risk-bearing capacity below the new minimum requirements of CRD IV for the tier 1 capital ratio and in particular the common equity tier 1 capital ratio without additional measures being taken, or prevent this entirely.

For the financial years 2013/14 and 2014/15, the Bank expects to see a further reduction in receivables from customers, as new lending business will continue to be more than offset by repayments in the lending business and asset-side reductions. After the significant reduction (complete return of SoFFin-guaranteed bonds) of securitised liabilities in the reporting period, the liability side of the balance sheet will be character-

ised by an expansion of the funding mix while increasing deposit business with institutional investors and retail customers.

Effects of the CRD IV banking reform package

As the CRD IV reform package was approved by the EU parliament on 16 April 2013, its mandatory application from 1 January 2014 seems certain. The reform package is comprised of an EU directive (CRD – Capital Requirement Directive) and an EU regulation (CRR – Capital Requirement Regulation). While the directive still needs to be transposed into national law by an amendment to the KWG, the regulation comes into effect directly in the international context.

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

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

Furthermore, two additional variable capital buffers will be introduced that must likewise be endowed from common equity tier I capital. These are the countercyclical capital buffer, which can be up to 2.5%, and a systemic risk buffer, which can amount to a further 3%. The specific size of these additional capital buffers is at the individual EU member countries' discretion and depends on the economic development of the individual national economies with regard to exaggerated market developments, especially bubbles in financial and real estate markets.

In summary, this means that the banking authorities could demand a common equity tier I capital ratio of up to 12.5% by the end of the implementation phase on 1 January 2019. In order to meet the growing capital requirements over the years, which could also affect the risk cover fund, in the long term, IKB will reduce risk-weighted assets by sale or risk transfer. In addition, reserves are to be formed in accordance section 340g HGB.

The interpretation of CRD IV/CRR by the international and national supervisory authorities is unclear in many parts, especially as a high number of technical performance standards have not yet been made available by the European authorities. Depending on the interpretation, they could result in burdens or relief.

As at the reporting date, the IKB Group has total assets of € 27.7 billion (IKB AG: € 27.0 billion). Therefore, IKB does not expect to come under the new European banking authority led by the ECB, but to remain regulated by the national supervisory authorities BaFin and Deutsche Bundesbank.

The CRD IV reform package causes high costs and poses complex management questions. It is to be seen primarily in combination with a large number of other regulation projects, which are being implemented or planned in parallel. IKB is currently working in several major projects to implement the new regulations. Despite the early launch of the project and the high costs involved, there are still significant uncertainties, as a number of statutory regulations have not yet been finalised or are still to be specified or announced by the EBA or the national banking authorities. The existing uncertainties will affect the Bank's business model and the management of the balance sheet, the regulatory equity capital, the risk-weighted assets and therefore also the Bank's risk-bearing capacity.

Liquidity situation

Collateralised borrowing on the interbank market and lending against securities or loan assets with the Central Bank have become important sources of refinancing for all banks. In addition, deposits have become more important for financing.

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. In addition, IKB has begun issuing bearer bonds again.

The funds generated will be used to repay refinancing as it matures and for new business. The future liquidity situation is also dependent on the development of new business, the extent to which customers draw on existing loan commitments, the investment behaviour of deposit customers, agreements with the Deposit Protection Fund of the Association of German Banks, further developments in European deposit protection and the market value development of collateral and derivatives. Even under stress scenarios, IKB will have sufficient liquidity even without access to capital market refinancing.

According to planning, liquidity is ensured with a sufficient buffer.

Results of operations

The sovereign debt crisis in particular, in connection with this the restriction of business opportunities due to the burden of Greek government bonds in the 2011/12 financial year, the deteriorated economic situation in the reporting period and the identifiable regulatory limitations resulting from the CRD IV package mean that IKB will convert its business model into positive earnings only at a later date.

The future earnings structure will feature a stronger share of commission income from advisory, derivatives and capital market business and assets under management. With profitable new lending business, net interest income will stabilise in the medium term and provisions for possible loan losses will remain stable. Total assets will continue to decline.

Administrative expenses in the Group will be further reduced, due in particular to reductions of other administrative expenses and the workforce. This is made possible by improved efficiency, particularly with regard to the fulfilment of regulatory requirements and reductions in Group complexity. There is still uncertainty concerning the negative consequences that could arise from the ongoing and not yet finalised wave of regulation and the necessary adjustments.

To limit its refinancing costs and ensure its liquidity in the future as well, IKB will continue to diversify its refinancing structure. The focus is sustainable deposit business with corporate and retail clients and the issuance of bearer bonds. In addition, IKD will make active use of programme loans and global loans from government development banks and continue to carry out secured financing.

If the positive trends on the capital markets are essentially confirmed, the Board of Managing Directors assumes that, overall, positive operating results will be generated from earnings in operating business and measurement gains from financial instruments, which can be used to strengthen tier 1 capital. Servicing the compensation agreements in a total amount of € 1,151.5 million and the value recovery rights of the hybrid investors means that, even if IKB does generate an operating profit, it will probably not report any, or only minimal, net profit for the forecast period and a long time to come.

7. Disclosures in accordance with section 312 AktG

IKB has produced a dependent company report in accordance with section 312 AktG. The dependent company report will not be made public. The closing statement of the Board of Managing Directors of the Bank in the dependent companies report is as follows: “With respect to the transactions and measures listed in the report on relationships with affiliated companies, according to the circumstances known to use at the time in which the transactions were carried out or measures performed or omitted, our company received appropriate compensation for every transaction and has therefore not been disadvantaged by any measures performed or omitted.”

Good prospects for industrial SMEs

Industrial small and medium-sized enterprises are forecasting an improvement in their economic situations over the course of the year – as found by the 2013 spring survey by the BDI SME Panel. Twice a year, industrial companies are questioned about their business prospects and strategies on behalf of BDI, IKB and Ernst&Young; almost 950 firms took part in the most recent survey.

Other results of the survey show that industrial SMEs are highly confident for the medium term. In 2012, regardless of the economic downturn, companies invested more than in the year before and more than planned at the start of last year. In particular, the larger, internationally oriented SMEs have increased their capital expenditure, whereby they have apparently implemented a number of projects abroad. 2013 is expected to be the first year since the major economic crisis in 2009 when investments will focus more on expansion again after an interim of replacement investments. Financing their activities is generally not causing companies any problems at the moment, especially given that the consistently positive results of operations are allowing considerable self-financing.

Parallel to the growth in investments, industrial companies have also increased the number of jobs at their domestic locations. Once again, the larger SMEs were particularly active in this respect. A rise in employment is also anticipated in 2013, according to company information.

All these factors are signals that companies are foreseeing attractive sales opportunities in the medium term: not just on their home markets but above all on the rapidly expanding emerging markets as well. They want to be equipped with state-of-the-art facilities and qualified personnel in order to exploit the sales potential developing there as fully as possible.

The fact that companies have hired new staff even in an uncertain economic environment is also because they see their human capital as a crucial means of ensuring their long-term competitive capability. Almost 90% of companies indicated that measures to continue training and boost loyalty among their employees were on their agenda. Not least, a qualified staff is a key factor in innovation – and is also seen as a particularly important success factor in international competition: Three quarters of companies are currently working towards or planning to launch new products or production processes. Service quality is a similarly high priority, and companies believe that improving this facet will mean advantages not least over their international competitors. It has been noted that more than two thirds of companies are implementing or planning measures to improve energy or materials efficiency – revealing efforts to ensure competitive capability in terms of costs as well.

Overall, the latest survey paints a highly positive picture of the current situation among industrial SMEs. Despite the economic downturn, companies are in robust condition. They are forecasting a quick recovery in their business situation and anticipate good sales prospects on international markets in the medium term. In order to take advantage of this, they are keeping investments at a high level, adding to their staff and working to increase competitive capability, especially through innovation and service quality.

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

Consolidated and Annual Financial Statements of IKB Deutsche Industriebank AG

Consolidated balance sheet of IKB Deutsche Industriebank AG as at 31 March 2013

in € million	31 Mar. 2013	31 Mar. 2012
Assets		
Cash reserve	**86.9**	**19.0**
a) Cash on hand	-	-
b) Balances with central banks	86.9	19.0
thereof: with Deutsche Bundesbank	86.9	19.0
c) Balances in postal giro accounts	-	-
Debt instruments of public sector entities and bills of exchange eligible for refinancing of central banks	**-**	**-**
Receivables from banks	**2,219.2**	**2,579.6**
a) Repayable on demand	2,099.2	2,413.0
b) Other receivables	120.0	166.6
Receivables from customers	**14,707.1**	**16,044.6**
thereof: mortgage loans	1,805.8	1,921.0
thereof: public sector loans	1,381.0	1,678.7
Bonds and other fixed-income securities	**7,855.1**	**10,578.0**
a) Money market securities	-	-
b) Bonds and notes	7,161.0	7,491.2
ba) Public sector issuers	2,150.3	2,088.3
thereof: eligible as collateral for Deutsche Bundesbank	2,150.3	1,907.5
bb) Other issuers	5,010.7	5,402.9
thereof: eligible as collateral for Deutsche Bundesbank	4,444.9	4,223.4
c) Own bonds	694.1	3,086.8
Nominal amount	697.2	3,073.6
Equities and other non-fixed-income securities	**496.7**	**1,125.0**
Assets held for trading	**265.9**	**222.4**
Equity investments	**26.8**	**37.7**
thereof: banks	0.2	0.2
Investments in associates	**15.0**	**18.8**
thereof: financial services institutions	11.1	9.2
Investments in affiliated companies	**2.1**	**2.3**
Assets held in trust	**0.3**	**0.9**
thereof: Trustee loans	0.3	0.9
Equalisation claims on the public sector including debt securities arising from their exchange	**-**	**-**
Leasing assets	**1,365.3**	**1,411.0**
Intangible assets	**19.0**	**17.5**
a) Internally generated industrial and similar rights and assets	-	-
b) Purchased concessions, industrial and similar rights and assets, and licenses in such rights and assets	18.7	17.4
c) Goodwill	-	-
d) Advance payments made	0.3	0.1
Tangible assets	**12.8**	**15.4**
Called unpaid capital	**-**	**-**
Other assets	**285.2**	**266.9**
Prepaid expenses	**71.9**	**48.6**
Deferred tax assets	**148.2**	**152.0**
Excess of plan assets over post-employment benefit liability	**39.9**	**30.6**
Total assets	**27,617.4**	**32,570.3**

in € million	31 Mar. 2013	31 Mar. 2012
Equity and liabilities		
Liabilities to banks	**11,863.1**	**13,209.2**
a) Repayable on demand	804.8	717.5
b) With agreed lifetime or notice period	11,058.3	12,491.7
Liabilities to customers	**10,881.5**	**10,020.9**
a) Savings deposits	-	-
b) Other liabilities	10,881.5	10,020.9
ba) Repayable on demand	588.4	390.3
bb) With agreed lifetime or notice period	10,293.1	9,630.6
Securitised liabilities	**987.1**	**5,352.2**
a) Bonds issued	987.1	5,352.2
b) Other securitised liabilities	-	-
Liabilities held for trading	**242.1**	**138.9**
Liabilities held in trust	**0.3**	**0.9**
thereof: Trustee loans	0.3	0.9
Other liabilities	**511.3**	**488.7**
Deferred income	**145.8**	**150.2**
Deferred tax liabilities	**-**	**-**
Provisions	**457.5**	**421.9**
a) Provisions for pensions and similar obligations	6.1	3.7
b) Tax provisions	105.8	107.1
c) Other provisions	345.6	311.1
Subordinated liabilities	**1,373.6**	**1,471.9**
Profit participation capital	**32.2**	**35.8**
Fund for general banking risks	**170.8**	**189.7**
thereof: trading-related special reserve according to section 340e (4) HGB	0.2	0.1
Equity	**952.1**	**1,090.0**
a) Called-up capital	1,621.5	1,621.3
Subscribed capital	1,621.5	1,621.3
Less uncalled unpaid contributions	-	-
Contingent capital	191.7	191.8
b) Capital reserves	1,750.7	1,750.7
c) Revenue reserves	5.0	26.6
ca) Legal reserve	2.4	2.4
cb) Reserve for shares in a parent or majority investor	-	-
cc) Statutory reserves	-	-
cd) Other revenue reserves	2.6	24.2
d) Difference in equity from currency translation	-16.7	-17.8
e) Net accumulated losses	-2,408.4	-2,290.8
Total equity and liabilities	**27,617.4**	**32,570.3**

Contingent liabilities	**1,486.1**	**986.3**
a) Contingent liabilities from rediscounted and settled bills of exchange	-	-
b) Liabilities from guarantees and indemnity agreements	1,486.1	986.3
c) Liability arising from the provision of collateral for third-party liabilities	-	-
Other obligations	**1,211.0**	**1,609.8**
a) Repurchase obligations from non-genuine repurchase agreements	-	-
b) Placement and underwriting obligations	-	-
c) Irrevocable loan commitments	1,211.0	1,609.8

Balance sheet of IKB Deutsche Industriebank AG as at 31 March 2013

in € million	31 Mar. 2013	31 Mar. 2012
Assets		
Cash reserve	**86.9**	**19.0**
a) Cash on hand	-	-
b) Balances with central banks	86.9	19.0
thereof: with Deutsche Bundesbank	86.9	19.0
c) Balances in postal giro accounts	-	-
Debt instruments of public sector entities and bills of exchange eligible for refinancing of central banks	**-**	**-**
Receivables from banks	**2,091.0**	**2,444.8**
a) Repayable on demand	1,981.7	2,291.4
b) Other receivables	109.3	153.4
Receivables from customers	**16,752.3**	**18,058.4**
thereof: mortgage loans	1,805.8	1,921.0
thereof: public sector loans	1,381.0	1,678.7
Bonds and other fixed-income securities	**6,991.9**	**9,930.3**
a) Money market securities	-	-
b) Bonds and notes	6,990.7	7,415.4
ba) Public sector issuers	2,150.4	2,089.6
thereof: eligible as collateral for Deutsche Bundesbank	2,150.4	1,907.5
bb) Other issuers	4,840.3	5,325.8
thereof: eligible as collateral for Deutsche Bundesbank	3,935.8	3,745.0
c) Own bonds	1.2	2,514.9
Nominal amount	1.8	2,510.7
Equities and other non-fixed-income securities	**28.3**	**78.3**
Assets held for trading	**265.9**	**222.4**
Equity investments	**11.1**	**12.8**
thereof: banks	0.2	0.2
Investments in affiliated companies	**124.7**	**777.9**
thereof: banks	22.7	23.0
Trust assets	**0.3**	**0.9**
thereof: Trustee loans	0.3	0.9
Equalisation claims on the public sector including debt securities arising from their exchange	**-**	**-**
Intangible assets	**48.2**	**50.7**
a) Internally generated industrial and similar rights and assets	-	-
b) Purchased concessions, industrial and similar rights and assets, and licenses in such rights and assets	16.9	15.0
c) Goodwill	31.3	35.7
d) Advance payments made	-	-
Tangible assets	**5.5**	**6.1**
Called unpaid capital	**-**	**-**
Other assets	**153.9**	**285.4**
Prepaid expenses	**198.6**	**230.7**
Deferred tax assets	**150.7**	**151.6**
Excess of plan assets over post-employment benefit liability	**38.0**	**28.9**
Total assets	**26,947.3**	**32,298.2**

in € million	31 Mar. 2013	31 Mar. 2012
Equity and liabilities		
Liabilities to banks	**11,888.4**	**13,208.6**
a) Repayable on demand	821.5	723.7
b) With agreed lifetime or notice period	11,066.9	12,484.9
Liabilities to customers	**10,895.1**	**10,183.9**
a) Savings deposits	-	-
b) Other liabilities	10,895.1	10,183.9
ba) Repayable on demand	584.0	535.0
bb) With agreed lifetime or notice period	10,311.1	9,648.9
Securitised liabilities	**415.1**	**4,788.3**
a) Bonds issued	415.1	4,788.3
b) Other securitised liabilities	-	-
Liabilities held for trading	**242.1**	**138.9**
Liabilities held in trust	**0.3**	**0.9**
thereof: Trustee loans	0.3	0.9
Other liabilities	**556.8**	**718.8**
Deferred income	**228.0**	**298.6**
Deferred tax liabilities	**-**	**-**
Provisions	**412.6**	**372.1**
a) Provisions for pensions and similar obligations	3.2	0.8
b) Tax provisions	102.3	102.7
c) Other provisions	307.1	268.6
Subordinated liabilities	**898.6**	**996.8**
Profit participation capital	**32.2**	**35.8**
Fund for general banking risks	**170.8**	**189.7**
thereof: trading-related special reserve according to section 340e (4) HGB	**0.2**	**0.1**
Equity	**1,207.3**	**1,365.8**
a) Called-up capital	1,621.5	1,621.3
Subscribed capital	1,621.5	1,621.3
Less uncalled unpaid contributions	-	-
Contingent capital	191.7	191.8
b) Capital reserves	1,750.7	1,750.7
c) Revenue reserves	2.4	24.3
ca) Legal reserve	2.4	2.4
cb) Reserve for shares in a parent or majority investor	-	-
cc) Statutory reserves	-	-
cd) Other revenue reserves	-	21.9
e) Net accumulated losses	-2,167.3	-2,030.5
Total equity and liabilities	**26,947.3**	**32,298.2**
Contingent liabilities	**2,437.2**	**1,957.0**
a) Contingent liabilities from rediscounted and settled bills of exchange	-	-
b) Liabilities from guarantees and indemnity agreements	2,437.2	1,957.0
c) Liability arising from the provision of collateral for third-party liabilities	-	-
Other obligations	**1,066.3**	**1,448.9**
a) Repurchase obligations from non-genuine repurchase agreements	-	-
b) Placement and underwriting obligations	-	-
c) Irrevocable loan commitments	1,066.3	1,448.9

Consolidated income statement of IKB Deutsche Industriebank AG for the period from 1 April 2012 to 31 March 2013

in € million	2012/13	2011/12
Expenses		
Lease expenses	**-179.0**	**-160.0**
Interest expenses	**-1,669.5**	**-2,134.9**
Commission expenses	**-42.8**	**-112.8**
Net trading results	**-**	**-**
General administrative expenses	**-293.9**	**-292.1**
a) Personnel expenses	-159.0	-163.6
aa) Wages and salaries	-135.3	-138.3
ab) Social security, post-employment and other employee benefit costs	-23.7	-25.3
thereof: for pensions	-6.1	-8.2
b) Other administrative expenses	-134.9	-128.5
Depreciation and write downs of intangible and tangible assets	**-423.1**	**-418.8**
a) On leasing assets	-413.0	-408.9
b) On intangible and tangible assets	-10.1	-9.9
Other operating expenses	**-564.5**	**-104.2**
Depreciation and write downs of receivables, specific securities and additions to loan loss provisions	**-70.6**	**-16.0**
Depreciation and write downs of equity investments, investments in affiliated companies and long-term investments	**-47.7**	**-316.5**
Expenses from assumption of losses	**-**	**-0.1**
Extraordinary expenses	**-11.6**	**-17.6**
Income taxes	**-4.1**	**-5.2**
Other taxes not reported under other operating expenses	**-1.9**	**-2.7**
Profit transfer on the basis of profit-pooling, profit transfer and partial profit transfer agreements	**-**	**-**
Total expenses	**-3,308.7**	**-3,580.9**

in € million	2012/13	2011/12
Income		
Lease income	**686.6**	**661.5**
Interest income from	**1,725.1**	**2,247.6**
a) Lending and money market transactions	1,524.0	2,005.3
b) Fixed-income securities and government-inscribed debts	201.1	242.3
Current income from	**60.3**	**6.1**
a) Equities and other non-fixed-income securities	45.4	0.7
b) Equity investments	12.6	4.3
c) Associates	2.3	1.1
d) Investments in affiliated companies	-	-
Income from profit-pooling, profit transfer and partial profit transfer agreements	**-**	**-**
Commission income	**47.8**	**54.3**
Net trading results	**1.2**	**0.7**
thereof: addition to trading-related special reserve according to section 340e (4) HGB	0.1	0.1
Income from reversals of write-downs on receivables and certain securities and from the reversal of loan loss provisions	**-**	**-**
Income from reversals of write-downs of equity investments, investments in affiliated companies and long-term investment securities	**156.8**	**54.5**
Other operating income	**465.5**	**130.8**
Income from the reversal of the fund for general banking risks	**19.0**	**-**
Extraordinary income	**3.3**	**1.3**
Income from assumption of losses	**0.1**	**-**
Net loss for the year	**143.0**	**424.1**
Total income	**3,308.7**	**3,580.9**
Net loss for the year	**-143.0**	**-424.1**
Loss carry-forward from the previous year	**-2,290.8**	**-1,880.4**
Withdrawals from capital reserves	**-**	**-**
Withdrawals from revenue reserves	**21.9**	**-**
a) from legal reserve	-	-
b) from reserve for shares in a parent or a majority investor	-	-
c) from statutory reserves	-	-
d) from other revenue reserves	21.9	-
Withdrawals from profit participation capital	**3.6**	**13.1**
Withdrawals from silent partnership contributions	**-**	**0.6**
Allocations to revenue reserves	**-**	**-**
Replenishment of profit participation capital	**-**	**-**
Net accumulated losses	**-2,408.4**	**-2,290.8**

Income statement of IKB Deutsche Industriebank AG for the period from 1 April 2012 to 31 March 2013

in € million	2012/13	2011/12
Expenses		
Interest expenses	**-1,703.9**	**-2,209.7**
Commission expenses	**-36.7**	**-105.9**
Net trading results	**-**	**-**
General administrative expenses	**-248.3**	**-246.2**
a) Personnel expenses	-123.7	-128.0
aa) Wages and salaries	-105.2	-107.6
ab) Social security, post-employment and other employee benefit costs	-18.5	-20.4
thereof: for pensions	-5.8	-7.9
b) Other administrative expenses	-124.6	-118.2
Depreciation and write downs of intangible and tangible assets	**-9.2**	**-8.8**
Other operating expenses	**-510.8**	**-43.4**
Depreciation and write downs of receivables, specific securities and additions to loan loss provisions	**-72.1**	**-4.3**
Depreciation and write downs of equity investments, investments in affiliated companies and long-term investments	**-40.7**	**-467.2**
Expenses from assumption of losses	**-**	**-**
Extraordinary expenses	**-7.3**	**-16.9**
Income taxes	**-0.2**	**-6.9**
Other taxes not reported under other operating expenses	**-0.3**	**-1.1**
Profit transfer on the basis of profit-pooling, profit transfer and partial profit transfer agreements	**-**	**-**
Total expenses	**-2,629.5**	**-3,110.4**

in € million	2012/13	2011/12
Income		
Interest income from	**1,770.6**	**2,322.5**
a) Lending and money market transactions	1,594.1	2,101.7
b) Fixed-income securities and government-inscribed debts	176.5	220.8
Current income from	**11.2**	**193.3**
a) Equities and other non-fixed-income securities	-	0.3
b) Equity investments	11.2	0.7
c) Investments in affiliated companies	-	192.3
Income from profit-pooling, profit transfer and partial profit transfer agreements	**71.7**	**211.0**
Commission income	**46.1**	**54.8**
Net trading results	**1.2**	**0.7**
thereof: addition to trading-related special reserve according to section 340e (4) HGB	0.1	0.1
Income from reversals of write-downs on receivables and certain securities and from the reversal of loan loss provisions	**-**	**-**
Income from reversals of write-downs of equity investments, investments in affiliated companies and long-term investment securities	**124.6**	**23.7**
Other operating income	**418.2**	**46.8**
Income from the reversal of the fund for general banking risks	**19.0**	**-**
Extraordinary income	**4.7**	**2.8**
Income from assumption of losses	**-**	**-**
Net loss for the year	**162.2**	**254.8**
Total income	**2,629.5**	**3,110.4**
Net loss for the year	**-162.2**	**-254.8**
Loss carry-forward from the previous year	**-2,030.5**	**-1,789.4**
Withdrawals from capital reserves	**-**	**-**
Withdrawals from revenue reserves	**21.9**	**-**
a) from legal reserve	-	-
b) from reserve for shares in a parent or a majority investor	-	-
c) from statutory reserves	-	-
d) from other revenue reserves	21.9	-
Withdrawals from profit participation capital	**3.5**	**13.1**
Withdrawals from silent partnership contributions	**-**	**0.6**
Allocations to revenue reserves	**-**	**-**
Replenishment of profit participation capital	**-**	**-**
Net accumulated losses	**-2,167.3**	**-2,030.5**

Reconciliation of equity

As part of the transition in group accounting from IFRS back to HGB, IKB Deutsche Industriebank AG has prepared HGB consolidated financial statements again for the first time since 31 March 2005. In group reporting, equity must be reconciled from IFRS to HGB as at the time of transition and the changes explained. The transition in group accounting to HGB occurred on preparation of a HGB consolidated opening balance sheet as at 1 April 2011. The reconciliation of consolidated equity from IFRS to consolidated equity in accordance with HGB is shown in the table below:

in € million	Equity (not including revaluation reserves)	Revaluation reserves	Total
Equity as at 31 March 2011 (IFRS, after IAS 8 adjustments)	**979.9**	**-36.5**	**943.4**
Asset effects			
Receivables from customers	16.8	-	16.8
Intangible assets	-3.4	-	-3.4
Prepaid expenses	-29.8	-	-29.8
Excess of plan assets over post-employment benefit liability	44.3	-	44.3
Equity and liability effects			
Fund for general banking risks	-189.6	-	-189.6
Miscellaneous effects			
Measurement differences on financial instruments	352.7	36.5	389.2
Change in accounting for debt waivers against debtor warrants	320.0	-	320.0
Taxes (deferred taxes)	-1.5	-	-1.5
Changes in the consolidated group	4.1	-	4.1
Other effects	8.5	-	8.5
Equity as at 1 April 2011 (HGB)	**1,502.0**	**0.0**	**1,502.0**

Reported consolidated equity rose by € 558.6 million to € 1,502.0 million as a result of the following effects:

The revaluation reserves of € 36.5 million was reversed respectively reclassified to revenue reserves.

In receivables from customers there was a positive equity effect due to the different calculation of portfolio impairment under IFRS and global valuation allowances in accordance to HGB.

Under HGB, IKB does not exercise the option of capitalising internally generated industrial and similar rights and assets.

The reconciliation differences in prepaid expenses are essentially due to issuing costs not capitalised under HGB. There were also reconciliation effects due to non-capitalised commission in the Leasing group.

The excess of plan assets over post-employment benefit liability in connection with theaccounting for contractual trust arrangements (CTA) is reported in accordance with HGB. In particular, the effect arises from the application of the one-fifteenth regulation in accordance with section 67(1) sentence 1 of the *Einführungsgesetz zum Handelsgesetzbuch* (EGHGB – Introductory Act to the German Commercial Code) in accordance with the *Bilanzrechtsmodernisierungsgesetz* (BilMoG – German Accounting Law Modernisation Act – see note 35).

The fund for general banking risks is recognised in accordance with section 340g HGB at the expense of equity. IFRS does not provide for the recognition of a corresponding item.

Furthermore, there were other effects totalling € 720.3 million in connection with the following issues in particular:

The transition of financial instruments measured at fair value in accordance with IAS 39 to HGB measurement resulted in material reconciliation effects totalling € 389.2 million. Under HGB, non-trading assets are recognised in line with the strict or less strict principle of lower of cost or market value; liabilities are recognised at their settlement amount. Non-trading derivatives are accounted for under HGB in line with the provisions for executory contracts (see note 14). Furthermore, non-trading derivative financial instruments in particular are included in loss-free measurement of the banking book in accordance with BFA 3 (interest rate risk) respectively the concept of special covered currency risk.

In this context, the difference in hedge accounting between IFRS and HGB must also be considered. Under IAS 39, hedges were recognised in the balance sheet and the income statement in the form of micro and macro hedges. Under HGB, only a few hedges were defined as valuation unit.

Another material effect on consolidated equity results from the different accounting for debt waivers by shareholders against debtor warrants under HGB and IFRS. Under IFRS, liabilities from recovery agreements were reported under liabilities to customers or subordinated liabilities. Liabilities were measured in the amount of the present value of the estimated future cash flows, discounted using the original effective interest rate, in accordance with IAS 39 AG8. As at 31 March 2011, this resulted in liabilities from debtor warrants totalling € 320.0 million. Under HGB, the amounts waived are treated as transfers to capital reserves (section 272(2) no. 4 HGB). Liabilities from debtor warrants are not recognised until future profits occur. Overall, reconciliation therefore results in an increase in equity from the derecognition of liabilities from debtor warrants totalling € 320.0 million.

The difference between HGB and IFRS carrying amounts resulted in different reporting of deferred taxes.

The effects of the change in the consolidated group result in particular from special funds included in consolidation in accordance with SIC 12 under IFRS and that do not have to be included in consolidation in accordance with section 290(2) no. 4 sentence 2, second half-sentence HGB. Partner funds assets were recognised under IFRS. Under HGB the fund shares are reported in the balance sheet.

Consolidated cash flow statement

in € million		2012/13	2011/12
Net income for the period (including minority interest in net income)		**-117.5**	**-410.4**
Non-cash items included in net income for the year and reconciliation to cash flow from operating activities			
+/-	Depreciation and amortisation, impairment and reversals of write-downs on receivables, tangible and financial assets	557.7	740.6
+/-	Increase/decrease in provisions	31.8	-107.1
+/-	Other non-cash expenses/income	-9.0	4.7
-	Gain/loss on the disposal of financial and tangible assets	-122.0	235.6
+/-	Other adjustments (net)	-615.0	-626.1
Subtotal		**-274.0**	**-162.7**
Changes in assets and liabilities from operating activities			
	Receivables		
+/-	from banks	359.2	-344.3
+/-	from customers	1,252.3	2,342.8
+/-	Securities (unless financial assets)	2,695.3	397.6
	Leasing assets		
+	Receipts from disposal	211.2	189.2
-	Payments for acquisition	-435.3	-527.8
+/-	Other assets from operating activities	-61.5	13.8
	Liabilities		
+/-	to banks	-1,343.2	1,983.3
+/-	to customers	870.3	2,130.1
+/-	Securitised liabilities	-4,332.2	-6,068.0
+/-	Other liabilities from operating activities	80.4	190.7
+	Interest and dividends received	2,284.9	2,785.0
-	Interest paid	-1,869.4	-2,326.5
+	Extraordinary receipts	3.2	-
+/-	Income tax	-3.4	-1.6
Cash flow from operating activities		**-562.2**	**601.6**
	Proceeds from the disposal of		
+	financial assets	3,568.9	1,330.5
+	tangible assets	0.4	0.3
	Payments for the acquisition of		
-	financial assets	-2,832.2	-1,978.6
-	tangible assets	-2.6	-4.5
+/-	Change in cash funds from other investing activities (net)	-6.6	-9.0
Cash flow from investing activities		**727.9**	**-661.3**
+	Cash receipts from issue of capital	0.1	-
+/-	Change in cash funds from other capital (net)	-98.2	-6.1
Cash flow from financing activities		**-98.1**	**-6.1**
	Net change in cash funds	67.6	-65.8
+/-	Effect on cash funds of exchange rate movements, changes in reporting entity structure and remeasurement	-	-
+	**Cash funds at beginning of period**	**19.0**	**84.8**
Cash funds at end of period		**86.9**	**19.0**

Notes on the consolidated cash flow statement

The cash funds of the IKB Group match the reported balance sheet item “Cash reserve” and “Debt instruments of public sector entities and bills of exchange eligible for refinancing of central banks”. In the cash flow statement, this item changes from the figure at the start of the year by showing the cash flows from

- operating activities,
- investing activities and
- financing activities

to cash funds at the end of the financial year.

The cash flow from operating activities is defined by a bank’s operating activities. It is determined using the indirect method by adjusting net income for all non-cash income and expenses. In accordance with German Accounting Standard (DRS) 2-10, interest, dividend and tax payments are listed separately so that the net income is adjusted for the net interest result and taxes recognised in income in the item “Other adjustments”.

The cash flow from investing activities shows incoming and outgoing payments from positions whose general purpose is a long-term investment or use. For banks, this includes receipts and payments from loans and securities in addition to refinancing activities in particular.

The cash flow from financing activities shows cash flows from transactions with equity providers and minority interests of consolidated subsidiaries in addition to other capital.

Notes on the annual and consolidated financial statements

Applied accounting principles

In accordance with section 340i(1) HGB in conjunction with section 290 et seq. of the *Handelsgesetzbuch* (HGB – German Commercial Code), IKB AG must prepare consolidated financial statements and a Group management report. Until 31 December 2012, the consolidated financial statements and the interim consolidated financial statements were prepared in accordance with the International Financial Reporting Standards (IFRS). Following its downlisting from the regulated market and its listing on the entry standard of the unregulated market of the Frankfurt stock exchange and the primary market of the unregulated market of the Düsseldorf stock exchange, the shares of IKB AG and its issued debt instruments are no longer traded on an organised market within the meaning of section 2(5) *Wertpapierhandelsgesetz* (WpHG – German Securities Trading Act). Since 7 November 2012, IKB AG has no longer been a listed company and, in accordance with section 315a HGB, is no longer required to prepare IFRS consolidated financial statements. There will be no voluntary adoption of IFRS after 31 December 2012 for the preparation of the consolidated financial statements or interim consolidated financial statements.

The consolidated financial statements (Group) and the annual financial statements of IKB Deutsche Industriebank AG (IKB AG) for the 2012/13 financial year are prepared in line with the provisions of the *Handelsgesetzbuch* (HGB – German Commercial Code) in conjunction with the *Verordnung über die Rechnungslegung der Kreditinstitute und Finanzdienstleistungsinstitute* (RechKredV – German Bank Accounting Directive) and in line with the relevant regulations of the *Aktiengesetz* (AktG – German Stock Corporation Act). The consolidated financial statements are prepared in line with the standards promulgated by the German Standardisation Council (DSR) and endorsed by the Federal Ministry of Justice in accordance with section 342(2) HGB.

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

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

Disclosures that can be provided in the balance sheet/income statement or the notes have mostly been shown in the notes. Amounts are disclosed in millions of euro. Minor deviations can occur in the figures in the notes due to the rounding of totals. Amounts under € 50 thousand and zero values are shown in the consolidated and annual financial statements of IKB AG as “-”.

The notes to the consolidated financial statements and the notes to the annual financial statements of IKB AG have been compiled in accordance with section 298(3) HGB. Unless noted otherwise, comments apply to both the consolidated financial statements and the annual financial statements of IKB AG.

The financial year of IKB begins on 1 April and ends on 31 March.

At IKB AG, the reporting of income and expenses from the discounting of and interest on non-banking provisions (see note 12) and the offsetting of income and expenses from accounting for pension liabilities (see note 10) were amended as against the previous year. The prior-year figures were changed to the following income statement items for better comparability:

The item “Interest expenses” was reduced by € 18.8 million, “Depreciation and write-downs of equity investments, investments in affiliated companies and long-term investments” by € 6.4 million, “Interest income” by € 8.0 million and “Income from reversals of write-downs of equity investments, investments in affiliated companies and long-term investments” by € 0.2 million. The item “Other operating expenses” was increased by € 18.8 million and “Other operating income” by € 1.9 million.

(1) Consolidated group

In addition to IKB AG, 38 (previous year: 39) subsidiaries and four (previous year: three) special-purpose entities have been included in consolidation in the consolidated financial statements as at 31 March 2013. As in the previous year, two companies were included in the consolidated financial statements using the equity method. Owing to immateriality to the net assets, financial position and results of operations of the Group, 42 (previous year: 51) subsidiaries and six (previous year: eight) special-purpose entities were not included in the consolidated financial statements by way of consolidation and 22 (previous year: 28) associates were not included using the equity method, instead these were measured as other equity investments at cost less any impairment losses (see note 51).

The capital shares in the associates are the same as the voting shares. IKB has one deviating share of voting rights in HABITO Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt EINS KG, Pullach im Isartal (capital share: 6.00%; share of voting rights: 16.00%).

The special-purpose entity German Mittelstand Equipment Finance No. 1 S.A., Luxembourg, (German Mittelstand) was included in the consolidated financial statements by way of consolidation for the first time in the 2012/2013 financial year. The purpose of the company is the acquisition of lease receivables of companies of the IKB Group.

IKB Leasing GmbH, Hamburg, and IKB Leasing Berlin GmbH, Erkner, were merged with IKB Autoleasing GmbH, Hamburg, as at 1 April 2012. The company now operates as IKB Leasing GmbH.

IKB Leasing Beteiligungsgesellschaft mbH, Düsseldorf, was included in consolidation for the first time as at 31 December 2012. The purpose of the company is to acquire, hold and dispose of equity investments in other companies.

IKB AG launched the fund Valin Funds Mittelstand Mezzanine 1 with Seer Capital Management L.P. This is a sub-fund of the Luxembourg fund company Valin Funds S.C.A., SICAV-SIF, in which IKB AG has subscribed to limited partner interests. IKB AG also acts as the general partner of this investment fund company through its subsidiary Valin Asset Management S.à.r.l. The fund company and the sub-fund were not included in consolidation in accordance with section 296(1) no. 1 HGB, as contractual agreements sustainably and permanently restrict the exercise of rights in relation to its assets and management.

(2) Consolidation methods

The consolidated financial statements were prepared in accordance with the uniform accounting policies of IKB AG. The annual financial statements of the subsidiaries included that neither credit nor financial services institutions have been reconciled to the structure of the RechKredV formats. If a Group company has a reporting date other than 31 March, the material transactions that occur by 31 March are taken into account.

Since the entry into effect of the *Bilanzrechtsmodernisierungsgesetz* (BilMoG – German Act to Modernise Accounting Law), capital consolidation for companies included in consolidation for the first time has been in line with the revaluation method in accordance with section 301 HGB.

Before the BilMoG came into effect, the book value method was used for companies included in consolidation for the first time. The book value method is still used in accordance with the retention option of section 66(3) of the *Einführungsgesetz zum Handelsgesetzbuch* (EGHGB – Introductory Act to the German Commercial Code). In the last HGB consolidated financial statements before the transition to IFRS Group accounting (31 March 2005), the carrying amounts of the subsidiary as at the date of acquisition or first-time inclusion in consolidation were used. Companies acquired after 31 March 2005 have been included at carrying amount as at the date of acquisition in accordance with section 301(2) HGB. Prior to 31 March 2005, positive and negative consolidation differences were offset. The resulting difference is reported in revenue reserves. This netting has been retained in accordance with section 66 EGHGB.

Any positive difference remaining after the realisation of hidden reserves and liabilities not offset against revenue reserves is reported in the consolidated balance sheet as goodwill under “Intangible assets”. Any corresponding negative difference remaining is reported separately after equity under “Difference from capital consolidation”. There is currently no goodwill or negative differences from capital consolidation in the Group.

Assets, liabilities and deferred income as well as revenue and expenses between the Group companies included are consolidated. Intercompany profits from internal transactions are eliminated if not immaterial.

Investments in associates are measured using the equity method in accordance with section 312 HGB (book value method – see note 24). Uniform accounting policies are disregarded when using the equity method in the Group.

Accounting policies

(3) Receivables

Receivables from customers and banks are recognised at nominal value less specific and general allowances. Differences between the nominal and payment amount are taken to deferred income and prepaid expenses and reversed on a scheduled basis. Purchased receivables are recognised at acquisition cost less specific and general allowances.

The hire-purchase agreements of the leasing companies in the Group are reported in the consolidated balance sheet item “Receivables from customers” at the present value of future hire-purchase instalments. Interest income is recognised on an annuity basis and reported in the item “Interest income”.

(4) Securities

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

Subsequent measurement of long-term investments is in line with the less strict principle of lower of cost or market value under section 340e(1) sentence 1 HGB in conjunction with section 253(3) sentence 3 HGB. If impairment is expected to be permanent, assets are written down to the lower fair value as at the reporting date. Long-term investments include, for example, government bonds, mortgage bonds, corporate bonds and securities from securitisation transactions.

Zero bonds are carried at acquisition cost plus the respective interest receivable calculated on the basis of current capital market interest rates.

Securities classified as current assets are measured at the lower of quoted or market price in line with the strict principle of lower of cost or market value in accordance with section 340e(1) sentence 2 HGB in conjunction with 253(4) HGB. If there are no closing rates, the fair value is calculated on the basis of price information from market data providers and tested for plausibility using suitable methods. If there are no quoted prices or price information from contractual providers for securities, their value is determined on the basis of measurement models by discounting forecast cash flows. The discounting rate is calculated using the risk profile of similar securities. Parameters not exclusively observed on the market are used for this.

Impairment requirements for securities from securitisation transactions are calculated on the basis of a fundamental value method. This method allows detailed loss allocation of the underlying credit portfolio. The default pattern for the reference portfolio is estimated in a standard Monte Carlo simulation including rating-based probabilities of default and correlation parameters specific to the asset class. On the basis of the default scenarios, the cash flows of the invested tranche are calculated taking into account the transaction structure (“cash flow waterfall”). The fundamental value is calculated by discounting these cash flows with the effective interest rate of the respective tranche.

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

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

Structured financial instruments are accounted for separately for securities from synthetic securitisation transactions in which the credit risk of the reference portfolio was transferred by the owner of the assets of the reference portfolio to the issuer of the securities with a credit default swap (CDS). The embedded derivatives in synthetic securitised instruments are reported at nominal amount as contingent liabilities under the below-the-line items. In the event of pending utilisation of the embedded credit derivative, provisions for expected losses from executory contracts are recognised and the contingent liabilities reduced by the same amount.

(5) Risk provisioning

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

Global valuation allowances and generally calculated loan loss provisions are calculated in accordance with the letter from the Federal Ministry of Finance dated 10 January 1994. In so doing, historical credit losses from customer receivables and contingent liabilities from guarantees are taken as a basis and multiplied by a cyclical factor in order to accommodate the general economic situation. This factor was increased from 100% to 106% on account of the forecast economic downturn. Without reducing this factor, global valuation allowances would have been around € 6 million lower. To cover sovereign risk, a global valuation allowance was recognised for the credit volume in high-risk countries with internal ratings from class 13 for which the risk has not been placed with third parties for the first time. The resulting global valuation allowances amounted to € 0.6 million. To cover latent risks from acquisition, project and property financing in Italy, France, Spain and the UK, additional global valuation allowances of € 20 million were recognised for the first time in connection with the ongoing European debt crisis. To reflect latent risks of default on long-term investments, receivables from banks, irrevocable loan commitments and, for the first time at € 0.1 million, contingent liabilities from protection seller credit default swaps, the Bank also calculated global valuation allowances and generally calculated loan loss provisions for these risks on the basis of the expected loss.

Total global valuation allowances for receivables from customers and receivables from banks in the Group amounted to € 135.2 million (previous year: € 103.6 million) while global valuation allowances at IKB AG amounted to € 134.6 million (previous year: € 102.9 million). On 31 March 2013, there were global valuation allowances for securities of € 5.7 million (previous year: € 4.3 million) in the Group and € 4.9 million (previous year: € 4.3 million) at IKB AG. Generally calculated loan loss provisions in the Group and at IKB AG rose from € 3.8 million to € 5.6 million.

(6) Liabilities held for trading

The Bank has assigned all financial instruments with which it intends to generate a short-term trading gain to this portfolio in accordance with IDW RS BFA 2. The criteria for this intention are taken from the regulatory requirements for allocation to the trading book. These criteria have not been changed. Assets and liabilities held for trading are reported separately.

In accordance with section 340e(3) sentence 1 HGB, trading portfolio financial instruments are measured at fair value less a risk deduction. Their fair value is calculated in line with the measurement hierarchy of section 255(4) HGB. The fair values of financial instruments not traded on exchanges are determined on the basis of financial and mathematical measurement models and market measurement parameters (including interest rates, interest rate volatilities, exchange rates). The amount, timing and certainty of cash flows are dependent on the development of interest and exchange rates, contractual regulations on payment dates for the respective financial instrument and the credit standing of the respective counterparty.

The Bank charges the risk deduction in the amount of the value-at-risk calculated for regulatory purposes. The calculation of value-at-risk is based on a holding period of ten days and a confidence level of 99%. The value-at-risk expresses the loss in value for the portfolio of the Bank over a period of ten days which has a 99% probability of not being exceeded. The observation period is 250 bank working days. The risk deduction calculated for the entire trading portfolio is deducted from the asset trading portfolio.

In line with section 340e(4) HGB, an amount of at least 10% of the net income of the trading portfolio must be added to the special reserve “Fund for general banking risks” in line with section 340g HGB and reported there separately each financial year. This reserve is only used to offset the net expenses of the trading portfolio or if it exceeds 50% of the average of the net trading results for each of the last five years.

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

Investments in affiliated companies and equity investments- are carried at the lower of acquisition cost or fair value. They are measured in line with the less strict principle of lower of cost or market value under section 340e(1) sentence 1 HGB in conjunction with section 253(3) sentence 3 HGB.

Finite-lived tangible and intangible assets are measured at acquisition/production cost less depreciation and amortisation respectively and impairment. Tangible assets are written down on a straight-line basis over their useful life. If the market values of individual fixed assets fall below their carrying amount, they are automatically written down if the impairment is expected to be permanent.

The option to capitalise self-developed intangible fixed assets in accordance with section 248(2) sentence 1 HGB has not been exercised. Intangible fixed assets purchased from third parties are capitalised at cost and written down on a straight-line basis over a standard useful life of five years.

IKB AG has reported purchased goodwill from the acquisition of new customer derivative business from a Luxembourg subsidiary. This will be amortised over a normal useful life of ten years. The standard operating useful life is based on an estimate of the return over time on the basis of the identified components of this goodwill. In particular, these components represent customer bases assumed in the acquisition. Impairment losses are recognised if expected to be permanent. If the reasons for impairment no longer apply, the lower carrying amount of the purchased goodwill is retained.

(8) Leasing assets

Assets of lease companies of the Group intended for letting are reported in the consolidated balance sheet as leasing assets if the IKB Group is the beneficial owner. The associated income is reported in the consolidated income statement under “Lease income”. The cost of disposals of leasing assets and other associated expenses in the Group are contained in the item “Lease expenses”.

Depreciation on leasing assets in the Group is reported in “Depreciation on leasing assets”.

(9) Securities repurchase and lending transactions

Securities repurchase transactions are accounted for in accordance with section 340b HGB.

In securities repurchase transactions in which it is the repo seller, IKB still reports the transferred assets in its balance sheet and recognises a corresponding liability to the repo purchaser. If IKB is the repo purchaser, a receivable from the repo seller is recognised

Securities lending transactions are accounted for in the same way as securities repurchase transactions.

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

In accordance with section 246(2) sentence 2 HGB, assets that are inaccessible to all other creditors and that are used solely to satisfy pension or similar long-term liabilities are offset against these liabilities. The procedure is the same for the associated expenses and income from discounting obligations and from the assets offset.

Assets transferred in contractual trust arrangements (CTAs) are measured at fair value. If the fair value of the assets exceeds the amount of the liabilities, this amount is reported under "Excess of plan assets over post-employment benefit liability". The corresponding net expenses and income are reported in other operating income or other operating expenses as appropriate.

Accounting for pension liabilities is shown in the accounting policies for provisions (note 12).

(11) Liabilities

With the exception of liabilities held for trading, liabilities are carried at settlement amount. The difference between the settlement amount and the amount paid in is reported under deferred items and released through profit and loss.

For assets that are transferred but not derecognised, an obligation is reported under other liabilities at the amount received for the asset.

(12) Provisions

Provisions for pensions and similar obligations

Pension liabilities are measured at the necessary settlement amount. The 2005 G Heubeck mortality tables are used to calculate the necessary settlement amount. The calculation is performed using the projected unit credit method with the following measurement assumptions:

Measurement factor	31 Mar. 2013 Assumption	31 Mar. 2012 Assumption
Interest rate	5.03%	5.13%
Wage and salary increase	3.0%	3.0%
Pension trend	2.0%	2.0%
Fluctuation rate in line with grading by age and sex		
Age up to 35 m/f	6.5% / 4.5%	6.5% / 4.5%
Age from 36 to 45 m/f	4.5% / 5.5%	4.5% / 5.5%
Age over 45 m/f	1.5% / 1.0%	1.5% / 1.0%

Exercising the option under section 253(2) sentence 2 HGB, pension provisions are discounted at flat rate using the average market interest rate for an assumed remaining term of 15 years. The interest rate was announced by the Bundesbank in line with the *Rückstellungsabzinsungsverordnung* (RückAbzinsV – German Ordinance on the Discounting of Provisions). For securities-linked commitments, provisions are carried in the amount of the fair value of the plan assets if a guaranteed minimum amount is exceeded.

In accordance with section 67(1) sentence 1 EGHGB, the option is exercised to add one fifteenth of the additional provision required on account of the change in the measurement of pension obligations due to BilMoG each financial year (see note 35).

Assets were transferred in previous years to hedge the obligations from pension fund plans and similar regulations. In contractual trust arrangements, IKB separated the assets necessary to meet pension claims from its other company assets and transferred these to a trustee. If the fair value of the assets transferred is less than the associated obligations, a provision for pensions and similar obligations is reported in the corresponding amount.

Please see note 10 for information on the offsetting requirement for transferred assets against pension obligations and the recognition of assets.

Tax provisions and other provisions

Provisions for taxes and other provisions are recognised in the settlement amount necessary in line with prudent business judgement. The necessary settlement amount includes future increases in prices and costs. Provisions for expected losses from executory contracts are recognised in the amount of the obligation surplus. Provisions with a remaining term of more than twelve months are discounted in line with section 253(2) HGB using the matched term interest rates of the RückAbzinsV. First-time addition to the provision is at present value. The effect of interest on non-banking items in subsequent periods is reported under other operating expenses. The interest effect of compounding on provisions in connection with banking items is reported in interest expenses.

The provisions for interest on additional tax receivables to the financial authorities and the effects of compound interest on tax provisions are reported under other provisions. The expenses for the recognition of provisions for restructuring measures are reported under “Extraordinary expenses”.

(13) Contingent liabilities

Contingent liabilities are recognised below the line at nominal amount less any recognised provisions.

(14) Derivatives

Non-trading derivatives are accounted for in line with the provisions for executory contracts. Premium payments made and received are reported in prepaid expenses respectively deferred income or in other assets/liabilities. On the balance sheet date it is checked whether provisions for expected losses from executory contracts need to be recognised.

For derivative financial instruments included in a hedge in accordance with section 254 HGB, a provision for expected losses resulting from the hedged risk is not recognised if these losses are offset by an unrealised gain in the same amount (see note 20).

Banking book interest derivatives are measured at fair value together with all other non-trading interest-bearing financial instruments in accordance with the principles of IDW RS BFA 3. The present value of the interest-bearing transaction is offset against the carrying amounts. Administrative and risk costs, in addition to the refinancing effect of equity, are taken into account. The calculation in accordance with IDW RS BFA 3 did not result in any provision requirements.

Please see note 6 for information on the measurement of derivative financial instruments held for trading.

(15) Currency translation

The modified closing rate method in accordance with section 308a HGB is used to translate foreign-currency financial statements in the Group. The asset and liability items, not including equity, of a balance sheet in foreign currency are translated to euro at the average spot exchange rate on the balance sheet date. Equity is translated into euro at the historic rate. Income statement items are translated into euro at the average rate. Any translation difference is reported in consolidated equity as the “Difference in equity from currency translation”.

At IKB AG and other banks in the Group, assets and liabilities from foreign-currency transactions outside the trading portfolio are translated in line with the principles of section 340h in conjunction with section 256a HGB if there is special cover. Thus, foreign currency assets and liabilities are translated at the middle spot exchange rate (ECB reference rate) as at the balance sheet date. If the requirements of special cover are not satisfied, currency translation is performed using the regulations that apply to all traders (section 256a HGB). For a remaining term of one year or less, the unrealised gains on currency translation are recognised in income. If the remaining term exceeds one year, the general measurement provisions apply.

This special cover in accordance with section 340h HGB is considered provided in line with IDW RS BFA 4 if the currency risk is controlled by a currency position and the individual items are aggregated in a currency position. IKB AG and the other banks in the Group allocate non-trading foreign currency transactions to the currency position of the respective currency and manage them using approved limits.

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

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

In line with section 340c(1) HGB in conjunction with section 340e(3) HGB, foreign currency, trading portfolio financial instruments are measured at fair value less a risk deduction. After calculating the fair value in foreign currency, the trading portfolios are translated at the middle spot exchange rate as at the balance sheet date and unrealised gains and losses are recognised in net trading results.

(16) Hedge accounting

Under section 254 HGB, hedge accounting exists if assets, liabilities, executory contracts or highly likely transactions – underlying items – can be combined to offset opposing changes in value or cash flows from similar risks – hedged risks – with primary or derivative financial instruments – hedging instruments. At the first level, under IDW RS HFA 35, the enterprise must decide for itself at the first level whether a specific risk should be hedged by creating an economic hedge relationship with one or more underlyings. It is then decided at a second level whether a hedge entered into if risk management should also be shown in accounting as a hedge (option). If there is an economic hedge, the Bank decides on a case-by-case basis whether to apply hedge accounting.

In hedge accounting under section 254 HGB, unrealised losses resulting from hedged risks are not recognised for the individual transactions within the hedge if these losses are offset by unrealised gains from other hedged transactions of the same amount. This is done to the extent that and for the period in which opposing changes in value or cash flows from the hedged item and the hedging instrument offset each other in relation to the hedged risk.

The net hedge presentation method is used to present hedge accounting. In the net hedge presentation method, the offsetting changes in value of the hedged risk (effective portion) are not recognised. Any net unrealised gain resulting within the hedge is not taken into account. However, if the ineffective portion of changes in the value of the hedged item and the hedge is a loss, a corresponding provision is recognised. In the gross hedge presentation method, the offsetting positive and negative changes in value (effective amounts) of assets and liabilities due to the hedged risk are recognised in the balance sheet by adjusting the respective carrying amounts.

There is no hedge accounting for highly probable transactions.

Please see the reporting in the management report for information on the risk management of financial risks.

(17) Deferred taxes

If there are differences between the accounting carrying amounts of assets, liabilities, prepaid expenses and deferred income and their tax carrying amounts that will reverse in subsequent financial years (temporary differences), any net tax expense resulting from this is recognised as a deferred tax liability. Any net tax relief resulting from this is recognised as deferred tax assets. In calculating deferred tax assets, tax loss carried forwards that are expected to be available for offsetting in the next five years are taken into account in loss offsetting. The option to report deferred tax assets in line with section 274(1) sentence 2 HGB is exercised. However, the option to report deferred tax assets and liabilities without netting in line with section 274(1) sentence 3 HGB (gross reporting) is no utilised.

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

Owing to the tax entity structures, the deferred tax assets and liabilities resulting from temporary differences at companies within these entities are taken into account in the calculation of the deferred taxes of the parent entity. For tax group parents that are also participating tax entities, temporary differences are taken into account at the level of the top tax group parents.

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

Notes on the balance sheet

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

	Group		IKB AG	
in € million	**31 Mar. 2013**	**31 Mar. 2012**	**31 Mar. 2013**	**31 Mar. 2012**
Receivables from banks*	**120.0**	**166.6**	**109.3**	**153.4**
remaining term				
up to 3 months	75.0	97.7	64.2	96.8
between 3 months and 1 year	12.4	10.2	12.4	7.9
between 1 and 5 years	26.0	54.2	26.1	43.7
more than 5 years	6.6	4.5	6.6	5.0
Receivables from customers	**14,707.1**	**16,044.6**	**16,752.3**	**18,058.4**
remaining term				
up to 3 months	1,582.5	1,002.4	1,606.8	967.9
between 3 months and 1 year	2,419.7	1,966.3	2,735.5	2,137.4
between 1 and 5 years	8,197.0	10,485.9	9,111.8	11,673.3
more than 5 years	2,507.9	2,590.0	3,298.2	3,279.8
Liabilities to banks*	**11,058.3**	**12,491.7**	**11,066.9**	**12,484.9**
remaining term				
up to 3 months	1,086.3	1,572.0	1,099.7	1,562.7
between 3 months and 1 year	3,369.6	2,844.2	3,368.1	2,842.0
between 1 and 5 years	5,100.7	6,294.7	5,097.4	6,301.2
more than 5 years	1,501.7	1,780.8	1,501.7	1,779.0
Liabilities to customers*	**10,293.1**	**9,630.6**	**10,311.2**	**9,648.9**
remaining term				
up to 3 months	1,568.4	1,315.7	1,579.5	1,311.8
between 3 months and 1 year	3,184.5	3,275.7	3,188.5	3,194.2
between 1 and 5 years	4,072.7	2,777.2	4,075.8	2,779.5
more than 5 years	1,467.5	2,262.0	1,467.4	2,363.4

* not including receivables or liabilities repayable on demand

Of bonds and other fixed-income securities, € 678.1 million (previous year: € 1,234.9 million) are payable in the following year in the Group and € 510.2 million (previous year: € 1,160.0 million) are payable in the following year at IKB AG. Of the bonds issued and reported under securitised liabilities, € 117.4 million (previous year: € 2,927.4 million) are payable in the following year in the Group and € 117.4 million (previous year: € 2,927.4 million) are payable in the following year at IKB AG.

(19) Trading financial instruments

Assets held for trading break down as follows:

	Group		IKB AG	
in € million	**31 Mar. 2013**	**31 Mar. 2012**	**31 Mar. 2013**	**31 Mar. 2012**
Derivative financial instruments	253.1	129.4	253.1	129.4
Receivables	9.4	69.3	9.4	69.3
Bonds and other fixed-income securities	4.0	25.4	4.0	25.4
Risk deduction	-0.6	-1.7	-0.6	-1.7
Total	**265.9**	**222.4**	**265.9**	**222.4**

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

Liabilities held for trading essentially include derivative financial instruments in the amount of € 242.1 million (previous year: € 138.9 million).

The nominal amounts of the derivatives reported as assets and liabilities held for trading are:

31 Mar. 2013	Nominal amount	
in € million	**Group**	**IKB AG**
Interest-related derivatives	6,116.2	6,116.2
Currency-related derivatives	1,314.2	1,314.2
Derivatives assigned to several categories	442.7	442.7
Total	**7,873.1**	**7,873.1**

After taking into account a risk deduction, trading activities generated net income of € 1.3 million for the 2012/13 financial year (previous year: € 0.8 million). This resulted in an addition to a special reserve in accordance with section 340e(4) HGB of € 0.1 million (previous year: € 0.1 million). This left net income of € 1.2 million (previous year: € 0.7 million).

(20) Hedge accounting

Hedge accounting is essentially used at IKB to show hedges of interest and currency risks.

As at the reporting date, there were hedges with assets with a carrying amount of € 497.1 million and derivatives with a negative market value of € 119.9 million as hedged items in the Group. At IKB AG, there were derivatives with a negative market value of € 119.6 million as hedged items as at the reporting date.

As at the reporting date, hedged risks amounted to € 7.7 million for the assets and € 115.5 million for the derivatives in the Group, and to € 115.2 million for derivatives at IKB AG. The hedged risk is equal to the value of the changes in the value or cash flows of the hedged item compensated by the hedge.

In cases in which the contract conditions of the hedged item and the hedge oppose each other exactly, both the prospective effectiveness test and the retrospective effectiveness test of the hedge are performed by way of a critical terms match. In other cases, effectiveness is ensured by regular monitoring of the opposing effects of hedges and underlyings. Hedges are recognised for the remaining term of the hedged items.

The net hedge presentation method is used to present hedge accounting. An exception to this is micro hedges for avoiding currency risks in the Group, which are accounted for using the gross hedge presentation method.

(21) Fixed assets

Group:

In € million	Intangible assets	Tangible assets	Leasing assets	Equity investments	Investments in associ-ates	Investments in affiliated companies	Bonds and other fixed-income securities	Equities and other non-fixed-income securities	Total
Acquisition costs as at 31 Mar. 2012	**86.1**	**67.0**	**2,568.7**	**71.7**	**26.1**	**7.6**	**8,307.3**	**1,046.7**	**12,181.2**
Additions	6.7	2.6	476.3	0.1	2.3	0	2,883.1	2.3	3,373.4
Reclassifications/effects of currency translation	-0.1	0.2	-38.1	0	0	0	34.2	0	-3.8
Disposals	-25.3	-9.0	-477.9	-14.8	-7.0	-0.1	-3,093.4	-579.4	-4,206.9
Acquisition costs as at 31 Mar. 2013	**67.4**	**60.8**	**2,529.0**	**57.0**	**21.4**	**7.5**	**8,131.2**	**469.6**	**11,343.9**
Cumulative depreciation/ amortisation, write-downs and reversals thereof by 31 Mar. 2012	**-68.6**	**-51.6**	**-1,157.7**	**-34.0**	**-7.3**	**-5.3**	**-633.1**	**0**	**-1,957.6**
Reversals of write-downs	0	0	0.6	0.3	0.9	0	49.3	0	51.1
Depreciation/amortisation and write-downs	-5.2	-4.9	-413.4	-5.0	0	-0.1	-51.6	-1.1	-481.3
Reclassifications/effects of currency translation	0	-0.1	-0.8	0	0	0	-20.4	0	-21.3
Disposals	25.4	8.6	407.6	8.5	0	0	159.2	0	609.3
Cumulative depreciation/ amortisation, write-downs and reversals thereof by 31 Mar. 2013	**-48.4**	**-48.0**	**-1,163.7**	**-30.2**	**-6.4**	**-5.4**	**-496.6**	**-1.1**	**-1,799.8**
Residual book value as at 31 Mar. 2013	**19.0**	**12.8**	**1,365.3**	**26.8**	**15.0**	**2.1**	**7,634.6**	**468.5**	**9,544.1**
Residual book value as at 31 Mar. 2012	**17.5**	**15.4**	**1,411.0**	**37.7**	**18.8**	**2.3**	**7,674.2**	**1,046.7**	**10,223.6**

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

IKB AG:

in € million	Intangible assets	Tangible assets	Leasing assets	Equity investments	Investments in associ-ates	Investments in affiliated companies	Bonds and other fixed-income securities	Equities and other non-fixed-income securities	Total
Acquisition costs as at 31 Mar. 2012	**110.5**	**34.4**	**0**	**13.0**	**0**	**1,974.7**	**7,457.8**	**0**	**9,590.4**
Additions	6.0	0.1	0	0	0	22.4	2,757.7	0	2,786.2
Reclassifications	0	0	0	0	0	0	0	0	0
Disposals	-25.2	-1.3	0	-0.1	0	-655.9	-2,980.4	0	-3,662.9
Acquisition costs as at 31 Mar. 2013	**91.3**	**33.2**	**0**	**12.9**	**0**	**1,341.2**	**7,235.1**	**0**	**8,713.7**
Cumulative depreciation/ amortisation, write-downs and reversals thereof by 31 Mar. 2012	**-59.8**	**-28.3**	**0**	**-0.2**	**0**	**-1,196.8**	**-431.4**	**0**	**-1,716.5**
Reversals of write-downs	0	0	0	0	0	0	10.8	0	10.8
Depreciation/amortisation and write-downs	-8.5	-0.7	0	-1.6	0	-15.5	72.8	0	46.5
Reclassifications	0	0	0	0	0	-4.2	0	0	-4.2
Disposals	25.2	1.3	0	0	0	0	0	0	26.5
Cumulative depreciation/ amortisation, write-downs and reversals thereof by 31 Mar. 2013	**-43.1**	**-27.7**	**0**	**-1.8**	**0**	**-1,216.5**	**-347.8**	**0**	**-1,636.9**
Residual book value as at 31 Mar. 2013	**48.2**	**5.5**	**0**	**11.1**	**0**	**124.7**	**6,887.3**	**0**	**7,076.8**
Residual book value as at 31 Mar. 2012	**50.7**	**6.1**	**0**	**12.8**	**0**	**777.9**	**7,026.4**	**0**	**7,873.9**

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

The item “Bonds and other fixed-income securities” predominantly includes issues by international industrial firms (corporate bonds), government bonds, mortgage bonds, CDOs and ABS bonds. Shares in special funds are also assigned to fixed assets in the item “Equities and other non-fixed-income securities” in the Group (see note 23).

In total, there were hidden liabilities from long-term investments at the balance sheet date of € 363.1 million (previous year: € 669.4 million) in the Group and € 319.4 million (previous year: € 626.0 million) at IKB AG. These holdings currently have lower fair values as a result of spreads widening following the government debt crisis. The differences between the market values of € 2,166.3 million (previous year: € 3,415.8 million) in the Group and of € 2,131.0 million (previous year restated: € 3,373.5 million) at IKB AG and the carrying amounts of € 2,529.5 million (previous year: € 4,085.2 million) in the Group and of € 2,450.4 million (previous year restated: € 3,999.5 million) at IKB AG are not considered to be permanent impaired. Hence, no write-downs have been recognised. The fair values and carrying amounts used to calculate hidden charges do not include any deferred interest.

€ 2,513.7 million of disposals in bonds and other fixed-income securities relate to returns of SoFFin guarantees.

Operating and office equipment are included in tangible assets at € 12.1 million (previous year: € 14.3 million) in the Group and € 4.8 million (previous year: € 5.0 million) at IKB AG. As in the previous year, this does not include any land or buildings used for banking operations.

Amortisation on intangible leasing assets in the Group amounted to € 0.7 million (previous year: € 0.7 million).

(22) Negotiable securities

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

	Group			IKB AG		
31 Mar. 2013 in € million	**Total negotiable**	**Listed**	**Not listed**	**Total negotiable**	**Listed**	**Not listed**
Bonds and other fixed-income securities	7,855.1	7,552.5	302.6	6,991.9	6,991.9	-
Equities and other non-fixed-income securities	488.2	-	488.2	28.3	-	28.3
Equity investments	9.6	-	9.6	-	-	-

	Group			IKB AG		
31 Mar. 2012 in € million	**Total negotiable**	**Listed**	**Not listed**	**Total negotiable**	**Listed**	**Not listed**
Bonds and other fixed-income securities	10,578.0	10,521.0	57.0	9,930.3	9,930.3	-
Equities and other non-fixed-income securities	1,114.6	-	1,114.6	78.3	-	78.3
Equity investments	9.6	-	9.6	-	-	-

The item “Bonds and other fixed-income securities” includes the negotiable securities assigned to fixed assets of € 7,634.6 million (previous year: € 7,674.2 million) in the Group and € 6,887.3 million (previous year: € 7,026.4 million) at IKB AG. The item “Equities and other non-fixed-income securities” exclusively contains the negotiable securities assigned to fixed assets in the Group of € 468.5 million (previous year: € 1,046.7 million).

(23) Disclosures on investment assets

Investment assets with a share of more than 10% break down by investment goal as follows:

	Group				IKB AG			
in € million	**Carrying amount 31 Mar. 2013**	**Market value 31 Mar. 2013**	**Difference to carrying amount 31 Mar. 2013**	**Distribution 2012/13**	**Carrying amount 31 Mar. 2013**	**Market value 31 Mar. 2013**	**Difference to carrying amount 31 Mar. 2013**	**Distribution 2012/13**
Mixed funds	253.4	253.4	**-**	6.0	227.4	227.4	-	5.4
Other special funds	488.2	489.2	**1.0**	44.8	28.3	28.3	-	-
Total	**741.6**	**742.6**	**1.0**	**50.8**	**255.7**	**255.7**	**-**	**5.4**

in € million	Group: Carrying amount 31 Mar. 2012	Group: Market value 31 Mar. 2012	Group: Difference to carrying amount 31 Mar. 2012	Group: Distribution 2011/12	IKB AG: Carrying amount 31 Mar. 2012	IKB AG: Market value 31 Mar. 2012	IKB AG: Difference to carrying amount 31 Mar. 2012	IKB AG: Distribution 2011/12
Mixed funds	231.9	231.9	**-**	6.6	208.5	208.5	-	6.0
Other special funds	1,114.6	1,138.5	**23.9**	-	78.3	78.3	-	-
Total	**1,346.5**	**1,370.4**	**23.9**	**6.6**	**286.8**	**286.8**	**-**	**6.0**

The item “Equities and other non-fixed-income securities” includes interests in foreign special funds within the meaning of the *Investmentgesetz* (InvG – German Investment Act). The funds predominantly invest in government and mortgage bonds of the euro area.

Furthermore, CTA assets were invested in a German special fund within the meaning of the German Investment Act. The amount remaining after offsetting against pension obligations is reported under “Excess of plan assets over post-employment benefit liability” (see note 28). The fund predominantly invests in fixed-income securities and to a minor extent in investment units and equities.

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

(24) Investments accounted for using the equity method

The associates shown in the table are accounted for in the Group using the equity method.

in € million	31 Mar. 2013	31 Mar. 2012
Linde Leasing GmbH, Wiesbaden	11.1	9.2
Argantis Private Equity GmbH & Co. KG, Cologne	3.9	9.6
Total	**15.0**	**18.8**

Key figures for companies accounted for using the equity method:

31 Mar. 2013 in € million	Assets	Liabilities	Net income/ loss for the financial year	Income
Linde Leasing GmbH, Wiesbaden	516.5	479.5	7.7	199.3
Argantis Private Equity GmbH & Co. KG, Cologne	16.0	1.9	12.5	17.4

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

31 Mar. 2013 in € million	Group		IKB AG	
	Affiliated companies [1]	Investees and investors	Affiliated companies	Investees and investors
Receivables from banks	-	-	1.8	-
Receivables from customers	20.6	30.1	3,154.7	30.0
Other assets	0.1	0.1	72.2	-
Liabilities to banks	-	-	32.1	-
Liabilities to customers	5.2	0.5	67.9	-
Securitised liabilities	-	-	257.4	-
Other liabilities	-	-	-	-

31 Mar. 2012 in € million	Group		IKB AG	
	Affiliated companies [1]	Investees and investors	Affiliated companies	Investees and investors
Receivables from banks	-	-	1.8	-
Receivables from customers	18.5	48.7	2,606.0	48.6
Other assets	-	-	211.7	-
Liabilities to banks	-	-	17.5	-
Liabilities to customers	0.5	-	227.2	0.5
Securitised liabilities	-	-	-	-
Other liabilities	-	-	-	-

1) for affiliated companies not included in consolidation only

(26) Trust activities

in € million	Group		IKB AG	
	31 Mar. 2013	31 Mar. 2012	31 Mar. 2013	31 Mar. 2012
Assets held in trust: receivables from customers	0.3	0.9	0.3	0.9
Liabilities held in trust: liabilities to customers	0.3	0.9	0.3	0.9

The receivables from customers under trust assets are exclusively loans to insolvent borrowers. In line with the contractual agreements, these are still reported on the balance sheet until the trustee releases IKB from the trust relationship.

(27) Subordinated assets

in € million	Group		IKB AG	
	31 Mar. 2013	31 Mar. 2012	31 Mar. 2013	31 Mar. 2012
Receivables from customers	1,019.8	1,084.4	999.9	1,055.0
Bonds and other fixed-income securities	0.7	0.7	0.7	-
Total	**1,020.5**	**1,085.1**	**1,000.6**	**1,055.0**

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

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

31 Mar. 2013 in € million	Group	IKB AG
Offset assets		
Historical Cost	267.7	239.9
Fair value	267.8	240.0
Offset liabilities		
Settlement amount	-232.2	-205.2
Excess of plan assets over post-employment benefit liability	**39.9**	**38.0**
Expenses and income offset in the reporting year	**2012/13**	**2012/13**
Expenses and income from pension obligations		
Expenses for pension obligations	-17.1	-15.5
Expenses and income from plan assets		
Income from plan assets	21.7	19.8
Net income/expense	**4.6**	**4.3**

31 Mar. 2012 in € million	Group	IKB AG
Offset assets		
Historical Cost	257.9	231.3
Fair value	242.1	217.2
Offset liabilities		
Settlement amount	-213.6	-189.2
Excess of plan assets over post-employment benefit liability	**30.6**	**28.9**
Expenses and income offset in the reporting year	**2011/12**	**2011/12**
Expenses and income from pension obligations		
Income from pension obligations	1.2	-
Expenses for pension obligations	-12.4	-12.5
Expenses and income from plan assets		
Income from plan assets	6.8	6.3
Expenses of plan assets	-7.0	-6.4
Net income/expense	**-11.4**	**-12.6**

The fair value of assets transferred in CTAs results from their asset value, which was determined by the investment company as at the balance sheet date in accordance with section 36 InvG.

(29) Leases

Assets intended for letting (equipment leasing) are reported in the consolidated balance sheet as leasing assets. These are essentially partial-pay-out agreement in which the leased assets are accounted for by the lessor.

(30) Repurchase agreements

The carrying amount of assets reported in the balance sheet as at the reporting date and transferred in repurchase agreements is € 3,736.9 million (previous year: € 2,663.6 million) in the Group and at IKB AG.

(31) Foreign-currency assets and liabilities

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

	Group		IKB AG	
in € million	31 Mar. 2013	31 Mar. 2012	31 Mar. 2013	31 Mar. 2012
Assets	2,456.7	2,517.5	2,526.4	2,793.5
Liabilities	1,314.8	1,182.7	1,564.8	1,480.0

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

(32) Other assets and other liabilities

Other assets essentially include the following:

	Group		IKB AG	
in € million	31 Mar. 2013	31 Mar. 2012	31 Mar. 2013	31 Mar. 2012
Inventories	90.9	99.7	-	-
Receivables from leasing business	50.0	45.2	-	-
Receivables from tax authorities	43.8	32.4	35.1	24.3
Hire-purchase properties not yet realised	13.7	8.3	-	-
Prepaid expenses and deferred income for derivatives	12.5	11.6	16.0	13.6
Trade accounts and other receivables	3.9	4.9	-	-
Receivables from affiliated companies	-	-	72.2	211.7

Two properties are reported at carrying amount under inventories in the Group. Hire-purchase properties not yet realised are carried within realisation of a security for non-performing hire-purchase receivables in the Group. Receivables from leasing business in the Group are essentially advanced payments on hire purchase agreements not yet invoiced.

Other liabilities essentially include the following:

	Group		IKB AG	
in € million	31 Mar. 2013	31 Mar. 2012	31 Mar. 2013	31 Mar. 2012
True sale securitisations	-	-	379.2	515.9
Synthetic securitisations	289.4	281.1	17.5	14.9
Obligations from derivatives	82.0	70.5	94.2	80.7
Deferred income for derivatives	31.7	24.5	9.5	1.2
Liabilities to tax authorities	14.4	8.9	5.3	4.2
Deferred income for subordinates liabilities	13.3	14.4	13.3	14.4

In this item IKB AG reports liabilities from special-purpose entities in true sale securitisation transactions, which are opposing to not derecognised credit receivables in the same amount on account of the retention of credit risks. In addition, in synthetic securitisation transactions, IKB AG has transferred risks from structured securities contained in the balance sheet to a special-purpose entity consolidated in the Group. Other liabilities and provisions for expected losses from executory contracts have been recognised at the carrying amount of these securities.

In the Group, lease receivables were sold to a non-consolidated special-purpose entity in synthetic securitisation transactions. The transaction did not result in an accounting disposal, hence other liabilities are reported at the carrying amount of the lease receivables.

Deferred interest on the derivative transaction is reported net.

(33) Deferred income and prepaid expenses

Prepaid expenses includes discounts on liabilities recognised at nominal amount of € 21.4 million (previous year: € 27.8 million) in the Group and € 22.7 million (previous year: € 29.8 million) at IKB AG. Deferred income includes discounts on receivables recognised at nominal amount of € 35.6 million (previous year: € 44.1 million) in the Group and € 31.8 million (previous year: € 40.4 million) at IKB AG.

(34) Deferred tax assets

	Group		IKB AG	
in € million	**31 Mar. 2013**	**31 Mar. 2012**	**31 Mar. 2013**	**31 Mar. 2012**
Total reported amount of deferred tax assets	148.2	152.0	150.7	151.6
Total reported amount of deferred tax liabilities	-	-	-	-

Loss carried forwards:

	Group		IKB AG	
in € million	**31 Mar. 2013**	**31 Mar. 2012**	**31 Mar. 2013**	**31 Mar. 2012**
Reported corporation tax loss carried forwards	53.8	65.1	21.7	20.8
Reported trade tax loss carried forwards	2.7	-	-	-

The valuation of deferred tax assets is essentially based on the differences between the financial balance sheet and the tax balance sheet that will reverse in subsequent years. In particular, the valuation relates to accrual for contingent losses for embedded derivatives (CDS) recognised in the financial balance sheet but not in the tax balance sheet and investment funds of the German Group. Furthermore, deferred tax assets on tax loss carried forwards are taken into account if the losses are reasonable assurance to be offset within the next five financial years from the next year-end reporting date. Local tax rates were used in each case. The resulting tax burden and relief have been reported net.

(35) Pension provisions

The reported pension provisions of € 6.1 million (previous year: € 3.7 million) in the Group and € 3.2 million (previous year: € 0.8 million) at IKB AG relate to early retirement benefits reported as obligations under the new redundancy scheme and that were not offset by plan assets as at 31 March 2013.

In the context of the first-time adoption regulations of the BilMoG, the option was exercised to distribute the additional amount to the pension provisions evenly over a term of 15 years. The outstanding addition as at 31 March 2013 amounted to € 55.7 million (previous year: € 60.3 million) in the Group and € 49.0 million (previous year: € 53.1 million) at IKB AG.

(36) Subordinated liabilities

The subordinated liabilities are internal funds within the meaning of the German Banking Act (KWG) and count as liable capital in the amount of € 1,137.1 million (previous year: € 1,183.1 million) in the Group and € 662.0 million (previous year: € 708.0 million) at IKB AG. As in the previous year, the Bank does not allocate subordinated liabilities to tier III capital at either Bank or Group level.

There is no early repayment obligation. In the event of insolvency or liquidation, they can only be repaid after pay off of all non-subordinated creditors. Participation in the losses of operating activities is not provided for here. Interest is owed and paid regardless of the Bank's net profit or loss for the year.

As at the reporting date, subordinated liabilities amounted to € 1.4 billion (previous year: € 1.5 billion) in the Group and € 0.9 billion (previous year: € 1.0 billion) at IKB AG. Interest expenses on these amounted to € 31.2 million (previous year: € 35.3 million) in the Group and € 31.2 million (previous year: € 49.7 million) at IKB AG in the financial year. Interest expenses were not incurred for the 2004/2005 issue (Group) in the financial year as payment is dependent on unappropriated retained earnings at IKB AG.

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

Year of issue	Carrying amount in € million	Currency	Interest rate in %	Maturity
2003/2004	92.0	EUR	1.11	28 May 2013
2003/2004	284.0	EUR	4.50	9 July 2013
2005/2006	107.6	JPY	2.76	21 July 2035
2006/2007	120.0	EUR	0.96	23 January 2017
2004/2005 (Group)	400.0	EUR	[1]	Perpetual

1) 10Y EUR mid-swap rate + 5bp, cap 9%

(37) Profit participation capital

After loss allocation, profit participation capital in the Group and at IKB AG amounted to € 32.2 million as at the balance sheet date (previous year: € 35.8 million). € 30.6 million of this amount (previous year: € 34.2 million) meets the requirement of section 10(5) KWG and therefore serves to increase liable capital. The nominal amount as at the balance sheet date was unchanged at € 300.0 million. In line with terms and conditions, profit participation capital participates fully in the net loss for the year or net accumulated losses. Depending on the issue, interest payments are only made in conjunction with existing unappropriated retained earnings or net income for the year. The claims of profit participation certificate bearers to capital repayment are subordinate to the claims of other creditors.

The loss participation of profit participation certificate bearers or the replenishment of profit participation capital are calculated in different ways on account of the various terms and conditions of profit participation capital. The loss participation of the respective profit participation certificate bearers is calculated on the basis of the pro rata net loss for the year or net accumulated losses (in part not taking into account the loss carried forward) in proportion to the balance sheet equity including total profit participation capital or all capital shares participating in net accumulated losses up to the repayment amount. The replenishment of the repayment amount after a loss participation and a additional payment of suspended distributions are expressly provided for in the issue conditions when certain conditions are met within the term of the issue or after the end of a four-year recovery period.

The profit participation capital in the Group and at IKB AG 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 March 2015
2005/2006	150.0	EUR	3.86	31 March 2015
2006/2007	50.0	EUR	4.70	31 March 2017
2007/2008	70.0	EUR	5.63	31 March 2017

After loss participation, no interest was incurred on profit participation certificates for the 2012/13 financial year. Without the net loss for the year or net accumulated losses, interest of € 13.4 million (previous year: € 24.8 million) would have been payable on profit participation certificates in the 2012/13 financial year.

The Extraordinary General Meeting on 25 March 2009 authorised the Board of Managing Directors to issue bearer profit participation certificates on one or more occasions until 24 March 2014. The profit participation certificates must satisfy the requirements of the German Banking Act, under which the capital paid in to grant of profit participation certificates is attributable to liable capital. Bearer option warrants can be attached to the profit participation certificates or they can be equipped with a conversion right for the bearer. According to the terms and conditions of the option or convertible profit participation certificates (hereinafter the "profit participation certificate terms and conditions"), the option and conversion rights provide for bearers to subscribe to bearer shares of the company. Actions for annulment or nullity suit have been brought against this resolution on which a verdict has not yet been reached. This has not been entered in the commercial register to date.

The total nominal amount of the profit participation certificates, option and convertible bonds issued under this authorisation cannot exceed € 900 million. Option and conversion rights can only be issued for shares of the company with a pro rata amount of share capital of up to nominally € 618,749,990.40. As well as in euro, the profit participation certificates and bonds can be issued in the legal currency of an OECD state – up to the corresponding euro value of € 900 million.

(38) Fund for general banking risks

Owing to the net income in the trading portfolio of € 1.3 million (previous year: € 0.8 million), there was an addition to the fund for general banking risks in accordance with section 340e (4) HGB of € 131 thousand (previous year: € 77 thousand) in the 2012/13 financial year. This special reserve was recognised in the amount of € 208 thousand as at the reporting date (previous year: € 77 thousand).

The fund recognised in previous years for general banking risks in accordance with section 340g HGB was reduced by € 19.0 million to € 170.6 million in the 2012/13 financial year.

(39) Development of capital

Treasury stock

By way of resolution of the Annual General Meeting on 26 August 2010, the Board of Managing Directors was authorised to acquire and sell treasury stock 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 et seq. 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 2012/13 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 et seq. 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, called in full or in part. This authorisation was not utilised in the 2012/13 financial year.

No treasury stock were held in the 2012/13 financial year, nor were there any additions or disposals of the same.

Equity

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 2008/09 to 2012/13 financial years. 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 or nullity suit 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 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 amount 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 of 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 entitled the bearer to subscribe to nine new shares from contingent capital at a conversion price of € 2.56 per share. The conditions for the existence of a conversion obligation and a conversion right had been met since 1 July 2009, hence there was a conversion right from this time. A conversion obligation existed no later than 11 April 2012. LSF6 Rio S.à.r.l. had 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 to € 1,621,315,228.16. The increase in the share capital was entered in the

commercial register on 4 May 2010. Also, a further creditor of the convertible bond had 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. The remaining convertible bonds of nominally € 146,488.32 underwent mandatory conversion on 11 April 2012. The number of total voting rights rose by 57,222 as a result of the mandatory conversion from € 633,327,701 to € 633,384,923 and the subscribed capital increased to € 1,621,465,402.88. The increase in share capital as a result of the conversions in January 2012 and April 2012 was entered in the commercial register on 2 May 2012.

By way of a 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. 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 ordinary 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 2012/13 financial year. The resolution was entered in the commercial register on 8 November 2010.

Capital reserves

The capital reserves were reported unchanged at € 1,750.7 million in the financial year.

Revenue reserves

€ 21.9 million was withdrawn from other revenue reserves to reduce the net accumulated loss as at the balance sheet date.

Hybrid capital instruments

The term hybrid capital instruments includes preferred shares (trust preferred securities) or issues in the form of asset contributions by silent partners. Hybrid capital instruments are only repaid after all subordinated liability and profit participation certificate issues have been served.

In the Group, trust preferred securities were issued by two subsidiaries in the US created for this purpose. Unlike German preferred shares, these preferred shares grant no share to the liquidation result of the issuing companies. In contrast to tier II capital, these instruments have higher requirements in terms of their maturity. The asset contributions by silent partners, which are otherwise perpetual, can only be cancelled by the issuers, an option that cannot be exercised until 2013 or 2014 at the earliest. A further condition for can-

cellation is that the repayment value is replenished to the original nominal value of the contribution. Perpetual maturity is agreed for the investor for preferred shares.

IKB AG has received silent contributions from partners. The loss ratio is calculated by the ratio of the silent partner contribution to balance sheet equity including profit participation certificates. The repayment claims of the silent partners were reduced by € 0.0 million in the financial year as a result of the loss participation (previous year: € 0.6 million). The replenishment of the repayment amount after loss participation is expressly provided for when certain conditions are met.

After loss allocation, the hybrid tier I capital as at 31 March 2013 amounted to € 475.1 million (previous year: € 475.1 million) in the Group and € 0.0 million (previous year: € 0.0 million) at IKB AG. The nominal value was unchanged at € 875.1 million in the Group and € 400.0 million at IKB AG.

As in the previous year, no payments were made on hybrid capital instruments.

Statement of changes in equity

Group:

in € million	1 Apr. 2012	Change in reserves	Other changes	Consolidated net loss	31 Mar. 2013
Called-up capital	**1,621.3**	**-**	**0.2**	**-**	**1,621.5**
Subscribed capital	1,621.3	-	0.2	-	1,621.5
Capital reserves	1,750.7	-	-	-	**1,750.7**
Revenue reserves	**26.6**	**-21.9**	**0.3**	**-**	**5.0**
Legal reserve	2.4	-	-	-	2.4
Other revenue reserves	24.2	-21.9	0.3	-	2.6
Difference in equity from currency translation	-17.8	-	1.1	-	-16.7
Net accumulated losses	-2,290.8	-	-	-117.5	-2,408.4
Equity	**1,090.0**	**-21.9**	**1.6**	**-117.5**	**952.1**

IKB AG:

in € million	1 Apr. 2012	Withdrawals	Additions	Distribution of loss for year	31 Mar. 2013
Called-up capital	**1,621.3**	**-**	**0.2**	**-**	**1,621.5**
Subscribed capital	1,621.3	-	0.2	-	1,621.5
Capital reserves	**1,750.7**	**-**	**-**	**-**	**1,750.7**
Revenue reserves	**24.3**	**-21.9**	**-**	**-**	**2.4**
Legal reserve	2.4	-	-	-	2.4
Other revenue reserves	21.9	-21.9	-	-	-
Net accumulated losses	**-2,030.5**	**-**	**-**	**-136.8**	**-2,167.3**
Equity	**1,365.8**	**-21.9**	**0.2**	**-136.8**	**1,207.3**
For information purposes: Unutilised					
authorised capital[1)]	500.0	-	-	-	500.0
contingent capital[1)]	191.8	-0.1	-	-	191.7

1) The data shown is the same as the data entered in the commercial register. These values could still change on account of the actions for annulment. Please see the comments on equity in this regard (see note 39).

In line with the notification submitted to the banking regulatory authorities as at the balance sheet date, the regulatory internal funds in the Group as per the German Banking Act amounted to a total of € 2.2 billion (previous year: € 2.2 billion). The calculation of internal funds assuming the adopted balance sheet values produced a value of € 2.2 billion (previous year: € 2.3 billion).

The reported regulatory internal funds of IKB AG as per the German Banking Act amounted to a total of € 2.1 billion (previous year: € 2.2 billion), while the calculation of internal funds assuming the adopted balance sheet values produced a value of € 2.0 billion (previous year: € 2.2 billion).

The distributable amounts locked break down as follows:

Group:

31 Mar. 2013 in € million	Gross income	Deferred tax assets	Deferred tax liabilities	distributable amount locked
Unrealised gains on plan assets	1.4	-	-	1.4
Recognition of deferred taxes	-	304.6	-156.4	148.2
Total	**1.4**	**304.6**	**-156.4**	**149.6**

IKB AG:

31 Mar. 2013 in € million	Gross income	Deferred tax assets	Deferred tax liabilities	distributable amount locked
Unrealised gains on plan assets	1.3	-	-	1.3
Recognition of deferred taxes	-	180.2	-29.5	150.7
Total	**1.3**	**180.2**	**-29.5**	**152.0**

Notes on the income statement

(40) Income by geographical market

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

	Group		IKB AG	
in € million	**2012/13**	**2011/12**	**2012/13**	**2011/12**
Federal Republic of Germany	2,755.3	2,857.0	2,276.0	2,629.4
Europe not including Germany	231.2	243.5	43.1	220.8
Unites States of America	-	0.5	-	-
Total	**2,986.5**	**3,101.0**	**2,319.1**	**2,850.2**

Income is allocated to geographical regions on the basis of the domicile of the company in the Group and the head office of operations at IKB AG.

(41) Administrative and brokerage services for third parties

IKB performs administrative services for credit and custody business, particularly in guarantee credit business. The income from these activities is included in commission income.

(42) Other operating income

For the first time, income from the reversal of interest swaps of € 387.9 million in the Group and € 396.0 million at IKB AG has been reported in Other operating income. The income from the reversal of interest swaps is offset by other operating expenses from the reversal of other interest swaps in the context of the reduction of hidden charges (see note 43).

Furthermore, in the Group this item includes income from currency translation of € 40.3 million (previous year: € 64.4 million), income from the reversal of provisions of € 8.9 million (previous year: € 20.0 million) and rental income of € 8.1 million (previous year: € 8.9 million).

In this item, IKB AG reports income from the reversal of provisions of € 7.3 million (previous year: € 14.8 million) and income from cost allocation of € 6.5 million (previous year: € 5.8 million).

The income from the discounting of provisions amounted to € 0.1 million (previous year: € 1.9 million) in the Group and at IKB AG.

(43) Other operating expenses

Other operating expenses essentially comprise:

	Group		IKB AG	
in € million	2012/13	2011/12	2012/13	2011/12
Expenses from the reversal of swap agreements	-436.7	-	-442.8	-
Addition to provisions	-51.7	-11.4	-38.3	-12.8
Expenses from currency conversion	-38.1	-48.8	-2.3	-1.8
Rent/upkeep (not for operational purposes)	-8.9	-7.6	-3.7	-4.9
Expenses of interest on provisions	-3.2	-6.2	-3.2	-6.2

(44) Income from profit and loss transfer agreements

Income from profit and loss transfer agreements at IKB AG essentially relates to the profit transfer from IKB Beteiligungen GmbH of € 70.7 million (previous year: € 210.4 million). This consists of € 101.9 million in investment income from IKB Invest GmbH and IKB Struktur GmbH and the assumption of losses of € 25.3 million from IKB Leasing GmbH.

(45) Extraordinary income and expenses

Extraordinary income includes income from the reimbursement of legal costs from KfW in connection with the settlement of portfolio investments in the amount of € 2.6 million (previous year: expenses of € 1.7 million) in the Group and at IKB AG. Furthermore, extraordinary income at IKB AG includes higher realisation proceeds from intragroup receivables due to restructuring activities of € 1.5 million (previous year: € 2.8 million). Extraordinary expenses also include the earnings effect of the transfer to provisions as part of the restructuring measures. In total, the expenses for the restructuring in the reporting period amounted to € 6.9 million (previous year: € 12.8 million) in the Group and € 3.2 million (previous year: € 11.1 million) at IKB AG. This includes expenses for the termination of employment agreements, provisions for rent and for early retirement obligations.

The expenses from the first-time adoption of the BilMoG (distribution of the additional expense from the remeasurement of pension provisions) are also reported in income in this item (see note 35).

(46) Income taxes

The item "Income taxes" includes current taxes of € -0.1 million (previous year: € 1.7 million) in the Group and € 0.7 million (previous year: € -0.5 million) at IKB AG. The change in the recognition of deferred tax assets of € -4.0 million (previous year: € -6.9 million) in the Group and € -0.9 million (previous year: € -6.4 million) at IKB AG is also reported in this item.

Despite the negative results, the Group has reported tax expenses rather than income. This is essentially due to the fact that no deferred tax assets were recognised for new tax losses arising in the financial year.

Taxes on income relate exclusively to the ordinary activities of the Bank.

(47) Contingent liabilities and other obligations

On the balance sheet date, the item “Contingent liabilities” included CDSs (Bank as pledgor) under guarantees and indemnity agreements of € 702.0 million (previous year: € 105.6 million) both in the Group and at IKB AG. Here, IKB has assumed the default risk for a pre-defined credit event for specific credit portfolios. In addition, guarantees and indemnity agreements also include derivative components of structured products (embedded CDSs) of € 698.3 million (previous year: € 689.7 million) in the Group and € 669.6 million (previous year: € 659.4 million) at IKB AG.

By way of the liability transfer of the subordinated liabilities by MATRONA GmbH, Düsseldorf (MATRONA), in the 2011/12 financial year, IKB AG issued an indemnity agreement for MATRONA, whereby it assumes liability for MATRONA’s payment obligations in connection with the transfer of subordinated liabilities by MATRONA.

As part of the sale of the 50% interest in Movesta Lease and Finance GmbH, Pullach i. Isartal (formerly Düsseldorf), IKB AG jointly and severally assumed indemnity agreements and indemnification obligations with IKB Beteiligungen GmbH. These include, for example, the transferred GmbH shares and the proper settlement of and compliance with obligations from the past (including issuing tax returns).

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

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

(48) Other financial obligations

As at 31 March 2013, other financial obligations amount to a total of € 1,407.0 million (previous year: € 1,424.8 million) in the Group and € 1,390.5 million (previous year: € 1,408.0 million) at IKB AG.

The majority of this relates to obligations from accounting for debt waivers by shareholders against debtor warrants of € 1,151.5 million (previous year: € 1,151.5 million) in the Group and at IKB AG.

In addition, there are payment obligations under long-term leases for the term of the lease of € 241.4 million (previous year: € 234.2 million) in the Group and € 219.4 million (previous year: € 236,7 million) at IKB AG. The Bank has concluded rental agreements for properties used for banking operations for the head office in Düsseldorf and its branches and for the maintenance of these properties. Provisions for expected losses from executory contracts have been recognised for the event that the expenses exceed the benefit of the rental agreement. The risk or opportunity lies in the fact that after the end of a limited rent agreement, the contract can be extended or a follow-up agreement can be concluded at less advantageous or more advantageous conditions.

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

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

Call obligations for equities, GmbH shares and shares in non-consolidated subsidiaries not fully paid in, shareholdings held by IKB Invest GmbH (formerly IKB Private Equity GmbH) and subordinated loans amounted to € 1.3 million (previous year: € 1.3 million) in the Group on the balance sheet date. As at the balance sheet date there were no payment obligations for equities, GmbH shares or other shares at IKB AG.

Of the total financial obligations of IKB AG, € 1.0 million (previous year: € 1.0 million) relates to affiliated companies.

Payment obligations to the Deposit Protection Fund

In February 2009, compensation payments to the investors of Lehman Brothers Bankhaus Aktiengesellschaft, Frankfurt/Main, were initiated by the Deposit Protection Fund of the Association of German Banks. The bank is the German subsidiary of the US bank Lehman Brothers Inc., which went into Chapter 11 in the US. Possible obligations to make additional contributions for IKB AG are unknown at the current time.

Subsequent assessment of bank levy

In the event that IKB AG generates net profits in future, it is possible for the bank levy to be subsequently reassessed, with the result that the bank levy exceeds the minimum contribution already paid (subsequent assessment). This can result in the outflow of financial assets at IKB AG in future. The possible subsequent assessment contribution for the 2011 to 2013 periods amounts to € 12.9 million in total.

(49) Off-balance sheet transactions

Section 285 no. 3 HGB stipulates the obligation to disclose in the notes the nature and purpose of risks and benefits of transactions not shown on the face of the balance sheet if this is essential in assessing the financial situation. In particular, disclosures on transactions that are expected to have significantly improving or worsening effects on the financial situation or that can be considered unusual with regard to their timing or business partner can be necessary for an assessment of the financial situation.

Special purpose vehicles in connection with securitisation transactions

The Bank has entered into various contractual positions in connection with the establishment of special purpose entities. The purpose of the SPVs was to synthetically transfer risks or to transfer assets to generate liquidity.

Off-balance sheet risks occur when legal ownership and credit risks are transferred to the acquirer but residual minor risks remain with IKB. These relate to liability for the legal validity of the receivables, the possibility of re-transfer for the event of the inefficiency of the transaction (clean-up call). These contractual obligations can lead to a future outflow of financial funds. If the transfer of assets has not resulted in derecognition as the credit risks remain with IKB, these risks must be taken into account in the measurement of the assets concerned.

In some transactions, IKB acts as a service provider with the obligation to receive capital and interest payments in connection with the assets transferred and to forward these to the special purpose entity. The opportunities here lie in the receipt of service charges for the period of the agreement. The costs of rendering service lead to an outflow of funds. Violations of contractual obligations can also lead to compensation obligations.

On assuming the function of investment manager, the Bank is required to make purchase and sale decisions for the special purpose entity. The opportunities lie in the receipt of management fees. The risks lie in any claims for damages owing to a violation of contractual obligations.

Sales of receivables in connection with the implementation of the EU conditions

Various assets were sold in connection with the implementation of the EU conditions. Part of the implementation of the EU conditions related to the reduction of the credit portfolio in connection with sales of receivables with a volume of € 169 million (previous year: € 345 million). Guarantees were issued in some cases which are reported in the relevant off-balance sheet line items. The off-balance sheet risks lie in the liability for the legal validity of both this receivable and the collateral associated with it.

Forward transactions

As at the balance sheet date there are obligations from contingent and non-contingent forwards. These are essentially for hedging interest and currency risks and lead to future inflows or outflows of cash. Please also see the information on forwards (see note 57).

Other disclosures

(50) Consolidated group as at 31 March 2013

			Equity interest in %
A.	**Consolidated subsidiaries**		
1.	**Foreign financial institutions**		
	IKB International S.A. i.L., Luxembourg, Luxembourg	2),3)	100
2.	**Other domestic companies**		
	Aleanta GmbH, Düsseldorf		100
	Equity Fund GmbH, Düsseldorf	1)	100
	IKB Leasing GmbH, Hamburg (formerly: IKB Autoleasing GmbH, Hamburg)	1)	100
	IKB Leasing Beteiligungsgesellschaft mbH, Düsseldorf	1)	100
	IKB Beteiligungen GmbH, Düsseldorf		100
	IKB Data GmbH, Düsseldorf		100
	IKB Equity Capital Fund GmbH, Düsseldorf	1)	100
	IKB Grundstücks GmbH & Co. Objekt Holzhausen KG, Düsseldorf		100
	IKB Grundstücks GmbH, Düsseldorf		100
	IKB Invest GmbH, Düsseldorf (formerly: IKB Private Equity GmbH, Düsseldorf)	1)	100
	IKB Projektentwicklung GmbH & Co. KG i.L., Düsseldorf	3)	100
	Istop 1 GmbH, Düsseldorf		100
	Istop 2 GmbH, Düsseldorf		100
	Istop 4 GmbH, Düsseldorf		100
	Istop 5 GmbH, Düsseldorf		100
	IKB Struktur GmbH, Düsseldorf	1)	100
	Projektbeteiligung TH GmbH & Co. KG, Düsseldorf		89.8
	Tempelhofer Hafen GmbH & Co. KG, Düsseldorf	1)	94.9
	MATRONA GmbH, Düsseldorf	1)	100
	Zweite Equity Suporta GmbH, Düsseldorf	1)	100
	Other foreign companies		
	IKB Capital Corporation i.L., New York, United States of America	3)	100
	IKB Finance B.V., Amsterdam, Netherlands		100
	IKB Funding LLC II, Wilmington, United States of America		100
	IKB Funding LLC I, Wilmington, United States of America		100
	IKB Leasing Austria GmbH, Vienna, Austria	1)	100
	IKB Leasing CR s.r.o., Prague, Czech Republic	1)	100
	IKB Leasing Finance IFN SA, Bucharest, Romania	1)	100
	IKB Leasing France S.A.R.L., Marne La Vallée Cedex 4, France	1)	100
	IKB Leasing Korlátolt Felelösségü Társaság, Budapest, Hungary	1)	100
	IKB Leasing Polska Sp.z.o.o, Poznan (Posen), Poland	1)	100
	IKB Leasing SR, s.r.o., Bratislava, Slovakia	1)	100
	IKB Leasing S.R.L., Bucharest, Romania	1)	100
	IKB Lux Beteiligungen S.à.r.l, Luxembourg, Luxembourg		100
	IKB Pénzügyi Lízing zártkörüen müködö Részvénytársaság, Budapest, Hungary	1)	100
	STILL LOCATION S.à.r.l., Marne La Vallee Cedex 4, France	1)	100
	IKBL Renting and Service S.r.l., Lainate (MI), Italy	1)	100
	IKB Leasing geschlossene Aktiengesellschaft, Moscow, Russia	1)	100
4.	**Special-purpose vehicles in accordance with section 290(2) no. 4 HGB**		
	Bacchus 2008-1 Plc, Dublin, Ireland		
	Bacchus 2008-2 Plc, Dublin, Ireland		
	German Mittelstand Equipment Finance No. 1 S.A., Luxembourg, Luxembourg		
	RIO DEBT HOLDINGS (IRELAND) LIMITED, Dublin, Ireland		
B.	**Associates**		
	Linde Leasing GmbH, Wiesbaden	1)	30.0
	Argantis Private Equity GmbH & Co. KG, Cologne	1)	28.9

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

(51) List of shareholdings as at 31 March 2013

31 Mar. 2013		Financial year	Letter of comfort	Equity interest in %	Equity € thou.	Result € thou.
1. Domestic subsidiaries (fully consolidated)						
Aleanta GmbH, Düsseldorf		1 Apr.- 31 Mar.		100.00	1,529	66
Equity Fund GmbH, Düsseldorf		1 Apr. - 31 Mar.		100.00	13,525	0
IKB Beteiligungen GmbH, Düsseldorf		1 Apr. - 31 Mar.	X	100.00	69,711	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	23,441	2,088
IKB Grundstücks GmbH, Düsseldorf		1 Jan. - 31 Dec.	X	100.00	112	-1
IKB Grundstücks GmbH & Co. Objekt Holzhausen KG, Düsseldorf	3)	1 Jan. - 31 Dec.	X	100.00	5,733	803
IKB Invest GmbH, Düsseldorf		1 Apr. - 31 Mar.	X	100.00	355,317	0
IKB Leasing Beteiligungsgesellschaft mbH, Düsseldorf		1 Apr. - 31 Mar.		100.00	5,824.00	0
IKB Leasing GmbH, Hamburg		1 Apr. - 31 Mar.	X	100.00	181,041	0
IKB Projektentwicklung GmbH & Co. KG i.L., Düsseldorf	3),4)	1 Jan. - 31 Dec.	X	100.00	-18,608	-16,375
IKB Struktur GmbH, Düsseldorf		1 Apr. - 31 Mar.		100.00	103,750	0
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	91,325	0
Istop 5 GmbH, Düsseldorf		1 Apr. - 31 Mar.		100.00	525	0
MATRONA GmbH, Düsseldorf		1 Apr. - 31 Mar.		100.00	525	0
Projektbeteiligung TH GmbH & Co. KG, Düsseldorf	3)	1 Jan. - 31 Dec.		89.80	14	-4
Tempelhofer Hafen GmbH & Co. KG, Düsseldorf		1 Jan. - 31 Dec.		94.90	0	-9,767
Zweite Equity Suporta GmbH, Düsseldorf		1 Apr. - 31 Mar.		100.00	530	0
2. Foreign subsidiaries (fully consolidated)						
IKB Leasing France S.A.R.L., Marne La Vallée Cedex 4, France		1 Jan. - 31 Dec.		100.00	2,043	-2
STILL LOCATION S.à.r.l., Marne La Vallee Cedex 4, France		1 Jan. - 31 Dec.		100.00	14,075	-43
IKB International S.A. i.L., Munsbach, Luxembourg		1 Apr. - 31 Mar.	X	100.00	27,329	-3,937
IKB Lux Beteiligungen S.à.r.l., Munsbach, Luxembourg		1 Apr. - 31 Mar.	X	100.00	8,386	-94
IKB Finance B.V., Amsterdam, Netherlands		1 Apr. - 31 Mar.	X	100.00	-2,782	136
IKB Leasing Austria GmbH, Vienna, Austria		1 Jan. - 31 Dec.		100.00	539	100
IKB Leasing Polska Sp. z o.o., Poznan (Posen), Poland		1 Jan. - 31 Dec.		100.00	10,238	1,256
IKB Leasing Finance IFN SA, Bucharest, Romania		1 Jan. - 31 Dec.		100.00	3,775	-463
IKB Leasing S.R.L., Bucharest, Romania		1 Jan. - 31 Dec.		100.00	1,022	113
IKB Leasing geschlossene Aktiengesellschaft, Moscow, Russia		1 Jan. - 31 Dec.		100.00	4,416	733
IKB Leasing SR, s.r.o., Bratislava, Slovakia		1 Jan. - 31 Dec.		100.00	1,231	116
IKB Leasing CR s.r.o., Prague, Czech Republic		1 Jan. - 31 Dec.		100.00	5,855	1,504
IKB Leasing Korlátolt Felelösségü Társaság, Budapest, Hungary		1 Jan. - 31 Dec.		100.00	3,972	2,441
IKB Pénzügyi Lízing zártkörüen müködö Részvénytársaság, Budapest, Hungary		1 Jan. - 31 Dec.		100.00	1,817	962
IKB Capital Corporation i.L., New York, United States of America	4)	1 Apr. - 31 Mar.		100.00	1,193	-959
IKB Funding LLC I, Wilmington, United States of America	2)	1 Jan. - 31 Dec.	X	100.00	390	-2,344
IKB Funding LLC II, Wilmington, United States of America	2)	1 Jan. - 31 Dec.	X	100.00	1,310	-20,026
IKBL Renting and Service S.r.l., Lainate (MI), Italy		1 Jan. - 31 Dec.		100.00	996	-4
3. Special-purpose vehicles (special-purpose vehicles included in the consolidated financial statements in accordance with section 290(2) no. 4 HGB)						
Bacchus 2008-1 Plc, Dublin 2, Ireland						
Bacchus 2008-2 Plc, Dublin 2, Ireland						
RIO DEBT HOLDINGS (IRELAND) LIMITED, Dublin 2, Ireland						
German Mittelstand Equipment Finance No. 1 S.A., Luxembourg, Luxembourg						

31 Mar. 2013		Financial year	Letter of comfort	Equity interest in %
4. Domestic subsidiaries (unconsolidated due to immateriality)	1)			
Bella GmbH, Düsseldorf		1 Apr. - 31 Mar.		100.00
Boxhagener Str. 76/78 Berlin GmbH i.L., Düsseldorf	4)	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	4)	1 Jan. - 31 Dec.		100.00
Büroprojekt vierte Verwaltungsgesellschaft mbH i.L., Düsseldorf	4)	1 Jan. - 31 Dec.		100.00
Einsteinufer 63-65 Berlin GmbH i.L., Düsseldorf	4)	1 Jan. - 31 Dec.		100.00
Erste Equity Suporta GmbH, Düsseldorf		1 Apr. - 31 Mar.		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	4)	1 Jan. - 31 Dec.	X	100.00
ILF Immobilien-Leasing-Fonds Verwaltung GmbH & Co. Objekt Boxdorf KG, Düsseldorf		1 Jan. - 31 Dec.		94.26
ilmenau center Verwaltungsgesellschaft mbH, Düsseldorf		1 Jan. - 31 Dec.		100.00
IMAS Grundstücks-Vermietungsgesellschaft mbH, Düsseldorf		1 Apr. - 31 Mar.	X	100.00
INCO Ingenieur Consult Geschäftsführungsgesellschaft mbH i.L., Düsseldorf	4)	1 Jan. - 31 Dec.		100.00
INCO Ingenieur Consult GmbH & Co. KG i.L., Düsseldorf	4)	1 Jan. - 31 Dec.		100.00
Istop 3 GmbH, Düsseldorf		1 Jan. - 31 Dec.		100.00
ISTOS Beteiligungsverwaltungs- und Grundstücks- Vermietungsgesellschaft mbH, Düsseldorf		1 Jan. - 31 Dec.	X	100.00
ISTOS Dritte Beteiligungsverwaltungs- und Grundstücks-Vermietungsgesellschaft mbH & Co. KG, Düsseldorf	3)	1 Jan. - 31 Dec.		100.00
ISTOS Erste Beteiligungsverwaltungs- und Grundstücks-Vermietungsgesellschaft mbH & Co. KG, Düsseldorf	3)	1 Jan. - 31 Dec.	X	100.00
ISTOS Zweite Beteiligungsverwaltungs- und Grundstücks-Vermietungsgesellschaft mbH & Co. KG, Düsseldorf	3)	1 Jan. - 31 Dec.		100.00
MD Capital Solingen Verwaltungsgesellschaft mbH, Düsseldorf		1 Jan. - 31 Dec.		100.00
MD Capital Stromstrasse Verwaltungsgesellschaft mbH i. L., Düsseldorf	4)	1 Jan. - 31 Dec.		100.00
MD Capital Verwaltungs GmbH i.L., Düsseldorf	4)	1 Jan. - 31 Dec.		100.00
MD Objekt Lorsch Verwaltungs GmbH i.L., Düsseldorf	4)	1 Jan. - 31 Dec.		100.00
MD Objekt Solingen Verwaltungsgesellschaft mbH, Düsseldorf		1 Jan. - 31 Dec.		100.00
MD Objekt Stromstrasse Verwaltungsgesellschaft mbH i.L., Düsseldorf	4)	1 Jan. - 31 Dec.		100.00
MFRSI Beteiligungsholding Verwaltungsgesellschaft mbH, Düsseldorf		1 Jan. - 31 Dec.		100.00
Objekt Pankow Verwaltungsgesellschaft mbH i.L., Düsseldorf	4)	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 2 GmbH i.L., Düsseldorf	4)	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	4)	1 Jan. - 31 Dec.		100.00
SEQUANA GmbH, Düsseldorf		1 Apr. - 31 Mar.		100.00

31 Mar. 2013		Financial year	Letter of comfort	Equity interest in %
5. Foreign subsidiaries (not included in consolidation due to section 296 HGB)	1)			
Valin Asset Management S.à.r.l., Luxembourg, Luxembourg		1 Apr. - 31 Mar.		100.00
Valin Funds S.C.A,, SICAV-SIF, Luxembourg, Luxembourg		1 Apr. - 31 Mar.		100.00
IKB Funding Trust I, Wilmington, United States of America		1 Apr. - 31 Mar.		100.00
IKB Funding Trust II, Wilmington, United States of America		1 Apr. - 31 Mar.		100.00
6. Domestic associates	1)			
Argantis Private Equity GmbH & Co. KG, Cologne		1 Jan. - 31 Dec.		28.97
Linde Leasing GmbH, Wiesbaden		1 Jan. - 31 Dec.		30.00
7. Domestic associates/joint ventures (not accounted for using the equity method due to immateriality)				
Argantis GmbH, Cologne		1 Jan. - 31 Dec.		50.00
Argantis Private Equity Gründer GmbH & Co. KG, Cologne		1 Jan. - 31 Dec.		39.17
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
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
HABITO Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt EINS KG, Pullach i. Isartal		1 Jan. - 31 Dec.		6.00
Hafenspitze Verwaltungsgesellschaft mbH, Hamburg		1 Jan. - 31 Dec.		25.00
ilmenau center GmbH & Co. KG, Lüneburg		1 Jan. - 31 Dec.		50.00
LOUDA SYSTEMS GmbH, Triptis		1 Jan. - 31 Dec.		45.00
MD Capital Beteiligungsgesellschaft mbH i.L., Düsseldorf	4)	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
MOTORRAD-ECKE GmbH, Villingen-Schwennigen		1 Jan. - 31 Dec.		38.86
OCP GmbH, Bochum		1 Jan. - 31 Dec.		25.11
ODS Business Services Group GmbH, Hamburg		1 Jan. - 31 Dec.		32.00
Projektgesellschaft Justus-von-Liebig-Straße mbH, Kronberg/Taunus	4)	1 Jan. - 31 Dec.		50.00
Vermögensverwaltungsgesellschaft DVD Dassow GmbH, Dassow		1 Jan. - 31 Dec.		30.00
8. Domestic equity investments in corporations and partnerships in which the interest exceeds 5% of voting rights	1)			
ae group ag, Gerstungen		1 Jan. - 31 Dec.		12.40
AXA Immoselect Hauptverwaltungsgebäude GmbH & Co. Objekt Düsseldorf Uerdinger Straße KG, Cologne		1 Jan. - 31 Dec.		5.10
CellGenix GmbH, Freiburg		1 Jan. - 31 Dec.		17.05
CoBaLe Immobilien GmbH & Co. Objekt Stuttgart KG, Frankfurt/Main		1 Jan. - 31 Dec.		5.10
Feldmühleplatz 1 GmbH & Co. KG, Cologne		1 Jan. - 31 Dec.		5.10
Global Safety Textiles HoldCo One GmbH i.L., Maulburg	4)	1 Jan. - 31 Dec.		8.80
Industriedruck Krefeld Kurt Janssen, GmbH & Co., Krefeld		1 Jan. - 31 Dec.		12.00
Janßen-Druck Gesellschaft mit beschränkter Haftung, Krefeld		1 Jan. - 31 Dec.		12.00
Könemann Verlagsgesellschaft mbH, Cologne		1 Jan. - 31 Dec.		12.50
Oechsler Aktiengesellschaft, Ansbach		1 Jan. - 31 Dec.		10.00

31 Mar. 2013		Financial year	Letter of comfort	Equity interest in %
9. Foreign equity investments in large corporations in which the interest exceeds 5% of voting rights	1)			
PSE Newco Limited, Yeadon Leeds, UK		1 Jan. - 31 Dec.		5.70
EPL Acquisitions (SUB) N.V. in liquidatie, Amsterdam, Netherlands	4)	1 Jan. - 31 Dec.		5.70
Ring International Holding AG, Vienna, Austria		1 Jan. - 31 Dec.		9.37

1) The information in accordance with section 285 no. 11 HGB on equity and results is not shown for companies not included in the consolidated financial statements in accordance with section 286(3) sentence 1 no. 1 HGB.
2) Subordinated letter of comfort
3) Company exercised exemption under section 264b HGB and did not prepare notes.
4) in liquidation

(52) Special investments

Following the change in stock market segment of all securities of IKB from the regulated market to the quality segments of the unregulated market on 7 November 2012, IKB is no longer listed on the stock market and therefore the disclosure requirements of sections 21 et seq. WpHG have not applied to it since this date.

As at 7 November 2012, the Bank had received the following notifications in accordance with section 21 WpHG:

Date of change	Notifying party	Location	Threshold reached, exceeded or fallen below	Held directly	Held indirect	Total
29 October 2008	John P. Grayken	USA	Threshold of 3%, 5%, 10%, 15%, 20%, 25%, 30%, 50% and 75% exceeded		90.81%	90.81%
29 October 2008	Lone Star Europe Holdings, Ltd. (Bermuda)	Hamilton (Bermuda)	Threshold of 3%, 5%, 10%, 15%, 20%, 25%, 30%, 50% and 75% exceeded		90.81%	90.81%
29 October 2008	Lone Star Europe Holdings, L.P. (Bermuda)	Hamilton (Bermuda)	Threshold of 3%, 5%, 10%, 15%, 20%, 25%, 30%, 50% and 75% exceeded		90.81%	90.81%
29 October 2008	LSF6 Europe Partners, L.L.C. (Delaware)	Dallas (Texas)	Threshold of 3%, 5%, 10%, 15%, 20%, 25%, 30%, 50% and 75% exceeded		90.81%	90.81%
29 October 2008	LSF6 Europe Financial Holdings, L.P. (Delaware)	Dallas (Texas)	Threshold of 3%, 5%, 10%, 15%, 20%, 25%, 30%, 50% and 75% exceeded	90.81%		90.81%
15 July 2009	LSF6 Rio S.à.r.l.	Luxembourg (Luxembourg)	Threshold of 3% and 5% exceeded	7.62%		7.62%
15 July 2009	Lone Star Capital Investments S.à.r.l.	Luxembourg (Luxembourg)	Threshold of 3% and 5% exceeded		7.62%	7.62%
15 July 2009	Lone Star Global Holdings, Ltd.	Hamilton (Bermuda)	Threshold of 3% and 5% exceeded		7.62%	7.62%
20 July 2009	LSF6 Rio S.à.r.l.	Luxembourg (Luxembourg)	Threshold of 5% and 3% fallen below	0%		0%
20 July 2009	Lone Star Capital Investments S.à.r.l.	Luxembourg (Luxembourg)	Threshold of 5% and 3% fallen below		0%	0%
20 July 2009	Lone Star Global Holdings, Ltd.	Hamilton (Bermuda)	Threshold of 5% and 3% fallen below		0%	0%

The Bank did not receive any notifications under stock corporation law in accordance with section 20(1) or (4) AktG in the reporting period. In accordance with 20 AktG, an enterprise must notify a company in writing as soon as it holds more than 25% (section 20(1) AktG) or 50% (section 20(4) AktG) of the shares in a non-listed company based in Germany. The Bank also did not receive any notifications in accordance with section 20(5) AktG that an investment of a reportable amount does no longer exist.

(53) Disclosure of auditor's fees

	Group		IKB AG	
in € million	**2012/13**	**2011/12**	**2012/13**	**2011/12**
Audit of financial statements	-3.9	-4.2	-3.2	-3.1
Other assurance services	-0.8	-0.1	-0.8	-0.1
Tax consultancy services	-	-0.2	-	-0.1
Other services	-0.5	-	-0.5	-
Total	**-5.2**	**-4.5**	**-4.5**	**-3.3**

In particular, other assurance services include the statutory audit in accordance with section 36 WpHG. In addition, other assurance services and other services essentially include audit and quality assurance services in the context of the transition of Group accounting from IFRS to HGB and company law restructuring.

(54) Related party transactions

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

(55) Letters of comfort

IKB ensures that its subsidiaries indicated in the list of shareholdings of IKB AG as protected by the letter of comfort are able to meet their contractual obligations with the exception of the event of political risk.

The letters of comfort for the foreign subsidiaries of IKB Leasing GmbH, Hamburg, were withdrawn in 2012. Subsequent liability risks could still arise from existing liabilities to third parties of € 3 million.

IKB Invest GmbH, Düsseldorf, has issued a letter of comfort for IKB Equity Capital Fund GmbH, Düsseldorf, so that it can meet its obligations under loan and warranty agreements transferred to it under the spin-off and takeover agreement.

IKB Leasing GmbH, Hamburg, has issued unlimited letters of comfort for IKB Leasing S.R.L., Bucharest, and IKB Leasing Finance IFN SA, Bucharest, for the continuation of the respective companies and for the respective liabilities from warranty agreements.

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

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

31 Mar. 2013 in € million	Group	IKB AG
Liabilities to banks	14,032.9	13,571.4
Liabilities to customers	-	790.1
Other liabilities	-	379.0
Contingent liabilities	7.0	7.0
Total	**14,039.9**	**14,747.5**

The assets serving as collateral are essentially receivables and securities transferred to third-party banks, special-purpose vehicles or clearing houses in open market, securitisation transactions and as part of grant transactions.

(57) Forward transactions

The forwards concluded essentially serve to manage and limit interest rate risks and relate in particular to the credit refinancing portfolio and the investment portfolios. Derivative instrument trading is only conducted to a limited extent. The amount of interest rate risk is restricted by a limit system approved by the Board of Managing Directors and monitored on a daily basis in risk management. In addition, the volume of forward and derivative transactions is restricted by counterparty limits.

The interest rate risks of securities, loans and the associated refinancing funds are managed in the investment portfolios and the credit refinancing portfolio. Derivatives are used to eliminate or reduce mismatched maturities and interest and exchange rate risks. The derivatives used are predominantly interest derivatives. The reduction of investment positions over past financial years has also left a portfolio of simple interest rate derivatives that is largely interest-risk neutral and contributes significantly to the negative fair value of derivatives at IKB.

These interest derivatives have a net negative fair value as at 31 March 2013 of € -1,297.4 million (previous year: € -1,404.4 million) in the Group and € -1,302.0 million (previous year: € -1,416.0 million) at IKB AG.

(58) Derivative financial instruments not recognised at fair value

Group:

	Nominal 31 Mar. 2013	Fair value		Carrying amount	
in € million		**positive**	**negative**	**Assets**	**Equity and liabilities**
Interest-related derivatives	36,051.8	2,054.7	3,352.1	16.1	110.6
Credit-related derivatives	1,557.4	9.2	230.3	15.8	141.8
Currency-related derivatives	1,155.9	14.9	15.6	10.6	11.4
Derivatives assigned to several categories	773.5	68.7	66.7	3.6	1.6
Total	**39,538.6**	**2,147.5**	**3,664.7**	**46.1**	**265.4**

	Carrying amount				
in € million	**Other assets**	**Prepaid expenses**	**Provisions[1)]**	**Other liabilities**	**Deferred income**
Interest-related derivatives	2.0	14.1	-	102.1	8.5
Credit-related derivatives	-	15.8	120.2	0.1	21.5
Currency-related derivatives	10.6	-	-	11.4	-
Derivatives assigned to several categories	-	3.6	-	0.1	1.5
Total	**12.6**	**33.5**	**120.2**	**113.7**	**31.5**

1) relates to embedded derivatives

IKB AG:

	Nominal 31 Mar. 2013	Fair value		Carrying amount	
in € million		**positive**	**negative**	**Assets**	**Equity and liabilities**
Interest-related derivatives	35,906.4	2,054.7	-3,351.8	146.8	249.5
Credit-related derivatives	1,557.4	9.2	-230.3	15.8	140.1
Currency-related derivatives	1,160.6	14.9	-15.7	10.6	11.5
Derivatives assigned to several categories	773.5	66.7	-66.7	6.5	5.6
Total	**39,397.9**	**2,145.5**	**-3,664.5**	**179.7**	**406.7**

	Carrying amount				
in € million	**Other assets**	**Prepaid expenses**	**Provisions[1)]**	**Other liabilities**	**Deferred income**
Interest-related derivatives	7.4	139.2	-	94.0	155.4
Credit-related derivatives	-	15.8	118.3	0.3	21.5
Currency-related derivatives	10.6	-	-	11.5	-
Derivatives assigned to several categories	-	6.5	-	0.1	5.6
Total	**18.0**	**161.5**	**118.3**	**105.9**	**182.5**

1) relates to embedded derivatives

The interest and currency-related derivatives are caps/floors, cross-currency swaps, currency forwards, forward forward deposits, forward interest rate swaps, currency options, currency swaps, interest rate swaps and swaptions. The credit-related derivatives also include CDSs in connection with structured securities.

In line with market practice, the reported fair values include deferred accrued interest.

(59) Remuneration of the Board of Managing Directors

Total remuneration of € 4.9 million (previous year: € 4.9 million) was incurred for members of the Board of Managing Directors in the 2012/13 financial year. This includes fixed salaries, variable performance-based remuneration, pension compensation for a pension not agreed and non-cash remuneration. The Supervisory Board regularly reviews the appropriateness of the respective total remuneration.

Former and retired members of the Board of Managing Directors

The total remuneration for former members of the Board of Managing Directors and their surviving dependents amounted to € 3.5 million (previous year: € 3.5 million). In the 2012/13 financial year, € 43.4 million was recognised for pension obligations to former members of the Board of Managing Directors and their surviving dependents (previous year: € 44.1 million).

(60) Remuneration of the Supervisory Board

The total remuneration of the members of the Supervisory Board (including VAT) for the 2012/13 financial year amounted to € 226 thousand (previous year: € 258 thousand). This includes reimbursed expenses of € 6 thousand (previous year: € 10 thousand).

(61) Remuneration of the Advisory Board

The members of the Advisory Board received € 281 thousand (previous year: € 289 thousand), including VAT.

(62) Loans extended to members of executive bodies and the Advisory Board

No loans were granted to members of the Board of Managing Directors or the Advisory Board. Loans of a total amount of € 2 thousand were extended to the members of the Supervisory Board (previous year: € 0.1 million).

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

	Group		IKB AG	
	2012/13	**2011/12**	**2012/13**	**2011/12**
Men	925	968	667	702
Women	553	576	329	357
Total	**1,478**	**1,544**	**996**	**1,059**

(64) Executive bodies

The Supervisory Board

Chairman

Bruno Scherrer, London, UK
Senior Managing Director/Head of European Investments, Lone Star Europe Acquisitions Ltd. (formerly: Lone Star Management Europe Ltd.)

Deputy Chairman

Dr Karsten von Köller, Frankfurt
Chairman Lone Star Germany Acquisitions GmbH (formerly: Lone Star Germany GmbH)

Members

Stefan A. Baustert, Krefeld
Managing Director of RENA GmbH

Olivier Brahin, London, UK (until 25 May 2012)
Head of European Real Estate Investments, Lone Star Europe Acquisitions Ltd. (formerly: Lone Star Management Europe Ltd.)

Dr Lutz-Christian Funke, Oberursel
Head of Board of Managing Directors Support/Communications at KfW Bankengruppe

Jordi Goetstouwers, Malta (from 23 August 2012 to 1 March 2013)
Managing Director, Lone Star Europe Acquisitions Ltd. (formerly: Lone Star Management Europe Ltd.)

Ulrich Grillo, Mülheim an der Ruhr
Chairman of the Board of Managing Directors of Grillo-Werke Aktiengesellschaft

Arndt G. Kirchhoff, Attendorn
Managing Partner and CEO of KIRCHHOFF Holding GmbH & Co. KG

Bernd Klein, Mönchengladbach
Employee representative

Michael W. Kolbeck, Frankfurt (from 23 August 2012 to 1 March 2013)
Senior Vice President, Head of European Corporate Debt Investment, Lone Star Germany Acquisitions GmbH (formerly: Lone Star Germany GmbH)

Dr Claus Nolting, Munich
CEO of COREALCREDIT BANK AG

Nicole Riggers, Düsseldorf
Employee representative

Dr Carola Steingräber, Berlin
Employee representative

Carmen Teufel, Neustetten
Employee representative

Dr Andreas Tuczka, Vienna, Austria
Head of European Financial Institutions, Managing Director, Lone Star Europe Acquisitions Ltd. (formerly: Lone Star Management Europe Ltd.)

Ulrich Wernecke, Rommerskirchen (until 28 February 2013)
Employee representative

Board of Managing Directors

Hans Jörg Schüttler
(Chairman)

Dr Dieter Glüder

Claus Momburg

Dr Michael H. Wiedmann

Offices held by employees

As at 31 March 2013, the following employees were represented in the statutory supervisory boards of large corporations:

Dr Reiner Dietrich
Tricor Packaging & Logistics AG

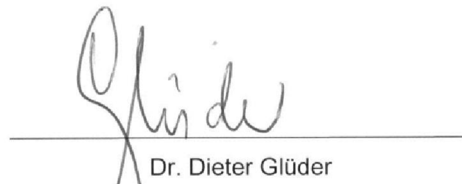
Helmut Laux
Heinz-Glas Group Holding HGGH GmbH & Co.KGaA
Heinz-Glas Produktion GmbH & Co.KGaA
Heinz-Glas GmbH & Co. KGaA

Klaus Runzer
ae group ag (until 31 March 2013)
Oechsler AG

Düsseldorf, 28 May 2013

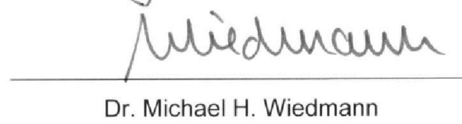
IKB Deutsche Industriebank AG
The Board of Managing Directors

Hans Jörg Schüttler



Dr. Dieter Glüder

Claus Momburg



Dr. Michael H. Wiedmann

Auditor's Report

Auditor's report on the consolidated financial statements and the Group management report of IKB Deutsche Industriebank AG for the financial year from 1 April 2012 to 31 March 2013[1]

We have audited the consolidated financial statements – comprising the balance sheet, the income statement, cash flow statement and statement of changes in equity – with notes to the consolidated financial statements combined with the notes to the annual financial statements of the Company and the Group management report of IKB Deutsche Industriebank Aktiengesellschaft, Düsseldorf, which was combined with the management report of the Company, for the financial year from 1 April 2012 to 31 March 2013. The preparation of the consolidated financial statements and the combined management report in accordance with the German Commercial Law are the responsibility of the Company`s Board of Managing Directors. Our responsibility is to express an opinion on the consolidated financial statements and on the combined management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB ("Handelsgesetzbuch": "German Commercial Code") 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 (German) principles of proper accounting and the applicable financial reporting framework and in the combined 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 combined 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 combined management report. We believe that our audit provides a reasonable basis for our opinion.

[1] Translation of the independent auditor´s report issued in German language on the consolidated financial statements prepared in German language by the management of IKB Deutsche Industriebank Aktiengesellschaft, Düsseldorf.
The German language statements are decisive.

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 legal requirements and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with (German) principles of proper accounting. The combined 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, 29 May 2013

PricewaterhouseCoopers
Aktiengesellschaft Wirtschaftsprüfungsgesellschaft

(Mark Maternus)	(ppa. Michael Meteling)
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

Auditor's report on the annual financial statements and the management report of IKB Deutsche Industriebank AG for the financial year from 1 April 2012 to 31 March 2013[2]

We have audited the annual financial statements – comprising the balance sheet, the income statement and the notes which are combined with the notes to the consolidated financial statements – together with the bookkeeping system and the management report of IKB Deutsche Industriebank Aktiengesellschaft, Düsseldorf, which was combined with the Group management report, for the financial year from 1 April 2012 to 31 March 2013. The maintenance of the books and records and the preparation of the annual financial statements and the combined management report in accordance with the German Commercial Law are the responsibility of the Company`s Board of Managing Directors. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system and the combined management report based on our audit.

We conducted our audit of the annual financial statements in accordance with § 317 HGB ("Handelsgesetzbuch": "German Commercial Code") 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 annual financial statements in accordance with (German) principles of proper accounting andin the combined management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company 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 books and records, the annual financial statements and the combined management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting policies used and significant estimates made by the Company`s Board of Managing Directors as well as evaluating the overall presentation of the annual financial statements and the combined management report. We believe that our audit provides a reasonable basis for our opinion.

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[2] Translation of the independent auditor´s report issued in German language on the annual financial statements prepared in German language by the management of IKB Deutsche Industriebank Aktiengesellschaft, Düsseldorf.
The German language statements are decisive.

Our audit has not led to any reservations.

In our opinion based on the findings of our audit, the annual financial statements comply with the legal requirements and give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with (German) principles of proper accounting. The combined management report is consistent with the annual financial statements and as a whole provides a suitable view of the Company's position and suitably presents the opportunities and risks of future development.

Düsseldorf, 29 May 2013

PricewaterhouseCoopers
Aktiengesellschaft Wirtschaftsprüfungsgesellschaft

(Mark Maternus)	(ppa. Michael Meteling)
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

Note on forward-looking statements

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

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

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