

# **Annual Report 2009/2010**

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

Dear Shareholders,  
Dear business partners of IKB,

The German economy experienced the worst crash in post-war history in the calendar year of 2009. Although some areas of the financial markets anticipated a recovery in mid-2009, they have returned to a crisis situation with unmistakable consequences since May 2010. The considerable deterioration in conditions has also led to high risk costs for IKB, delaying its return to profitability.

IKB is reporting a net loss of just under € 1 billion for the 2009/10 financial year. Around half of this negative result is attributable to various extraordinary effects. At € 859 million, fair value losses due to the higher valuation of IKB's liabilities on the back of an improved credit rating had the biggest impact on the result. Substantial asset-side remeasurement gains were not enough to offset this development.

The consolidated net loss adjusted for extraordinary effects amounted to € 510 million. This result is attributable to a large extent to the provision for possible loan losses in the amount of € 494 million. Although this figure is down on the previous financial year, it remains significantly higher than the long-term average as a result of the economic downturn. Net interest income, which so far has been the most important earnings pillar, is increasingly being burdened by the reduction in total assets due to the need to meet EU requirements and higher funding costs, among other things.

We are responding to these foreseeable developments, which were due partly to the crisis and partly to the Bank's restructuring – including to meet the EU requirements – by rapidly implementing our new business model. The previous focus on lending business with SMEs is being supplemented by capital market and consultancy services (including M&A, restructuring consultancy, derivatives and placements) for our clients. Thanks to a broader product portfolio and more intensive utilisation of customer potential, IKB will be able to address its customers' financing issues and generate value-added with its solutions, thereby generating sustainable earnings.

The environment for IKB's continued restructuring will stay challenging. In a market that is still characterised by uncertainty and volatility, IKB remains exposed to the risk of unexpected defaults and dramatic market price fluctuations, as well as liquidity and legal risks. The extent to which additional statutory provisions will be imposed on the banking industry is also unclear. Although an economic upturn is emerging at present, this development remains fragile, and the impact of the European debt crisis on counterparty default risk is difficult to predict at present.

We are focused on continuing to improve the Bank's situation in this sustained difficult environment. We have ensured our risk-bearing capacity by reducing volatility risks and risks arising from structured credit products. Substantial provisions for possible loan losses have also been recognised for counterparty default risk. Thanks to the SoFFin-guaranteed bonds, liquidity is currently ensured for the next 18 to 24 months.

Our Tier I ratio remains at 10%, helped among other things by the further capital injection by our major shareholder Lone Star and the reduction in risk-weighted assets. We expect the Bank to be able to meet the statutory minimum requirements as well as the minimum requirements imposed by SoFFin and the Auditing Association of German Banks (including a Tier I ratio of 8%).

Meeting the EU conditions requires the Bank to commit considerable personnel and financial resources. This objective is expected to be achieved by September 2011 as planned. With total assets of € 35.7 billion at present, we are well on the way to achieving the required level of € 33.5 billion by next autumn. IKB Capital Corporation, New York, has been closed. Following the closure of the Luxembourg location and the reduction in certain asset positions,

we will be able to focus on our SME business to a greater extent with a streamlined organisation and lower costs.

Although the restructuring process involves expenses, we have succeeded in cutting administrative costs. A redundancy scheme and a reconciliation of interests have helped the Bank to restructure its operations with a more pronounced service focus. Operating expenses have been reduced by 30%. A special initiative has been launched to adjust expenses to reflect the lower volumes.

The key element in calibrating the business model is a focus on the needs of our business partners combined with increased cooperation. The response from our customers has reinforced our commitment to intensively pursuing IKB's core strength as a lending bank, including using development funds. To provide our customers with the most extensive support in achieving their business objectives, we are successively expanding our offering to include consultancy, underwriting and trading services as well as establishing the corresponding personnel capacities.

This new business focus will also be reflected in our segment reporting, which will be based on market activities rather than customer groups in future:

The "Credit Products" segment will report the Bank's lending and leasing business. The "Consultancy and Capital Markets" segment will comprise the Bank's consultancy activities in the fields of M&A, restructuring, structure/income optimisation and private equity. This also includes the Capital Markets sub-segment, which covers the capital market and risk management solutions range, the management of customer deposits and securitisation business for the Bank's customers. The Bank's trading activities are also reported in this segment.

The "Treasury and Investments" segment reports the earnings components and asset positions from asset liability management, structured investments and the Bank's remaining portfolio investments. Credit exposures that are no longer included in the strategic portfolio are also assigned to this segment.

The Bank has launched a sustainable programme of streamlining and fitness that is being implemented despite the ongoing difficult economic situation. The fundamental organisational changes have been initiated. The Bank has been recapitalised, risk management has been expanded, risks have been reduced and liquidity has been guaranteed. On this basis and with the support of our shareholders, business partners and employees, we are optimistic with regard to the challenges facing the Bank in future.

Düsseldorf, June 2010



Hans Jörg Schüttler  
Chairman of the Board of Managing Directors

## **Report of the Supervisory Board**

The past financial year 2009/10 was characterised by the realignment of the Bank's business model, the implementation of the conditions imposed on the Bank by the EU Commission in the course of the proceedings regarding state aids of the Federal Republic of Germany for IKB, the securing of liquidity by means of guarantees granted by the *Sonderfonds Finanzmarktstabilisierung* (SoFFin) (Financial Market Stabilisation Fund) including the conditions imposed in connection therewith as well as by internal restructurings, personnel measures and legal topics. In an environment that continues to be difficult, the Supervisory Board intensively monitored the Bank's economic development.

### **Supervisory Board activities in the financial year 2009/10**

In the period under review ending on 31 March 2010, the supervisory board fulfilled the obligations incumbent upon it in accordance with the relevant statutory provisions, the articles of association and its by-laws. It discussed the Group's course of business in five meetings.

The Supervisory Board obtained regular and intensive information from the Board of Managing Directors on the current economic situation of the Bank of the Group and, in particular, the risk situation of the Bank and the Group. The plenary meetings of the Supervisory Board regularly addressed, in particular, current economic measures, the liquidity and financial position of the Bank, risk management development, legal topics as well as the earnings development of the Bank, its divisions and the Group as a whole. In addition, the Board of Managing Directors provided regular, comprehensive reports on strategic development, the course of business and the Group's current situation.

In the meetings of the financial year 2009/10, the Supervisory Board received detailed reports on the liquidity situation of the Bank. In this context, measures were discussed in the Supervisory Board, in particular, for the securing of liquidity and the improvement of the liquidity situation, for example in the form of additional borrowings guaranteed by SoFFin, a significant increase of customer deposits, a reduction of the balance sheet total of the Bank as well as additional disposals of assets. Due to other obligations, the member of the Supervisory Board Dr Thomas Rabe was only able to attend one meeting of the Supervisory Board in the financial year 2009/10.

In its meeting of 20 August 2009, the Supervisory Board discussed the five-year-plan prepared by the Board of Managing Directors, considering in particular the conditions imposed by the EU and the effects of the SoFFin guarantees.

The Supervisory Board was also regularly informed of the status of the implementation of the conditions imposed on the Bank by the EU Commission in the course of the proceedings regarding state aids of the Federal Republic of Germany.

The Supervisory Board was also informed of the internal restructuring and personnel measures at the Bank and rendered advice in this respect. In the meeting of 14 July 2009, a detailed report was rendered on the reconciliation of interests agreement (*Interessenausgleich*) that had been negotiated for Germany which sets forth provisions for the reduction of 341 jobs in a process consisting of several steps.

During the financial year under review, the Supervisory Board evaluated the efficiency of its work by conducting a survey amongst its members regarding several aspects of their work in the Supervisory Board and the Supervisory Board Committees. The results of this efficiency audit will be taken into account regarding the future work of the Supervisory Board.

Furthermore, the Supervisory Board continued to investigate the crisis of the Company also in the financial year under review. In this respect, the Board is obliged to consider the interests of the Company, in particular with regard to the possible asserting of potential claims for damages. There are several parties who are asserting alleged claims against the Company in considerable amounts in various court proceedings. It cannot be ruled out that other parties will initiate similar court proceedings in the future. In the assessment of the Supervisory



Board, if potential claims for damages of the Company against members of corporate bodies holding office prior to the crisis of the Bank were asserted, this would create the significant risk that such third parties would be presented the means required in order to allege and assert even such claims that are without merit. This alone would mean a high risk for the company, especially since even in the case of a ruling in its favour the Company would only be entitled to claim reimbursement for a fraction of the defence expenses it incurred. If the Company were to lose in such court proceedings, considering the circumstances it would be unrealistic to expect to be able to assert recourse claims against the persons responsible other than to a small extent. All this is contrary to the interests of the Company. Therefore, at least for the time being, there can be no assertion of potential claims for damages in connection with the crisis of the Bank. In this context, one of the issues addressed in the meeting of the Supervisory Board of 4 March 2010, was the order of the Higher Regional Court of Düsseldorf of 9 December 2009. In this order, the Higher Regional Court denied the Bank's appeal against the judgement of the Regional Court of Düsseldorf for the appointment of Dr Ring as special auditor which had been rendered upon request of a number of shareholders. The Regional Court has appointed Dr Ring as special auditor in order to examine whether there have been breaches of duties on the part of former members of the Board of Managing Directors and of the Supervisory Board of the Bank in connection with the crisis of the Bank.

The Supervisory Board will have to address the issue of a potential assertion of claims for damages also in the current financial year, taking into account the interests of the Company, and will regularly reassess the interests of the Company in order to determine whether these interests allow for the assertion of potential claims for damages in connection with the crisis of the Bank.

### **Activities of the Supervisory Board committees**

In the financial year 2009/10, the Supervisory Board had an Executive Committee, a Finance and Audit Committee as well as a Nominations Committee.

The Executive Committee held a total of six meetings in the financial year 2009/10. The Executive Committee primarily discussed in advance the issues to be addressed at the meetings of the Supervisory Board. It focused on business development (including the approval of any transactions requiring approval) and discussed with the Board of Managing Directors the situation of the Bank and the Group in particular. On 5 February 2010, the Executive Committee of the Supervisory Board discussed the issue of a reduction of the SoFFin guarantees and approved the returning of SoFFin guarantees in an amount of € 2 billion that had been resolved by the Board of Managing Directors. In addition, the Executive Committee of the Supervisory Board prepared personnel decisions in the financial year under review.

The Finance and Audit Committee held a total of four meetings in the financial year 2009/10. The activities of the Finance and Audit Committee focused on monitoring accounting procedures, the efficiency of the internal controlling system, of the risk management and the internal audit system as well as the audit of the financial statements, in particular the independence of the auditor and the additional services provided by the auditor. It advised on the preparation of the single-entity and consolidated financial statements, the review of the report on the first six months of the financial year and the appointment of the auditor. The Chairman of the Finance and Audit Committee obtained the statement of independence from the auditors required by section 7.2.1 of the German Corporate Governance Code and commissioned the auditors to perform the audit. The Chairman and the auditors also concluded an agreement on the focal points of the audit and the audit fee.

The Nomination Committee held a meeting on 14 July 2009 at which it discussed the proposals to the Supervisory Board and the resolutions proposed to the General Meeting regarding the election of Supervisory Board members by the Annual General Meeting on 27 August 2009.

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

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

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

### **Corporate Governance**

The declaration of compliance dated 30 June 2010 and further information on this topic can be found in the "Declaration regarding Corporate Governance/Corporate Governance" section of this annual report.

No conflicts of interest arose in the course of the deliberations of the Supervisory Board in the financial year 2009/10 and to date.

### **Review and approval of the single-entity and consolidated financial statements and dependent company report for the financial year 2009/10**

The Board of Managing Directors prepared the single-entity and consolidated financial statements and the management reports for IKB AG and the Group. The auditors, PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft (PwC) have audited the single-entity and consolidated financial statements for IKB AG and the Group and issued both sets of financial statements with unqualified audit opinions. The single-entity financial statements of IKB AG have been prepared in accordance with the German Commercial Code (*Handelsgesetzbuch*; HGB), and the consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) and the supplementary provisions of commercial law applicable pursuant to section 315a (1) of the HGB. The report on business relationships with affiliated companies for the financial year 2009/10, 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.“

The members of the Supervisory Board reviewed the annual financial statements in the meeting held on 30 June 2010. The auditors participated in the deliberations on the single-entity and consolidated financial statements by the Supervisory Board and the Finance and Audit Committee on 30 June 2010. The auditors reported on the key findings of their audit including any deficiencies found in the internal controlling and risk management systems of the Bank in respect of the accounting procedures, answered questions and provided additional information. In addition, the auditors informed the Supervisory Board and the Finance and Audit Committee of any circumstances giving reason to doubt their being unprejudiced as well as of all services rendered by them in addition to the audit of the financial statements. No objections were raised by the Supervisory Board based on the results of the examination of the audit by the Finance and Audit Committee and its own examination of the single-entity and consolidated financial statements and the management reports. The Supervisory Board therefore approves the results of the audit of the financial statements.

At its meeting on 30 June 2010, the Supervisory Board approved the single-entity and consolidated financial statements prepared by the Board of Managing Directors by way of resolutions dated 8 June 2010 and 24 June 2010, respectively. The annual financial statements have thus been adopted. No objections were raised with regard to the declaration by the Board of Managing Directors at the end of the dependent company report. The Supervisory Board duly noted and approved the auditors' reports.

### **Personnel changes (Supervisory Board)**

Dr-Ing. E.h. Eberhard Reuther stepped down from the Supervisory Board with effect as of 27 April 2009. By order of the Local Court of Düsseldorf, Dr Thomas Rabe, Berlin, Member of the Management Board of Bertelsmann AG, was appointed a member of the Supervisory Board with effect as of 23 June 2009.

Dr Thomas Rabe and Messrs. Dr Karsten von Köller and Dr Claus Nolting, whose terms of office expired, in each case, at the close of the Annual General Meeting of 27 August 2009 were re-elected to the Supervisory Board by resolution of the Annual General Meeting of 27 August 2009. With regard to employee representatives, Mr Wolfgang Bouché was re-elected and Ms Carmen Teufel was newly elected to the Supervisory Board, while Dr Carola Steingraber's term of office expired as scheduled at the end of the Annual General Meeting on 27 August 2009.

After the Annual General Meeting on 27 August 2009, the Supervisory Board held its constituent meeting, in which Dr Karsten von Köller was elected as the Deputy Chairman of the Supervisory Board.

The Finance and Audit Committee held its constituent meeting on 27 August 2009. Dr Karsten von Köller was re-elected as the chairman of the Finance and Audit Committee.

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

### **Personnel changes (Board of Managing Directors)**

In the course of the current financial year, the number of members of the Board of Managing Directors of the Bank was reduced to four, after Dr Reinhard Grzesik had stepped down from the Board with effect as of 3 July 2009, at his own request and for personal reasons. The responsibilities of Dr Grzesik (Finance, Tax, Real Property and IT) were assumed by Dr Dieter Glüder. The responsibilities previously attended to by Dr Glüder on the Board of Managing Directors of the Bank were allocated to the members of the Board of Managing Directors, Messrs Hans Jörg Schüttler and Dr Michael Wiedmann, who will now assume these responsibilities in addition to their existing areas of responsibility.

In its meeting of 9 October 2009, the Supervisory Board extended the term of Hans Jörg Schüttler until the expiry of 31 October 2013, the term of Dr Dieter Glüder until the expiry of 15 October 2013 and the term of Dr Michael Wiedmann until the expiry of 29 February 2014, in each case with effect as of 15 October 2009. Mr Schüttler was again appointed as the Chairman of the Board of Managing Directors. By resolution of 17 November 2009, Mr Claus Momburg was reappointed as a member of the Board of Managing Directors until 10 November 2015.

During the financial year under review, the Supervisory Board also deliberated on the limitation of the remuneration of the members of the Board of Managing Directors to € 500,000 p.a. each, which is called for as a result of the measures conducted by SoFFin. In accordance with the requirements of SoFFin, the acting members of the Board of Managing Directors, Messrs Hans Jörg Schüttler, Dr Dieter Glüder, Claus Momburg and Dr Michael Wiedmann, have waived their claims to payments exceeding the amount of € 500,000 p.a. (not including ancillary benefits) for the period from 3 July 2009 until 31 December 2010. This also applied to the variable remuneration for the 2008/09 financial year.

## **IKB (Group) Annual Report 2009/2010**

The Supervisory Board would like to thank the acting members of the Board of Managing Directors in the financial year 2009/10 and all employees for their personal commitment and contributions.

Düsseldorf, 30 June 2010  
The Supervisory Board



Bruno Scherrer  
Chairman

*Supervisory Board meetings in the financial year 2009/10*

| Date of meeting | Subject matter of deliberations   |
|-----------------|---|
| 14 July 2009    | <ul style="list-style-type: none"> <li>▪ IKB AG's current business development</li> <li>▪ Single-entity and consolidated financial statements as per 31 March 2009, and the dependent company report</li> <li>▪ Dashboard Group risk as per 31 March 2009</li> <li>▪ Report from group internal audit for the 2008/09 financial year</li> <li>▪ Auditors' report on the audit of the single-entity and consolidated financial statements, including management reports, for IKB AG and the Group as well as of the dependent company report for the 2008/09 financial year</li> <li>▪ Report of the Finance and Audit Committee on the preparation of the audit of the single-entity and consolidated financial statements, including management reports, for IKB AG and the Group as well as of the dependent company report for the 2008/09 financial year</li> <li>▪ Approval of the single-entity financial statements, including the management report, and of the consolidated financial statements, including the group management report, and approval of the dependent company report for the 2008/09 financial year</li> <li>▪ Report of the Supervisory Board</li> <li>▪ Corporate Governance report, including the declaration of compliance</li> <li>▪ Proposals for the agenda of the Annual General Meeting on 27 August 2009</li> <li>▪ Amendment of the by-laws for the Supervisory Board in order to reflect new legal provisions</li> <li>▪ New appointment or reappointment of the members of the Advisory Board</li> <li>▪ Matters concerning the members of the Board of Managing Directors               <ul style="list-style-type: none"> <li>– Personnel matters concerning the Board of Managing Directors (adaptation of remuneration of managing directors in accordance with SoFFin requirements)</li> <li>– Forensics</li> </ul> </li> <li>▪ Miscellaneous               <ul style="list-style-type: none"> <li>– Criminal law insurance coverage</li> <li>– New schedule of responsibilities for the Board of Managing Directors</li> <li>– Declaration of commitment SoFFin</li> </ul> </li> </ul> |
| 20 August 2009  | <ul style="list-style-type: none"> <li>▪ IKB's current development</li> <li>▪ Preparation of the Annual General Meeting on 27 August 2009</li> <li>▪ New appointment of a member of the Advisory Board</li> <li>▪ Approval of the declaration of commitment issued by the Board of Managing Directors in respect of the SoFFin guarantee</li> <li>▪ Matters concerning the Board of Managing Directors               <ul style="list-style-type: none"> <li>– Amendment of service agreements of managing directors</li> </ul> </li> </ul>  |
| 27 August 2009  | <ul style="list-style-type: none"> <li>▪ Election of a Deputy Chairman of the Supervisory Board</li> <li>▪ Election of one member of the Finance and Audit Committee each from both the group of shareholder representatives and the group of employee representatives</li> <li>▪ Election of two members of the Nomination Committee from the group of shareholder representatives</li> </ul>  |

|                       |   |
|-----------------------|---|
| <p>9 October 2009</p> | <ul style="list-style-type: none"> <li>▪ General development of the Bank</li> <li>▪ Personnel matters regarding the Board of Managing Directors</li> <li>▪ Miscellaneous             <ul style="list-style-type: none"> <li>– Supervisory Board request</li> <li>– Insurances</li> <li>– Events 2010</li> </ul> </li> </ul>   |
| <p>4 March 2010</p>   | <ul style="list-style-type: none"> <li>▪ General development of the Bank</li> <li>▪ Current business and risk strategy</li> <li>▪ Dashboard Group risk as per 31 December 2009</li> <li>▪ Interim consolidated financial statements as per 31 December 2009 and segment reporting</li> <li>▪ German Accounting Law Modernisation Act (<i>Bilanzrechtsmodernisierungsgesetz – BilMoG</i>)</li> <li>▪ Amendment of the by-laws for the Board of Managing Directors and the Supervisory Board</li> <li>▪ Forensic investigation</li> <li>▪ Efficiency evaluation of the Supervisory Board</li> <li>▪ Miscellaneous             <ul style="list-style-type: none"> <li>– Amendment of the D&amp;O insurance of the Board of Managing Directors</li> </ul> </li> </ul> |

*Meetings of the Executive Committee of the Supervisory Board in the financial year 2009/10*

| Date of meeting | Subject matter of deliberations  |
|-----------------|--|
| 11 May 2009     | <ul style="list-style-type: none"> <li>▪ Matters concerning the Board of Managing Directors                             <ul style="list-style-type: none"> <li>– Determination of the variable remuneration for the 2008/09 financial year</li> </ul> </li> <li>▪ Miscellaneous                             <ul style="list-style-type: none"> <li>– Actions for avoidance in respect of the extraordinary general meeting of 25 March 2009</li> </ul> </li> </ul>   |
| 14 July 2009    | <ul style="list-style-type: none"> <li>▪ IKB AG's current business development</li> <li>▪ Report from group internal audit for the 2008/09 financial year</li> <li>▪ Preparation of the Supervisory Board meeting on 14 July 2009</li> <li>▪ Matters concerning the Board of Managing Directors                             <ul style="list-style-type: none"> <li>– Personnel matters</li> <li>– Forensics</li> </ul> </li> <li>▪ Miscellaneous                             <ul style="list-style-type: none"> <li>– New schedule of responsibilities for the Board of Managing Directors</li> <li>– Criminal law insurance coverage</li> </ul> </li> </ul> |
| 20 August 2009  | <ul style="list-style-type: none"> <li>▪ Preparation of the Annual General Meeting</li> <li>▪ Preparation of the Supervisory Board meeting</li> <li>▪ Matters concerning the Board of Managing Directors                             <ul style="list-style-type: none"> <li>– Amendment of service agreements of managing directors</li> </ul> </li> </ul>   |
| 25 January 2010 | <ul style="list-style-type: none"> <li>▪ Legal questions in connection with lawsuits regarding capital markets law</li> </ul>  |
| 5 February 2010 | <ul style="list-style-type: none"> <li>▪ Liquidity situation and procurement of liquidity</li> </ul>   |
| 4 March 2010    | <ul style="list-style-type: none"> <li>▪ General development of the bank</li> <li>▪ Current business and risk strategy</li> <li>▪ Amendment of the by-laws for the Board of Managing Directors and the Supervisory Board</li> <li>▪ Forensic investigation</li> <li>▪ Efficiency evaluation of the Supervisory Board</li> <li>▪ Miscellaneous                             <ul style="list-style-type: none"> <li>– Amendment of the D&amp;O insurance of the Board of Managing Directors</li> </ul> </li> </ul>  |

***Meetings of the Finance and Audit Committee in the financial year 2009/10***

| <b>Date of meeting</b> | <b>Subject matter of deliberations</b>   |
|------------------------|--|
| 14 July 2009           | <ul style="list-style-type: none"> <li>▪ Single-entity and consolidated financial statements as per 31 March 2009 and dependant company report</li> <li>▪ Dashboard Group risk as per 31 March 2009</li> <li>▪ Auditor's report</li> <li>▪ Proposal for the election of the auditor for the single-entity and consolidated financial statements for the financial year 2009/10 as well as of the auditor for the review of the abbreviated financial statements and the interim management report for the first half of the financial year 2009/10</li> <li>▪ Authorisation of the Chairman of the Finance and Audit Committee for the commissioning of the auditors to perform the audit</li> </ul> |
| 27 August 2009         | <ul style="list-style-type: none"> <li>▪ Election of the Chairman of the Finance and Audit Committee</li> </ul>  |
| 9 December 2009        | <ul style="list-style-type: none"> <li>▪ Accounting 2.0</li> <li>▪ Interim consolidated financial statements as per 30 September 2009</li> <li>▪ Auditor's report on the review of the interim consolidated financial statements as per 30 September 2009</li> <li>▪ Focus of the audit for the 2009/10 financial year.</li> <li>▪ Dashboard Group risk as per 30 September 2009</li> <li>▪ Miscellaneous</li> </ul>   |
| 4 March 2010           | <ul style="list-style-type: none"> <li>▪ Dashboard Group risk as per 31 December 2009</li> <li>▪ Interim consolidated financial statements as per 31 December 2009 and segment reporting</li> <li>▪ German Accounting Law Modernisation Act (<i>Bilanzrechtsmodernisierungsgesetz – BilMoG</i>)</li> <li>▪ Miscellaneous</li> </ul>  |

***Meetings of the Nomination Committee in the financial year 2009/10***

| <b>Date of meeting</b> | <b>Subject matter of deliberations</b>  |
|------------------------|---|
| 14 July 2009           | <ul style="list-style-type: none"> <li>▪ Proposals to the Supervisory Board for the election of Supervisory Board members by the Annual General Meeting on 27 August 2009</li> <li>▪ Miscellaneous</li> </ul> |



## **Declaration on corporate governance**

In the declaration below, the Board of Managing Directors – also on behalf of the Supervisory Board – reports on the corporate governance of the company in accordance with section 289a HGB and item 3.10 of the German Corporate Governance Code (GCGC).

### **Declaration of compliance in accordance with section 161 AktG**

Each year, the Board of Managing Directors and the Supervisory Board of IKB declare that the recommendations of the Government Commission on the German Corporate Governance Code – marked in the text of the Code by the use of the word “shall” – were and are complied with or which recommendations were or are not complied with and for what reasons (section 161 (1) sentence 1 AktG). The last declaration of compliance by the Board of Managing Directors and the Supervisory Board was dated 30 June 2010. Together with the declarations of compliance for earlier years, it can be accessed at all times on the website of IKB ([www.ikb.de](http://www.ikb.de)) under Investor Relations/Corporate Governance/Declaration of Compliance (section 161 (2) AktG). It reads as follows:

“In accordance with section 161 AktG, the Board of Managing Directors and the Supervisory Board of IKB Deutsche Industriebank AG declare that the recommendations of the Government Commission on the German Corporate Governance Code (version dated 6 June 2008) published by the Federal Ministry of Justice in the official section of the electronic Federal Gazette on 8 August 2008 were complied with between the issue of the last declaration on 14 July 2009 and the effective date of the new version of the Code on 5 August 2009 with the following exceptions:

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

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

The Board of Managing Directors and the Supervisory Board of IKB Deutsche Industriebank AG also declare in accordance with section 161 AktG that the recommendations of the Government Commission on the German Corporate Governance Code (version dated 18 June 2009) have been complied with since their publication in the electronic Federal Gazette on 5 August 2009 with the following exceptions:

- Item 3.8 (3): Agreement of a deductible of at least 10% of the loss up to at least the amount of one and a half times the fixed annual compensation in the event of the conclusion of D&O insurance for the Supervisory Board

There is D&O insurance for the members of the Supervisory Board that does not provide for a deductible. As responsible action is a self-evident responsibility for all members of the company’s executive bodies, a deductible for the Supervisory Board is not considered to be necessary.

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

The allocation of responsibilities of the members of the Board of Managing Directors of IKB is regulated separately in an executive organisational chart rather than in the by-laws of the Board of Managing Directors. The allocation of responsibilities is proposed by the Chairman of the Board of Managing Directors and passed, amended and cancelled by

way of resolution by the entire Board of Managing Directors. We consider this method to be more flexible.

- Item 6.3 sentence 2: Provision to shareholders of all new facts made known to financial analysts and similar addressees

In individual cases, key figures published in the half-yearly financial report for 2009/10 were revised on a nine-monthly basis and made available to financial analysts and similar addressees in confidence. Due to the reduced nine-monthly reporting, these key figures were not published in the announcement on the first nine months of the financial year as of 31 December 2009; however, they are included in the 2009/10 Annual Report in an updated form as of 31 March 2010. In addition, new and unpublished facts were disclosed in confidence in discussions with rating agencies relating directly to the Bank's rating due to the importance of this rating for IKB's ability to act on the capital markets and its specific restructuring situation.

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

Due to scheduling considerations, the company did not comply with this recommendation in connection with the half-yearly financial report for 2009/10 and the interim report on the first nine months of the year; these financial statements were only discussed by the Supervisory Board and its Audit Committee after publication.

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

The consolidated financial statements for the 2009/10 financial year were not published within 90 days of the end of the financial year. The interim announcement as of 30 June 2009 (first quarter) was published on 24 August 2009, the first half-yearly financial report for 2009/10 on 26 November 2009 and the interim announcement as of 31 December 2009 (third quarter) on 26 February 2010. Due to a necessary adjustment, the half-yearly financial report for 2009/10 was republished on 5 February 2010 as the amended half-yearly financial report for 2009/10. The reasons for these delays were the special situation at IKB since the start of the crisis at the end of July 2007 and the special accounting requirements this entailed.

The Board of Managing Directors and the Supervisory Board also declare that IKB Deutsche Industriebank AG will comply with the recommendations of the Government Commission on the German Corporate Governance Code (version dated 18 June 2009) with the exception of items 3.8 (3), 4.2.1 sentence 2, 6.3 sentence 2 and 7.1.2 sentence 4 var. 2 for the reasons described above.

Düsseldorf, 30 June 2010

For the Supervisory Board  
of IKB Deutsche Industriebank AG



Bruno Scherrer

For the Board of Managing Directors  
of IKB Deutsche Industriebank AG



Hans Jörg Schüttler

### **Relevant disclosures on corporate governance practices**

#### ***Suggestions of the German Corporate Governance Code***

IKB complies with all the suggestions of the German Corporate Governance Code – marked in the text of the Code by the use of terms such as “should” or “can” – and deviates from these only in the following respects:

- The representatives appointed by IKB to exercise shareholders' voting rights in accordance with instructions are only reachable by the shareholders present during the Annual General Meeting (item 2.3.3 sentence 3 clause 2 GCGC). Shareholders not taking part in the Annual General Meeting can engage the representatives before the Annual General Meeting.
- Only parts of the Annual General Meeting, namely until the end of the opening speeches by the Chairman of the Meeting and the Chairman of the Board of Managing Directors, are broadcast live on the website of IKB ([www.ikb.de](http://www.ikb.de)) (item 2.3.4 GCGC).

#### ***Code of Conduct***

The Code of Conduct applies to all employees of the IKB Group. It describes the moral concepts and beliefs of IKB. The Code of Conduct was developed as a binding frame of reference for day-to-day business to guarantee a high level of credibility, integrity, dependability and focus in all activities and at all times. Its principles include the minimum requirements for the conduct of each individual. The current version of the Code of Conduct can be found on the website of IKB ([www.ikb.de](http://www.ikb.de)) under Investor Relations/Corporate Governance.

Otherwise, there are no relevant corporate governance practices at IKB within the meaning of section 289a (2) no. 2 HGB that exceed the legal requirements.

#### **Procedures of the Board of Managing Directors and the Supervisory Board**

In accordance with German stock corporation law, IKB's management and control structure is divided into the two levels of its Board of Managing Directors and its Supervisory Board. Corporate governance is based on close, constructive and trusting cooperation between the Board of Managing Directors and the Supervisory Board and an intensive and constant flow of information. This is in line with the common understanding of good corporate governance of the Board of Managing Directors and the Supervisory Board.

#### ***Management of the company***

The Board of Managing Directors develops the business and risk strategy, ensures its implementation in coordination with the Supervisory Board and manages the company's business under its own responsibility. In doing so it complies with the provisions of law, the Articles of Association, the by-laws passed by the Supervisory Board, the executive organisation chart and the respective service contracts of its individual members. Moreover, it is bound to the company's best interests and required to increase its long-term enterprise value. In the past financial year, the by-laws of the Board of Managing Directors were adjusted in line with the changing recommendations of the German Corporate Governance Code and the changing regulatory requirements for banks of the German Financial Supervisory Authority (BaFin). The principle of overall responsibility applies, i.e. the members of the Board of Managing Directors are jointly responsible for management. However, each member of the Board of Managing Directors is also assigned responsibilities for specific departments.

The Board of Managing Directors is appointed by the Supervisory Board. It currently consists of four members. Further information on the individual members of the Board of Managing Directors and their specific areas of responsibility can be found in the Group management

report under “Significant events in the reporting period” and in the notes to the consolidated financial statements (note 81), among other things.

The Board of Managing Directors must report to the Supervisory Board regularly, comprehensively and in a timely manner on all key issues of business development, strategy, corporate planning, the income situation, profitability, compliance, the risk situation, risk management and risk controlling. It explains and provides reasons for deviations in business progress from plans and targets. The Board of Managing Directors also reports to the Chairman of the Supervisory Board as required on other important occasions. Under the by-laws for the Board of Managing Directors prepared by the Supervisory Board, transactions of fundamental importance such as issuing bonds or concluding company agreements require the approval of the Supervisory Board.

In the 2009/10 financial year and as of the current date, there were no personal conflicts of interest between the members of the Board of Managing Directors and the company. The mandates of the members of the Board of Managing Directors and transactions with related parties are presented in the notes to the consolidated financial statements.

Since 5 August 2009, the German Stock Corporation Act has provided that a deductible of at least 10% of damages up to at least one and a half times the fixed annual remuneration of a board member must be provided for in the event that a German stock corporation takes out insurance to protect a member of its management board against risks arising from his or her professional work. Under prevailing transitional law, this also applies from 1 July 2010 onwards to such insurance policies taken out before 5 August 2009. IKB agreed appropriate deductibles for its existing insurance policies on time with effect from 1 July 2010.

### **Company controlling**

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

In accordance with the *Drittelbeteiligungsgesetz* (German One-third Employee Participation Act), the Supervisory Board is composed two-thirds of shareholder representatives and one-third of employee representatives. The shareholder representatives are elected by the Annual General Meeting by way of individual elections. Specifically, the Supervisory Board consists of ten shareholder representatives and five employee representatives. Details of the composition of the Supervisory Board and changes in it in the past financial year can be found in the report by the Supervisory Board to the Annual General Meeting and in note 81 of the notes to the consolidated financial statements.

The Supervisory Board meets at least twice per calendar half-year and, if possible, at least once per calendar quarter. It is quorate if all its members are properly invited to a meeting and more than half of the total members of which it must consist in line with the Articles of Association participate in the resolution. Unless stated otherwise by law or the Articles of Association, the Supervisory Board makes decision by way of simple majority of votes. The specific procedures of the Supervisory Board are regulated in the by-laws that it issues itself. In the past financial year, the by-laws of the Supervisory Board were adjusted in line with the provisions of the *Bilanzrechtsmodernisierungsgesetz* (*BilMoG* – German Act to Modernise Accounting Law), the *Gesetz zur Angemessenheit der Vorstandsvergütung* (*VorstAG* – German Act on the Appropriateness of Management Remuneration), the changing recommendations of the German Corporate Governance Code and the changing regulatory requirements for banks of BaFin. To facilitate the efficient performance of its work the Supervisory Board has formed a number of committees, the exact composition and procedures of which are reported on in a separate section of this declaration on corporate governance. Further information on the concrete activities of the Supervisory Board and its committees in the past financial year can be found in the report by the Supervisory Board to the Annual General Meeting.

The Supervisory Board has a sufficient number of members who are independent within the meaning of item 5.4.2 GCGC, i.e. they have no business or personal relationships with the company or its Board of Managing Directors. However, some of the members of the Supervisory Board in office in the past financial year are related parties of other companies with which IKB maintains business relations. Transactions between IKB and these companies are always performed under arm's length conditions. In our opinion, these transactions had or have no influence on the independence of the members of the Supervisory Board related to these companies. The mandates of the members of the Supervisory Board and transactions with related parties are presented in the notes to the consolidated financial statements. There were and are no consultancy or other service and work contracts requiring approval between Supervisory Board members and IKB or other Group companies.

No conflicts of interest arose in the discussions of the Supervisory Board in the 2009/10 financial year or as of the current date.

In its meeting on 4 March 2010, the Supervisory Board resolved the performance of an examination of its efficiency in accordance with the recommendation of item 5.6 GCGC. After the meeting, members of the Supervisory Board and its committees were sent appropriate forms that were completed, returned and analysed. The results are to be presented in the meeting of the Supervisory Board on 30 June 2010.

### ***Handling of risks***

The Board of Managing Directors is responsible for risk management at IKB. Based on business and risk strategy and risk-bearing capacity, it determines principles for risk management policy which, together with the limit structure, are firmly established in the risk strategies of IKB. When establishing these principles, the Board of Managing Directors also takes into consideration the quality of risk management processes, particularly monitoring. In the 2009/10 financial year, the Finance and Audit Committee dealt intensively with the monitoring of the accounting process, the effectiveness of the internal control system and the risk management system.

In the past financial year, the Supervisory Board and the Finance and Audit Committee received regular reports from the Board of Managing Directors on the risk situation of IKB and the Group as a whole. The Finance and Audit Committee also discussed accounting issues, including in particular the ongoing development and renovation of the software platforms and tools used in accounting and the implementation of new regulatory projects.

### ***Accounting and audit of the financial statements***

The IKB Group prepares its accounts in line with the International Financial Reporting Standards (IFRS); the annual financial statements of IKB AG are prepared in line with the provisions of the German Commercial Code (HGB). In accordance with the provisions of stock corporation law, the auditor is elected by the Annual General Meeting. The Finance and Audit Committee prepared the proposal of the Supervisory Board for the Annual General Meeting to elect the auditor for the 2009/10 financial year and the auditor for the review of the condensed interim consolidated financial statements and the interim Group management report for the first half of the 2009/10 financial year. It also obtained the declaration by the intended auditor recommended by the German Corporate Governance Code on possible grounds for disqualification or impartiality (item 7.2.1 (1) GCGC) and all agreements made with it in the context of granting the audit mandate (items 7.2.1 (2), 7.2.3 (1) and (2) GCGC).

As proposed by the Supervisory Board, PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Düsseldorf, was appointed by the Annual General Meeting of IKB on 27 August 2009 as the auditor of the annual and consolidated financial statements for the 2009/10 financial year and the auditor for the review of the condensed financial statements and the interim management report for the first half of the 2009/10 financial year.

### ***Transparency***

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

### ***Compliance as a central management task of the Board of Managing Directors***

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

The implementation of and compliance with the German Corporate Governance Code is monitored by a Corporate Governance Officer appointed by the Board of Managing Directors by arrangement with the Chairman of the Supervisory Board. In the period from 6 February 2008 to 31 March 2010 inclusively, the Corporate Governance Officer was Mr Marcus Jacob, head of the Office of the Board of Managing Directors, Company and Group Law and Compliance central division. Effective 1 April 2010, Ms Christina Wolff, head of the Office of the Board of Managing Directors, Bank Law and Compliance, was appointed as the new Corporate Governance Officer.

### ***The Annual General Meeting***

Decisions on issues relating to management are essentially the preserve of the Board of Managing Directors, which is advised and monitored by the Supervisory Board. The Annual General Meeting can only make decisions on management issues when the Board of Managing Directors demands it (section 119 (2) AktG). However, decisions made by the Annual General Meeting include the appointment of shareholder representatives to the Supervisory Board, the appropriation of net retained profits, the formal discharge of the members of the Board of Managing Directors and the Supervisory Board and the appointment of the auditor. Decisions on amendments to the Articles of Association, which contains binding rules for the Board of Managing Directors and the Supervisory Board, are also the responsibility of the Annual General Meeting alone. The individual shareholders of IKB exercise their rights, including in particular their voting rights, in the Annual General Meeting. In accordance with the recommendation of item 6.7 GCGC, shareholders are notified of key dates by a financial calendar published on the website of IKB ([www.ikb.de](http://www.ikb.de)). Shareholders can exercise their voting rights themselves in the Annual General Meeting or have them exercised by a representative of the company appointed to exercise shareholders' voting rights in accordance with instructions (item 2.3.3 sentence 3 clause 1 GCGC).

### ***Composition and procedures of the committees of the Board of Managing Directors***

The Board of Managing Directors of IKB has not formed any committees.

### ***Composition and procedures of the committees of the Supervisory Board***

The Supervisory Board of IKB has formed committees to discharge its responsibilities. The composition and procedures of these committees are described below.

### ***Executive Committee***

In accordance with the by-laws of the Supervisory Board, the Executive Committee grants its approval for various transactions for which the Board of Managing Directors requires the approval of the Supervisory Board to perform, e.g. – possibly under additional conditions as well – the acquisition and sale of real estate, investments in or the formation of companies, granting major loans or the disposal of treasury shares. By virtue of the authority granted to it

to act in urgent matters, the Executive Committee makes decisions instead of the Supervisory Board as a whole in all cases in which it appears unacceptable to delay measures necessary to prevent significant disadvantage to the company until the next meeting of the Supervisory Board and a decision by the Supervisory Board cannot be arrived at in the time available. The Executive Committee met a total of six times in the 2009/10 financial year.

The members of the Executive Committee in the past financial year were as follows:

- Bruno Scherrer (Chairman)  
Head of European Investments, Lone Star Management Europe Ltd., resident in London
- Dr Karsten von Köller  
Managing Director of Lone Star Germany GmbH, resident in Frankfurt/Main
- Dr Andreas Tuczka  
Head of European Financial Institutions, Lone Star Management Europe Ltd., resident in London
- Ulrich Wernecke  
Works Council of IKB Deutsche Industriebank AG, resident in Rommerskirchen

### ***Finance and Audit Committee***

The responsibilities of the Finance and Audit Committee include preparing the audit of the annual and consolidated financial statements, providing the Supervisory Board with a recommendation on the election of the auditor, issuing the audit engagement to the auditor and agreeing its remuneration. Furthermore, the Finance and Audit Committee deals with the monitoring of accounting, the effectiveness of the internal control and audit systems, risk management and compliance issues. By the time of its next meeting at the latest, the Chairman of the Finance and Audit Committee shall inform the Supervisory Board of information regarding risks significant to the Supervisory Board that the committee has received from the Board of Managing Directors. Moreover, the Chairman of the Finance and Audit Committee is authorised to obtain information directly from the head of the Group Audit central division with the involvement of the Chairman of the Board of Managing Directors. The Finance and Audit Committee met four times in the 2009/10 financial year.

The members of the Finance and Audit Committee in the past financial year were as follows:

- Dr Karsten von Köller (Chairman)  
Managing Director of Lone Star Germany GmbH, resident in Frankfurt/Main
- Wolfgang Bouché  
Works Council of IKB Deutsche Industriebank AG, resident in Rheinberg
- Dr Claus Nolting  
Chairman of the Board of Corealcredit Bank AG, resident in Munich
- Bruno Scherrer  
Head of European Investments, Lone Star Management Europe Ltd., resident in London

**Nomination Committee**

The Nomination Committee must propose suitable candidates for Supervisory Board mandates to the Supervisory Board with regard to the election proposals to be made to the Annual General Meeting. The Nomination Committee met once in the 2009/10 financial year.

The members of the Nomination Committee in the past financial year were as follows:

- Bruno Scherrer (Chairman)  
Head of European Investments, Lone Star Management Europe Ltd., resident in London
- Dr Karsten von Köller  
Managing Director of Lone Star Germany GmbH, resident in Frankfurt/Main
- Dr Claus Nolting  
Chairman of the Board of Corealcredit Bank AG, resident in Munich

**Remuneration of the Board of Managing Directors and the Supervisory Board**

The compensation report is included in the Group management report (section 8) as an element of the corporate governance report. In accordance with item 4.2.5 GCGC, it also contains generally comprehensible explanations of the remuneration system for the members of the Board of Managing Directors and disclosures on the nature of fringe benefits provided by the company. Furthermore, it reports the remuneration of members of the Supervisory Board, individually and broken down by separate components, in accordance with item 5.4.6 (3) sentence 1 GCGC.

**Shareholdings of members of executive bodies**

Persons with management responsibilities, including in particular the members of the Board of Managing Directors and the Supervisory Board of IKB and persons closely related to them are legally required in line with section 15a WpHG to disclose transactions with IKB shares or financial instruments based on them if the value of the transactions performed by the member and the related person within a calendar year amounts to or exceeds a total of € 5,000. No such notifications were received in the reporting year. Similarly, there were no notifications of the ownership of shares reportable in accordance with item 6.6 GCGC as at 31 March 2010.

**Stock option programmes and similar securities-based incentive systems**

There are no stock option programmes or similar securities-based incentive systems at IKB.

Düsseldorf, 30 June 2010

For the Supervisory Board  
of IKB Deutsche Industriebank AG



Bruno Scherrer

For the Board of Managing Directors  
of IKB Deutsche Industriebank AG



Hans Jörg Schüttler



## Group Management Report

## **1. General conditions**

The German economy experienced the worst crash in post-War history in the calendar year of 2009. While the situation has improved since the summer of last year and the recession has been stopped, economic output for the year as a whole declined by 5% owing to the severe slump at the start of 2009. After adjustment for inflation, seasonal and calendar effects, gross domestic product (GDP) increased by 0.2% quarter-on-quarter in the first three months of 2010. Thus, the rising trend in the economy continued in spite of the relatively long and harsh winter.

### **General conditions for the core business**

The German economy was hit particularly hard in the global recession on account of its high dependence on exports, which decreased by almost 15% in the 2009 calendar year. The more restrictive financing conditions entailed by the crisis also greatly curbed demand for capital goods. Investment in equipment – a key indicator for IKB's lending business – slumped by 20%, almost returning to a level last seen in 2005. The tough environment was also reflected in the tense economic situation at a large number of companies, as shown by the 16% increase in business insolvencies to 34,300 (figures according to Creditreform).

Gross domestic product also crashed in IKB's main foreign markets in 2009 (UK -4.9%, France -2.2%, Italy -5.0%, Spain -3.6%). Utilisation of production capacity fell to a record low in many countries as a result of the global recession. Financing conditions were also difficult for companies throughout Europe. In light of this, capital expenditure proved weak in all major foreign markets.

In Germany especially it was feared that an insufficient credit supply could impair the recovery of the economy. While research institutes have apparently seen no indications of a general "credit crunch" to date, credit volumes in Germany have been declining since the fourth quarter of 2009 after expanding at double-digit rates in 2008. The research institutes are attributing this mainly to weak economic development. Other factors, such as limited access to the credit market, are more frequently cited as reasons for the deterioration in credit-worthiness.

The situation on the finance markets had increasingly begun to relax from the summer half-year of 2009, but still remained highly fragile. The market for corporate bonds and the equities market benefited in particular from this easing. Risk premiums also declined for banks – but not proportionally. While the situation on the money market normalised, medium-term borrowing options remained limited for banks. Other capital markets, such as the securitisation market which are of great importance for the supply of credit, have moved little so far.

Since 2008, the financial and economic crisis has been punctuated by bouts of loss of confidence in currencies and government securities issued by European countries. However, the surprising increase in the deficit forecast by the Greek government in October 2009 – and the bailout by the IMF and the EU to prevent Greece's insolvency in May 2010 – again triggered widespread anxiety on the financial markets. Greece is not the only country to have experienced a dramatic rise in financing costs; a number of other euro zone member states have also faced higher risk premiums in returns on government bonds. Financial investors apparently feel that these countries are also at risk of bankruptcy. In turn, this has shaken confidence in the stability of the common currency: The euro has lost ground significantly against the US dollar since October 2009. The grave, crisis-like market response has not subsided despite the announcement of a high-volume safety net for EMU states.

The high level of debt for many countries is seen as a threat to retaining the euro. The comprehensive budget consolidation projects announced by the euro member states could harm the economic recovery just as much as the foreseeable massive government borrowing in the coming years. A retreat from expansive monetary policy and from government rescue programmes is also still a factor adding to uncertainty.

Lending by banks continues to be hampered by various factors, some of which structural in nature. These include – as a result of the economic slump – further defaults and negative rating migrations within banks' credit portfolios, placing greater strain on their equity resources in the current calendar year. Furthermore, there is considerable doubt regarding a deluge of planned regulations that have begun to enter into force. These regulations are geared towards raising equity requirements and tougher liquidity requirements, restricting the asset volume of given equity (leverage) and further regulation of the use of derivatives and the trading book. A levy on banks and a financial market transactions tax are also being considered.

### IKB's strategic positioning

IKB Deutsche Industriebank AG is a specialist bank for corporate lending in Germany and Europe. Its target groups are medium-sized companies; IKB also works with private equity companies. As at 31 March 2010, the Bank held an 8% share in the market for long-term corporate loans to the German manufacturing industry. IKB's main competitors are larger banks in Germany and abroad operating on a market undergoing substantial upheaval.

In economic terms, IKB AG (the "Bank") is by far the most important member of the IKB Group; other key subsidiaries include IKB Leasing GmbH, IKB International S.A., IKB Private Equity GmbH and IKB Data GmbH.

In October 2008, the European Commission approved state aid for IKB under strict conditions. These include a drastic reduction of IKB's business activities, the discontinuation of the Real Estate Finance segment and the closing of several international offices. Following the implementation of the EU ruling, the offices in London, Madrid, Milan and Paris will remain as major operational sites abroad, while IKB Leasing GmbH, IKB Private Equity GmbH and IKB Data GmbH will be retained as the Group's major subsidiaries. Total assets of the Group are to be reduced to € 33.5 billion by September 2011. Implementing these conditions entails substantial costs.

The EU conditions and the changing environment as the financial and economic crisis spread led to an analysis and realignment of the Bank's business model.

Over a period of many years, IKB has established a foundation of customer relationships, particularly among medium-sized enterprises. As part of the new strategic reorganisation of IKB, its previous focus – lending business with SMEs – has been supplemented by capital market and consultancy services (including M&A, restructuring consultancy, derivatives and placements). Thanks to a broader product portfolio and more intensive utilisation of customer potential, IKB is able to address its customers' financing issues and generate value-added with its solutions.

The strategic reorientation is geared towards achieving a risk-adequate operating profit in the medium-term. This will be flanked by increasing income combined with prudent risk management, cutting costs and strengthening the equity base by reducing risk assets.

The strategic positioning was reflected in the following segments in the 2009/10 financial year:

### Segments

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

currency loans are supplied to corporate clients through IKB International S.A., Luxembourg, (IKB S.A.) – and from 1 December 2010 through IKB AG in line with EU conditions.

The Structured Finance products include acquisition and project financing. IKB acts as an arranger or participates in appropriate financing. IKB had operated in New York through its subsidiary IKB Capital Corporation, New York (IKB CC). IKB CC's business activities were suspended as at 31 March 2010.

The Real Estate Clients segment is to be discontinued as part of the EU conditions concerning the state aid received. In the Real Estate Finance segment, IKB offered its customers financing and consultancy services relating to commercial property. On 18 December 2009, the real estate leasing business, which had been placed under the umbrella of Movesta Lease and Finance GmbH, Düsseldorf, (Movesta) – a joint venture between KfW IPEX Bank and IKB – was sold to third parties owing to the EU conditions.

In the 2009/10 financial year, IKB made further progress in scaling back its structured securities portfolio, which is mainly handled in the Portfolio Investments segment, and securing its value.

The previous division of segments was discontinued as at 1 April 2010. The new segment structure is based on the Bank's products. In future, reporting will be based on the Credit Products, Consultancy and Capital Markets and Treasury and Investments segments.

The Credit Products segment reports the earnings components and asset positions from the Bank's lending and leasing business.

The Consultancy and Capital Markets segment comprises the Bank's consultancy activities in the fields of M&A, restructuring, structure/income optimisation and private equity. It also includes the Capital Markets sub-segment, which covers the capital market and risk management solutions range, the management of customer deposits and securitisation business for the Bank's customers. The Bank's trading activities are also reported in this segment.

The Treasury and Investments segment reports the earnings components and asset positions from asset liability management, structured investments and the Bank's portfolio investments. Credit exposures that are no longer included in the strategic portfolio and assets of the Bank not related to customers and managed as investments are also assigned to this segment.

The transition in segment reporting will take place in the 2010/11 financial year. However, details for the 2009/10 financial year have already been reported in the notes to the consolidated financial statements on the basis of the new segment structure for information purposes.

## 2. Significant events in the reporting period

### Tier I capital strengthened with Lone Star

The subordinated bonds of IKB AG with a total nominal value of € 101.5 million assumed by LSF6 Rio S.à.r.l., Luxembourg, (a company of the US financial investor Lone Star) in November and December 2008 were transferred to LSF6 Europe Financial Holdings, L.P., Delaware, Dallas/USA (LSF6 Europe), a further company of Lone Star and majority shareholder of IKB AG, on 4 June 2009. By way of an agreement dated 5 June 2009 entailing a debt waiver and compensation from future profits between LSF6 Europe Financial Holdings, L.P. and IKB AG, LSF6 Europe Financial Holdings, L.P. – as the bearer of subordinated bonds – waived its claims to repayment and future interest payments from these bonds against IKB AG, suspensively conditional on the occurrence of future profits, thereby making an additional payment to the capital reserves in the amount of € 101.5 million in accordance with section 272 (2) no. 4 of the *Handelsgesetzbuch (HGB)* – German Commercial Code). In accordance with IFRS, the debt waiver did not lead to a change in capital reserves, but instead is reported in subordinated capital at the estimated present value calculated in accordance with IAS 39.AG8. An improvement occurs if IKB AG could report an annual net profit and if IKB AG maintains a regulatory equity ratio of at least 9.0% at individual Bank level.

On 11 December 2008, IKB AG issued bonds with a total volume of € 123.7 million with a contingent conversion obligation and contingent conversion privilege. LSF6 Rio S.à.r.l. assumed all the convertible bonds not subscribed to by other shareholders of IKB AG (€ 123.5 million) and exercised its conversion privilege in full on 2 July 2009. The share capital of IKB AG was increased by € 123.5 million by issuing subscribed shares (48,250,350 shares) to LSF6 Rio S.à.r.l. on 14 July 2009.

Since 14 July 2009, IKB AG's share capital has amounted to € 1,621 million (previously: € 1,498 million), comprising 633,326,261 (previously: 585,075,911) no-par-value shares. Following the completion of the conversion, Lone Star's interest in the share capital of IKB AG increased to 91.5%.

### SoFFin guarantees

Owing to the drastic turbulence on the capital markets in autumn 2008 (particularly as a result of the insolvency of the US investment bank Lehman Brothers), IKB applied to the Special Fund for the Stabilisation of the Financial Market (SoFFin) for a guarantee of € 5 billion to allow it to release issues for its own refinancing. With a state-guaranteed issue of € 1 billion in April 2009, the SoFFin guarantees of € 5 billion were utilised in full in December 2008.

On 3 July 2009, SoFFin announced its intention, at IKB's request, to extend its guarantee for new bonds issued by IKB by € 7 billion to € 12 billion. Following its approval by the EU Commission, the agreement to this effect was signed on 18 August 2009. Thus, IKB had a guarantee of initially € 12 billion.

The guarantee agreement is conditional on the satisfaction of certain conditions presented in detail in the risk report (Risks in connection with SoFFin conditions).

Up to a maximum of € 4 billion, the state-guaranteed bonds under the extended guarantees can have a maturity of up to 36 months and, up to a maximum of € 3 billion, a maturity of up to 60 months. However, they must expire by 31 December 2014 at the latest. The fees to be paid to SoFFin were increased overall under the extended guarantee. In addition to the fees agreed, IKB AG was required to pay 2% on the amount of the SoFFin-guaranteed IKB bonds outstanding on 30 June 2013 to SoFFin on maturity.

On 4 February 2010, IKB applied to reduce the guarantee by € 2 billion as the Bank's liquidity situation had stabilised. In particular, this was positively affected by the reduction of assets

and the development in customer deposits. Effective 17 February 2010, SoFFin ruled to reduce IKB's guarantee from a total of € 12 billion to € 10 billion.

The guarantees being returned relate to the extension of the guarantee. Of these extended guarantees, IKB utilised guarantees for issues of € 2 billion with a maturity of three years in September 2009; state-guaranteed securities of € 2 billion with a maturity of five years and € 1 billion with a maturity of three years were also issued in February 2010.

In total, IKB issued state-guaranteed bonds of € 10 billion. The maturity structure of the bonds issued under SoFFin guarantees is as follows:

- € 1 billion maturing on 29 April 2011
- € 2 billion maturing on 27 January 2012
- € 2 billion maturing on 13 March 2012
- € 2 billion maturing on 10 September 2012
- € 1 billion maturing on 1 February 2013
- € 2 billion maturing on 2 February 2015

The guarantee has therefore been utilised in full. IKB is holding two issues of € 3 billion as a liquidity reserve. IKB has not requested support from SoFFin for recapitalisation or the assumption of risks.

### Deposit insurance

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

### Debt issuance programme

The debt issuance programme was updated as at 16 February 2010. Thus, IKB again has a valid basic prospectus under which it can flexibly manage its issues. This has extended its range of possible refinancing instruments.

### Status of implementation of EU conditions

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

The conditions include a drastic reduction of IKB's business activities, the discontinuation of the Real Estate Finance segment, the closure of certain international offices and the partial discontinuation of new business. The Group's total assets are to be reduced by around 47% to € 33.5 billion (from € 63.5 billion on 31 March 2007, before the start of the IKB crisis) by 30 September 2011. IKB must comply with an agreed restructuring plan. The original version of the restructuring plan has since been modified by arrangement with the EU Commission. In connection with the EU Commission's ruling of 17 August 2009 regarding the permissibility of the SoFFin guarantees, the Federal Republic of Germany assured the EU Commission that a modified restructuring plan would be filed. This was done on schedule. The basic structure of the updated plan is unchanged but among other things reflects the adjustment in line with the significant deterioration in general conditions since the Lehman insolvency. Following its analysis of the modified restructuring plan, the EU Commission reported that it saw no need for action at the present time.

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

Specifically, the conditions are as follows:

- Discontinuation of the Real Estate Finance segment (no more new business; reduction of at least 20% of the portfolio by 30 September 2010; reduction of a further 40% by 30 September 2011; remaining portfolio by way of scheduled repayments); subsidiaries affected: IKB Immobilien Management GmbH, IKB Projektentwicklung GmbH & Co. KG, IKB Projektentwicklungsverwaltungs GmbH,
- Sale of the 50% IKB stake in Movesta by 30 September 2011,
- Winding up or sale of IKB CC by 30 September 2011 (active reduction of 25% of the portfolio by 30 September 2010) and discontinuation of new business by 31 December 2008,
- Winding up of IKB S.A. by 1 April 2011 (the derivatives business and credit holdings may be relocated to IKB AG in Düsseldorf up to a maximum of € 3.2 billion) and discontinuation of new business by 1 December 2010
- Discontinuation and winding up of IKB's business activities in Amsterdam by 30 March 2010 and
- Sale of non-strategic asset positions by 30 September 2011.

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

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

- The credit volume of Real Estate Finance was reduced by more than 26% as at 31 March 2010 (interim goal by 30 September 2010 set by the EU Commission: reduction of 20%); the winding up/sale of affected subsidiaries has been initiated. New business has been discontinued.
- IKB's 50% interest in Movesta was disposed of effective 18 December 2009. One condition of the purchase agreement was the hiving off of Movesta Development GmbH and selected special purpose entities from Movesta which have proportionately remained with their former owners.
- IKB CC: The loan portfolio was reduced in full as at 31 March 2010 by way of sale. The company's liquidation has also since been initiated.
- IKB S.A.: The extensive conceptual and practical preparations are currently underway for winding up IKB S.A. and the assumption of certain duties by the parent company in order to satisfy the EU requirement on time by 1 April 2011.
- The business activities of IKB in Amsterdam have been discontinued.
- The credit volume in non-strategic asset positions has been actively reduced to € 0.4 billion as at 31 March 2010 after € 1.7 billion as at 31 March 2007.
- The total assets of the Group were reduced to € 35.7 billion as of 31 March 2010.

The EU Commission's ruling of 17 August 2009 on the extension of the SoFFin guarantee also imposed other obligations on IKB with regard to its operations:

- Firstly, the ruling requires restrictions in proprietary trading. These are compatible with IKB's objectives.
- Secondly, the repurchasing of IKB's own liabilities is highly restricted in line with this EU decision.

IKB has taken organisational precautions to comply with these requirements.

### Changes in the Group

As at the start of the financial year, the securities portfolio of IKB AG included structured bonds issued by ELAN Ltd., Jersey, that were sold in the financial year. As a result of the sale, the two cells of the special purpose entity were deconsolidated.

To generate liquidity, IKB AG sold receivables to the special purpose entity REPV-DS Finance 2008-1 GmbH, Frankfurt/Main (REPV-DS), at a purchase price of their nominal value of € 215 million in September 2008. The special purpose entity was financed by a senior promissory note loan from another bank amounting to € 163 million and a subordinate loan from IKB AG amounting to € 52 million. As the material credit risks remained with IKB AG, REPV-DS was included in consolidation by IKB AG. The transaction was set up for one year and ended on schedule in September 2009. REPV-DS was deconsolidated on completion of the transaction.

Havenrock Limited and Havenrock II Limited, Jersey, were deconsolidated as at 31 December 2009 due to their immateriality for the consolidated financial statements. The deconsolidation had no significant effect on the income statement.

In the 2009/10 financial year, IKB invested a total of € 566 million in an investment fund that can be quickly liquidated (IKB Partner Fonds) through two subsidiaries, Erste Equity Suporta GmbH, Düsseldorf, and Zweite Equity Suporta GmbH, Düsseldorf. This is an integrative component of the Bank's liquidity reserves and serves to place the funds available in liquid investments using the external expertise of an experienced asset manager at low credit and market risk. The fund reported a market value of € 566 million as at 31 March 2010.

By way of agreement dated 30 March 2010, IKB Dritte Equity Suporta GmbH, as the transferring entity, was merged at carrying amount retroactively to 1 January 2010 with IKB Equity Capital Fund GmbH, which had previously changed its legal form from that of a KG to a GmbH (entry in commercial register: 7 December 2009). The merger was entered in the commercial register of the absorbing company on 14 April 2010. Dritte Equity Suporta GmbH has therefore been terminated.

Following the sale of Movesta (see above), MD Capital Beteiligungsgesellschaft mbH, Düsseldorf, was reported at equity by IKB AG as a direct interest for the first time as at 31 December 2009. The company comprises the project developments of the Movesta Group that were not transferred to the acquirer in connection with the sale of interests in Movesta.



IKB Equity Finance GmbH was merged with IKB Private Equity GmbH at carrying amount retroactively to 1 January 2010 by way of agreement dated 30 March 2010. The merger was entered in the commercial register of the absorbing company on 16 April 2010. IKB Equity Finance GmbH has therefore been terminated.

### **Other significant transactions**

In connection with the implementation of conditions imposed by the European Commission for the restructuring of IKB, all rights and obligations of the silent participation agreement between IKB S.A. and BNP Paribas Luxembourg S.A. (BNP S.A.) of 8 November 1999 were transferred from IKB S.A. to IKB AG by way of a transfer of agreement on 5 October 2009. The owners' meeting had previously approved the transfer of the silent participation certificates issued on a trust basis by BNP S.A. with a majority of 93.88%. The silent partner contribution that ended on 31 March 2009 (nominally € 100 million) was repaid as per contract in the amount of € 19 million after loss participation on 17 November 2009.

Two of the synthetic collateralised debt obligation (CDO) transactions held by IKB with six tranches and mixed reference assets (companies and ABS) with a total nominal volume of € 0.20 billion were restructured as simple credit-linked notes with companies and sovereigns as reference assets in May 2009.

### **Legally relevant events**

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

### **Court appointment of a special auditor**

At the Extraordinary General Meeting of 25 March 2009, following the resolution proposal from LSF6 Europe, the resolutions passed by the Annual General Meeting on 27 March 2008 regarding the performance of a special audit under stock corporation law of possible breaches of duty by members of the Board of Managing Directors and the Supervisory Board of IKB AG were cancelled and the appointment of the special auditor was revoked. In the opinion of LSF6 Europe, there is no reason to doubt that the Board of Managing Directors and the Supervisory Board will duly examine whether former members of executive bodies violated their duties. As it is believed that it is possible to deal with such matters in an appropriate manner whilst maintaining confidentiality, it is not thought to be in the interests of the company to allow internal information to become accessible to the public through a special audit.

Actions for annulment have been filed against the resolutions of the Extraordinary General Meeting of 25 March 2009 on items 3 and 4 (cancellation of the special audit of the Board of Managing Directors and the Supervisory Board).

In August 2009, at the request of shareholders, the Düsseldorf Regional Court resolved to appoint a special auditor to examine whether members of the Board of Managing Directors or the Supervisory Board of IKB AG committed breaches of duty in connection with the causes of the crisis at IKB. The 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 on 27 March 2008 and performed audit activities until his appointment was revoked on 25 March 2009.

Legal action taken against this by IKB, most recently with the Federal High Court, has remained unsuccessful. The special audit ordered by the Regional Court is therefore binding and Dr Ring has commenced his activities as a now court-appointed special auditor.

### **Personnel changes**

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

Dr Thomas Rabe, Dr Karsten von Köller and Dr Claus Nolting, whose terms in office ended after the Annual General Meeting on 27 August 2009, were re-elected to the Supervisory Board by way of resolution of the Annual General Meeting on 27 August 2009. As a result of a re-election of employee representatives, Dr Carola Steingraber left the Supervisory Board after the Annual General Meeting of IKB AG on 27 August 2009. Ms Carmen Teufel was elected to the Supervisory Board as an employee representative in her place and has been a member of the Supervisory Board of IKB AG since 27 August 2009.

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

The appointments of Mr Hans Jörg Schüttler, Dr Dieter Glüder and Dr Michael Wiedmann as members of the Board of Managing Directors of the company were revoked from 14 October 2009. With effect from 15 October 2009 in each case, Mr Hans Jörg Schüttler was reappointed as a member of the Board of Managing Directors of the company until 31 October 2013, Dr Dieter Glüder was reappointed until 15 October 2013 and Dr Michael Wiedmann was reappointed until 29 February 2014. Mr Schüttler was made the Chairman of the Board of Managing Directors.

Mr Claus Momburg was also already re-appointed as a member of the Board of Managing Directors of the company for the period from 11 November 2010 to 10 November 2015.

Owing to the SoFFin requirements in connection with the guarantee, the contracts for the Board of Managing Directors were adjusted and the basic annual salary for its members was set at € 500,000 from 1 July 2009. In addition, members of the Board of Managing Directors have waived their bonuses (including the previously agreed minimum bonus) from the 2008/09 financial year until 31 December 2010. Thus, the remuneration of members of the Board of Managing Directors does not exceed the cap agreed with SoFFin. Please see the remuneration report for further details.

Regarding the amount of future bonuses, regulations on bonuses were adjusted in line with new legal requirements of the Gesetz zur Angemessenheit der Vorstandsvergütung (VorstAG – German Act on the Appropriateness of Management Remuneration) when agreements were extended. The Supervisory Board must take into account the results and economic situation of the company and the work done by members of the Board of Managing Directors at its due discretion. The amount of bonuses must also be determined with a view to the sustainable development of the company over multiple years. Thus, bonuses are determined with a view to the sustainable development of the company over multiple years.

### **Annual General Meeting on 27 August 2009**

The Annual General Meeting of IKB AG for the 2008/09 financial year was held in Düsseldorf on 27 August 2009. 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](http://www.ikb.de). Legal actions described under "Legal risks" in the risk report are pending against individual resolutions by the Annual General Meeting.

### **Current rating situation**

The rating agency Moody's confirmed the following ratings for IKB on 17 September 2009: long-term rating: Baa3, short-term rating: Prime-3, financial strength individual rating: E, outlook: negative.

The rating agency Fitch confirmed its assessment of the rating situation on 31 July 2009: long-term rating: BBB-, short-term rating: F3, financial strength individual rating: D/E, outlook: negative.

### 3. Net assets, financial position and results of operations

#### Business development

The new business volume in the three market segments amounted to € 3.0 billion in the 2009/10 financial year (previous year: € 5.9 billion), with the emphasis on Corporate Clients at € 2.5 billion.

#### Income statement figures

The consolidated income statement was again greatly influenced by the crisis at the Bank, the general financial market and economic crisis and the implementation of the EU requirements in the 2009/10 financial year.

While heavy write-downs had been necessary in recent financial years, particularly on portfolio investments, the markets settled to an extent in the 2009/10 financial year with the result that write-downs on portfolio investments were reversed again in some cases. However, the provision for possible loan losses remained high against the background of the general financial market and economic crisis.

Fair value gains on non-current assets and derivatives made a positive earnings contribution. The latter was due in particular to the narrowing of the rating-driven spreads of public and other issuers, which led to fair value gains. At the same time, this was accompanied by the narrowing of the IKB spread for debt instruments measured at fair value. This led to high remeasurement losses due to IKB's improved credit rating on the market. As a result, the significant remeasurement gains that had accumulated over previous financial years in the course of IKB's crisis due to the extensive spread widening reversed to an extent. The resulting losses far exceeded the positive effects on the assets side. This was due to the different volumes and, in particular, the fact that IKB's spread narrowed to a far greater extent than that of most other issuers.

#### Extraordinary factors

The consolidated income statement reported a net loss for the year of € 974 million (previous year: € 580 million). In the year under review, earnings were again influenced by extraordinary factors. The table below shows the most significant of these factors and their effect on the Group's operating result and the various items of the consolidated income statement:

| Figures in € million  | Unadjusted Profit & Loss account | thereof extraordinary factors |                        |                                |                                   |                          |                            | Adjusted Profit & Loss account |
|---|----------------------------------|-------------------------------|------------------------|--------------------------------|-----------------------------------|--------------------------|----------------------------|--------------------------------|
|   |                                  | Portfolio Investments         | assets and derivatives | Measurement of own liabilities | ding of liabilities (IAS 39 AG 8) | Repurchase of own issues | on of adjustments (IFRS 1) |                                |
| Net interest income   | 178.5                            |                               |                        |                                | -55.0                             |                          | -65.0                      | 298.5                          |
| Provision for possible loan losses                                  | 493.9                            |                               |                        |                                |                                   |                          |                            | 493.9                          |
| <b>Net interest income after provision for possible loan losses</b> | <b>-315.4</b>                    |                               |                        |                                | <b>-55.0</b>                      |                          | <b>-65.0</b>               | <b>-195.4</b>                  |
| Net fee and commission income                                       | -51.5                            |                               |                        |                                |                                   |                          | -76.7                      | 25.2                           |
| Net income from financial instruments at fair value                 | -598.9                           | 136.9                         | 133.2                  | -858.9                         |                                   |                          |                            | -10.1                          |
| Net income from investment securities                               | 159.2                            | 182.9                         | 12.5                   |                                |                                   |                          |                            | -36.2                          |
| Results of investments accounted for at equity                      | -0.7                             |                               |                        |                                |                                   |                          |                            | -0.7                           |
| Administrative expenses   | 301.5                            |                               |                        |                                |                                   |                          | 12.8                       | 288.7                          |
| Other operating result  | 163.9                            | -7.0                          |                        |                                | 127.0                             | 25.1                     |                            | 18.8                           |
| Restructuring expenses  | 6.4                              |                               |                        |                                |                                   |                          |                            | 6.4                            |
| <b>Operating result</b>   | <b>-951.3</b>                    | <b>312.8</b>                  | <b>145.7</b>           | <b>-858.9</b>                  | <b>72.0</b>                       | <b>25.1</b>              | <b>-65.0</b>               | <b>-487.1</b>                  |
| Taxes   | 22.8                             |                               |                        |                                |                                   |                          |                            | 22.8                           |
| <b>Consolidated loss</b>  | <b>-974.1</b>                    | <b>312.8</b>                  | <b>145.7</b>           | <b>-858.9</b>                  | <b>72.0</b>                       | <b>25.1</b>              | <b>-65.0</b>               | <b>-509.9</b>                  |

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

**Portfolio investments.** On balance, portfolio investments made a positive contribution of € 313 million to the income statement.

- The positive earnings contribution from the measurement of the portfolio investments of the consolidated special purpose entity Rio Debt Holdings (Ireland) Limited, Dublin/Ireland (Rio Debt Holdings), totalled € 245 million at the balance sheet date. This amount contains remeasurement gains of € 441 million on the securities held by the special pur-

pose entity, which are offset by remeasurement losses of € 196 million from the fair value measurement of minority liabilities of the special purpose entity Rio Debt Holdings. The remeasurement gains of € 441 million are attributable to income from securities measured at fair value in the amount of € 258 million and income from investment securities in the amount of € 183 millions.

- Gains from the fair value measurement of other portfolio investments excluding Rio Debt Holdings amounted to € 75 million.
- Other operating income includes expenses in the amount of € 7 million for the reimbursement of legal costs and the performance of services relating to legal disputes.

**Fair value gains on long-term investments and derivatives.** For various purposes including investment of own funds, IKB holds government bonds, bonds from other public creditors, German and European mortgage bonds, promissory notes from companies as well as derivatives to hedge interest rate risks. These investments mostly have long durations. Positive fair value effects of € 133 million were recognised in the income statement during the period under review. These primarily related to the narrowing of the credit spreads of issuers. In addition, a gain of € 12 million was recognised for the sale of an investment.

**Rating-driven measurement of liabilities.** IKB measures a significant portion of its liabilities at fair value. In the past two financial years, the crisis situation at IKB led to substantial rating-driven value losses in its own issues and corresponding remeasurement gains. As expected, the considerably improved market assessment of IKB's credit rating led to the partial reversal of this extraordinary effect in the past financial year. Rating-driven value growth in liabilities measured at fair value led to corresponding remeasurement losses totalling € 859 million in the period under review. Accordingly, the fair value of the corresponding liabilities increased by this amount.

**Measurement of liabilities in accordance with IAS 39.AG8.** Liabilities measured in accordance with IAS 39.AG8 include the two compensation agreements relating to the loan waiver originally issued by KfW for loans previously granted, the compensation agreement in conjunction with the debt waiver of LSF6 Europe for a subordinated bond, and some profit participation certificates and silent partnership contributions. These instruments are measured at the present value of the estimated future payments. The change in measurement led to a net gain of € 72 million:

- The present value of the expected future payments on these instruments was carried at a lower amount at the end of the financial year due to revised business planning, resulting in a remeasurement gain of € 127 million.
- The present values determined at earlier dates by estimating the future payments must be adjusted in subsequent periods by way of unwinding to the valuation date. Unwinding resulted in interest expense of € 55 million in the year under review.

Other extraordinary factors:

- At the start of the financial year, IKB bought back own issues at below their nominal value, generating a profit of € 25 million that is reported in other operating income.
- Net interest income was impacted by the write-down of the compensation item for realised hedged items at the time of the changeover to IFRS (IFRS 1 IG.60A) in the amount of € 65 million.
- Expenses for managing the crisis totalled € 96 million and included € 77 million for guarantee commission paid to SoFFin and € 19 million for external legal and consultancy costs and restructuring expenses.

***Development of adjusted result***

Changes above and beyond these extraordinary factors are described as follows:

Adjusted for extraordinary factors, **net interest income** declined by € 114 million to € 299 million. The main changes in the business situation, which was characterised by lower volumes, were as follows:

- Earnings contribution from the economic investment of own funds down € 139 million due to lower level of interest accompanied by the sale in holdings in order to reduce market price and volatility risk,
- Net interest income in the Portfolio Investments segment up € 22 million due to higher interest payments after many interest payments were not made in the previous year,
- Overall increase of € 7 million in net interest income in other areas.

As expected, the **provision for possible loan losses** remained at a high level due to the sustained weak economic situation. It was reduced by € 96 million year-on-year to € 494 million. A detailed description of the development of the risk situation can be found in the risk report.

Adjusted **net fee and commission income** amounted to € 25 million. The € 8 million decrease on the previous year was primarily attributable to the overall reduction in new business at the Bank.

The adjusted **net loss on investment securities** in the amount of € 36 million is almost entirely attributable to the negative value development of securities outside the Portfolio Investments segment.

Adjusted **administrative expenses** were reduced by € 30 million to € 289 million as a result of cost reduction measures. The decrease related to other administrative expenses and staff costs. Other administrative expenses fell by € 14 million to € 125 million. The average number of employees declined by 136 to 1,613 in the year under review. Staff costs fell by € 15 million year-on-year to € 164 million.

Adjusted **other operating income** of € 19 million is characterised in particular by income from the sale of buildings and income at Group level from the sale of the interest in Movesta, which was accounted for using the equity method.

**Tax expenses** of € 23 million are composed of income taxes in the amount of € 19 million and other taxes totalling € 4 million. Income taxes include current tax expense of € 39 million and income from deferred taxes in the amount of € 20 million.

After adjustment for the extraordinary factors described above, the consolidated income statement reports an adjusted consolidated net loss of € 510 million.

All in all, the adjusted net loss for the period and the extraordinary factors resulted in a **consolidated net loss** of € 974 million (previous year: € 580 million).

Taking into account the increase in the average number of no-par value shares in circulation from 308 million to 621 in the 2009/10 financial year, **earnings per share** amounted to € -1.57 (previous year: € -1.88).

**Total comprehensive income**, consisting of the consolidated net loss and income taken directly to equity, amounted to € -949 million. In particular, positive earnings contributions taken directly to equity included remeasurement gains on available-for-sale investment securities (€ 37 million). Negative earnings contributions taken directly to equity resulted from changes in actuarial losses on pension obligations (€ -10 million) and deferred taxes (€ -10 million).

### Segment development

In the **Corporate Clients** segment, which includes domestic corporate lending, private equity activities and equipment leasing, IKB paid out € 2.5 billion (previous year: € 3.5 billion) in the period under review. In particular, the decline is due to slowing credit demand, rising refinancing and a change in the calculation methodology at IKB.

€ 1.7 billion (previous year: € 2.5 billion) of new business related to German lending business. The margin on new business in this area, measured against the Bank's average refinancing costs (including costs for SoFFin-guaranteed bonds), improved to 1.41% (previous year: 1.03%). The majority of this new business related to companies with sales of over € 50 million. In the 2009/10 financial year, long-term loans from public development programmes and global loans accounted for 75% (previous year: 60%) of the new credit volume.

The IKB Leasing Group, which operates nationally and internationally in the field of equipment leasing, achieved a new business volume of € 0.7 billion (previous year: € 1.0 billion), although there has been a severe crash in demand owing to the economic slump in the IKB Leasing Group's relevant area of mechanical engineering. Over two-thirds of this new business comes from Germany. The IKB Leasing Group operates in nine countries (Germany, France, Austria, Poland, Romania, Russia, Slovakia, Czech Republic, Hungary) through 14 leasing companies.

The IKB Private Equity Group conducted capital calls for private equity funds and follow-up finance in the amount of € 6 million (previous year: € 30 million) in the period under review.

The Corporate Clients segment generated an operating loss of € -86 million (previous year: € -103 million). Net interest income increased to € 213 million after € 206 million in the previous year, particularly due to the higher level of interest income from IKB Leasing. The provision for possible loan losses increased by € 39 million year-on-year to € 166 million. Administrative expenses fell to € 137 million during the period under review (previous year: € 152 million). This development is due in particular to the lower number of employees. The return on equity amounted to -10.5% (previous year: -10.6%, while the cost/income ratio was 63.3% (previous year: 87.4%).

In the **Structured Finance** segment, i.e. in acquisition and project financing and export financing, the new business volume declined significantly to € 0.4 billion in the 2009/10 financial year (previous year: € 1.8 billion). Market developments played a crucial role in this decrease. Activities involving company acquisitions in Europe stagnated at a very low level, which meant that almost no new acquisition financing was awarded. IKB remained restrained in its project financing business owing to the lengthy terms involved. In particular, transactions were carried out using development funds and with Hermes cover for existing customer relationships. In the US, IKB CC sold its entire portfolio of leveraged loans and the CDO tranches it had held. Its activities as an asset manager for third parties have been discontinued.

The new business margin increased to 3.39% (previous year: 2.19%). The segment generated an operating result of € -150 million (previous year: € -266 million). Net interest income was down slightly year-on-year at € 102 million due to the reduced credit volume. The provision for possible loan losses decreased by € 130 million to € 194 million. Administrative expenses declined by € 15 million to € 55 million. The segment return on equity was -37.0% (previous year: -52.8%), while the cost/income ratio amounted to 57.1% (previous year: 55.6%).

The **Real Estate Clients** segment, which has ceased new business activities in accordance with the EU conditions of October 2008, still reported a new business volume of € 0.1 billion in the 2009/10 financial year (previous year: € 0.6 billion), mainly as a result of the utilisation of loan commitments from previous years. The new business margin increased to 1.40% (previous year: 0.83%). The segment generated an operating result of € -48 million (previous year: € -47 million). At € 50 million, net interest income was down on the previous year

(€ 61 million). The provision for possible loan losses increased to € 71 million. The segment return on equity was -21.4% (previous year: -17.1%), while the cost/income ratio amounted to 53.8% (previous year: 71.4%).

The **Portfolio Investments** segment, which encompasses the portfolio investments remaining at IKB, recorded an operating result of € 302 million (previous year: € -179 million). Due to reversals of impairment losses, the fair value result improved to € 137 million (previous year: € 64 million) and net income from investment securities to € 183 million (previous year: € -188 million). Administrative expenses in the segment fell to € 22 million (previous year: € 25 million).

Further details on segment reporting can be found in the notes.

### Net assets

**Total assets** amounted to € 35.7 billion as of 31 March 2010, down € 9.0 billion on the previous year. This was primarily due to the reduction in loans and advances to customers in accordance with the EU conditions and the reduction in investment securities and assets held for trading. On the liabilities side, the main decline was in liabilities to banks, securitised liabilities and liabilities held for trading.

Loans and advances to customers decreased significantly by € 4.3 billion to € 23.7 billion. This was primarily due to the reduction in further risk-weighted assets in order to meet EU requirements, such as the sale of loans at IKB CC. The new lending volume in the year under review was substantially lower than the volume for the previous year and the level of repayments on existing loans.

At € 1.1 billion, the **provision for possible loan losses** was slightly higher than the figure of € 1.0 billion as at 31 March 2009.

**Loans and advances to banks** declined by € 0.5 billion to € 2.5 billion; this development largely related to short-term investments and was primarily attributable to the deconsolidation of the Havenrock companies.

**Assets held for trading** decreased by € 2.4 billion to € 1.3 billion, largely as a result of the deconsolidation of the Havenrock companies and hence the disposal of credit derivatives with a volume of € 2.1 billion.

**Investment securities** fell by € 1.9 billion to € 8.3 billion as a result of maturity and disposals. The sale of the ELAN securities resulted in a decrease of € 0.6 billion.

**Securitised liabilities** declined substantially year-on-year to € 10.8 billion (previous year: € 14.0 billion). Of the issue volume of € 6.0 billion guaranteed by SoFFin, a total of € 3 billion was transferred to the Bank's own portfolio and reported on a net basis within securitised liabilities. This addition was offset by repayments and measurement effects totalling € 6.2 billion.

**Liabilities to banks** declined by € 3.3 billion to € 12.0 billion. The main reason for this reduction was a decrease in borrowing on the interbank market and from the European Central Bank.

**Liabilities to customers** rose by € 1.7 billion to € 7.5 billion as a result of new customer time deposits and rating- and interest-driven reversals of impairment losses on promissory note issues measured at fair value.

**Assets held for trading** fell by € 3.0 billion to € 2.5 billion. As for other items, this development was primarily attributable to the deconsolidation of the Havenrock companies, which led to the disposal of assets held for trading in the amount of € 2.8 billion.



**Subordinated capital** fell by € 0.1 billion to € 1.2 billion. This development is essentially due to the fact that LSF6 Rio S.à.r.l. held a subordinated bond in the amount of € 123.5 million with a contingent conversion obligation and converted this early on 2 July 2009. LSF6 Europe had also waived repayment by way of an agreement entailing a debt waiver and compensation from future profits. Measurement effects on silent partnership contributions and preferred securities measured at fair value served to increase subordinated capital.

**Equity** fell by € 974 million to € 930 million, largely as a result of the consolidated net loss. Issued capital increased by € 124 million as a result of the issue of new shares due to the early conversion of the convertible bond held by LSF6 Rio S.à.r.l. The debt waiver under the subordinated bond by LSF6 Europe in exchange for compensation from future profits that was reported in capital reserve in accordance with HGB did not lead to a change in capital reserves under IFRS, but instead was reported in subordinated capital at its estimated present value in accordance with IAS 39.AG8.

The **Tier I ratio** of the IKB Group amounted to 10.4% as at 31 March 2010 (previous year: 8,1%). The **overall capital ratio** amounted to 14.9% (previous year: 12.5%).

### Financial position

The liquidity situation at IKB has stabilised. Factors contributing to this included the utilisation of the SoFFin guarantees, the substantial reduction in assets and the increase in deposits by customers. IKB has returned SoFFin guarantees of € 2 billion. It should still be noted that the money and capital markets are only functioning to a limited extent. Thus, mainly collateralised borrowing is possible as a financing option. Looking ahead to a more positive market performance in future, IKB updated its debt issuance programme in February 2010 so as to also be able to float issues on the capital market on an unsecured basis.

### Overall assessment

Overall, the Bank's business development and situation in the 2009/10 financial year were still greatly influenced by the after-effects of the IKB crisis including the EU conditions and the ongoing financial and economic crisis. Adjusted earnings are mainly impaired by the high allowance for losses on loans and advances due to the recession. The additional capital from Lone Star and the reduction of risk positions have helped to stabilise the Bank.

## 4. Risk report

IKB has thoroughly revised and improved the systems and processes of its risk management since the crisis broke out in 2007. In particular, this included strengthening the position of the Chief Risk Officer (CRO), not least by merging responsibility for back-office functions, the improvement of the risk-bearing capacity plan and enhanced reporting to the Supervisory Board. Parallel to this, the Bank has significantly reduced its risk position in the intervening time – with regard to its risk-bearing capacity.

The following measures were of particular importance in the current financial year:

**Risk monitoring.** Back office responsibilities were also revised as part of the Bank's reorientation. The main activities of loan processing, specific loan monitoring and contract management, were transferred from local sales areas to the two central areas of Credit Risk Management and Credit & Treasury Operations. At the same time, overall risk controlling was established by merging Credit Risk Controlling (formerly part of Credit Risk Management and Controlling) and Market Price Risk Controlling.

**Risk reduction.** The Bank has significantly reduced its market price risk, both in regulatory and economic terms, by taking suitable measures. Credit risk is also down year-on-year in regulatory and economic terms.

### Risk management organisation

Individual tasks and areas of responsibility are outlined and documented in risk management rules and regulations, which specify the principles of the risk management system at IKB, taking into consideration statutory requirements and specific organisational instructions. As part of the reorientation of IKB's business activities, the business strategy and the related risk strategies were revised and combined to form an integrated business and risk strategy.

**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.

**Board of Managing Directors.** The Board of Managing Directors of IKB AG is responsible for risk management at IKB. 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 lending business, particularly transaction-related risk monitoring, intensive support and problem exposure management, portfolio-based credit risk controlling, market price risk controlling, securitisation commitments and operational risk monitoring lies with the Chief Risk Officer. The Chief Financial Officer is responsible for monitoring earnings management and capital resources. Responsibility for legal and compliance risks lies with the Chairman of the Board of Managing Directors. The Board of Managing Directors as a whole is responsible for managing risks associated with the strategic business focus and reputational risks.

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

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

**Credit Risk 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. 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. Furthermore, credit management of all real estate exposures was transferred to a specialist team in Credit Risk Management as at 1 November 2009.

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

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

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

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

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

**Monitoring risks from securitisation and structured credit products.** The monitoring of structured credit products is performed by the Securitisation Structure Management back-office division. Among other things, its main activities are the performance of the credit approval and impairment process for structured credit products independently of front-office. Furthermore, this central division is responsible for the administration of the special purpose entity Rio Debt Holdings (Ireland) Limited in addition to meeting the extensive contractual commitments of IKB in connection with the Rhineland Funding conduit ("Rhineland Funding")<sup>1</sup> and the Havenrock Limited and Havenrock II Limited special purpose entities<sup>2</sup>. This central division is also responsible for reporting on these transactions in the context of overall risk management at IKB.

**Monitoring earnings development and capital resources.** The Finance division prepares monthly performance analyses for existing and new business in the context of performance controlling and presents these to the Board of Managing Directors on a weekly basis, where

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<sup>1</sup> This refers to Rhineland Funding Capital Corporation LLC, Delaware, (RFCC) and various purchasing companies based in Jersey and Delaware. These legally independent special purpose entities are no longer active on the market. They invested in structured securities. IKB serves in an advisory capacity for RFCC and the purchasing companies.

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

deviations in the net assets and results of operations from the projected figures are identified and analysed on an ongoing basis. This ensures that business risk is continually monitored and reported. The Board of Managing Directors is therefore able to react to negative developments even at short notice.

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

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

### **Regulatory capital resources and risk-bearing capacity**

**Regulatory capital resources.** The Bank calculates regulatory capital resources for the credit risk according to the standardised approach for credit risk, for operational risk according to the base indicator approach and for market price risk according to standard methods (interest risks: maturity-based method, option risks: delta-plus method).

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

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

| <b>Regulatory capital situation in € million</b> | <b>as of 31 March 2010</b> | <b>as of 31 March 2009</b> | <b>as of 31 March 2008</b> |
|--|----------------------------|----------------------------|----------------------------|
| Risk-weighted assets                             | 19,265                     | 24,718                     | 30,269                     |
| Market risk equivalent                           | 313                        | 613                        | 795                        |
| Operational risk                                 | 1,100                      | 1,324                      | 1,330                      |
| <b>Risk position</b>                             | <b>20,678</b>              | <b>26,655</b>              | <b>32,394</b>              |
| Tier I capital                                   | 2,257                      | 2,276                      | 1,941                      |
| Tier II capital                                  | 1,030                      | 1,245                      | 1,191                      |
| Tier III capital                                 | 0                          | 35                         | 45                         |
| Deductions <sup>1)</sup>                         | -216                       | -236                       | -18                        |
| <b>Equity capital</b>                            | <b>3,071</b>               | <b>3,320</b>               | <b>3,159</b>               |
| Tier I ratio in %                                | 10.4                       | 8.1                        | 6.0                        |
| Overall capital ratio in %                       | 14.9                       | 12.5                       | 9.8                        |

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

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

At 10.4%, the Tier I ratio at Group level is higher than the regulatory minimum of 4.0%. At 14.9% at Group level, the overall capital ratio is also higher than the regulatory minimum of 8.0%.

The Board of Managing Directors expects it to be possible to meet both statutory minimum requirements and the minimum requirements imposed by SoFFin and the Auditing

Association of German Banks (including a Tier I ratio of 8%) in the future. It remains uncertain in the medium term how the numerous regulation projects intended by national and international banking authorities will affect equity composition and requirements overall. A financial market transactions tax and a levy on banks are also being considered.

The decline in risk-weighted assets as at 31 March 2010 is the result of the reduction of total assets in line with the conditions imposed by the EU on the one hand, and scheduled repayments at the same time as limiting new business on the other.

**Risk-bearing capacity.** Risk-bearing capacity and the use of capital resources with the aim of creating an adequate risk-yield ratio at Group level form the basis of risk management. An economic analysis is also used in addition to monitoring regulatory minimum capital resources and target ratios for regulatory capital resources in order to monitor risk-bearing capacity. This compares the economically defined risk cover with the capital requirements necessary to cover unexpected risk derived using business methods.

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

**Risk cover** From an equity capital provider perspective, only the capital components that exceed a benchmark specified by the Bank subject to risk-weighted assets can be used as risk cover. In contrast to regulatory Tier 1 capital, benchmark capital only includes capital components such as profit participation certificates and silent partnership contributions with a discount on prudence grounds to reflect a possibly lower quality of liability. Although the risk horizon for risk-bearing capacity calculations cover the next twelve months, the Bank also reserves elements of Tier 1 capital for interest-driven hidden charges that could be recognised in the next five years or that result from closed positions on prudence grounds, and does not include these in risk cover. Spread-driven hidden charges for long-term investments have not, to a large extent, been taken into consideration as these are intended to be held in the long term. If losses could be incurred on securities being sold in connection with the implementation of the EU conditions, these are already taken into account in earnings planning. Risk cover is also already reduced in advance by the assumed negative operating result for the analysis period.

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

| Components of risk cover  |               |               |  |               |               |
|---|---------------|---------------|--|---------------|---------------|
| Equity capital provider perspective   |               |               | Lender perspective   |               |               |
|   | 31 March 2010 | 31 March 2009 |  | 31 March 2010 | 31 March 2009 |
| "Core capital" <sup>1)</sup>  | 1,037         | 1,634         | "Core capital"   | 542           | 823           |
| Pro rata profit participation certificates and silent partnership contributions | 366           | 386           | Profit participation certificates and silent partnership contributions | 554           | 621           |
| Benchmark capital   | -1,005        | -1,333        | Subordinated capital   | 995           | 535           |
| <b>Risk cover</b>   | <b>398</b>    | <b>687</b>    | <b>Risk cover</b>  | <b>2,091</b>  | <b>1,979</b>  |

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

1) "Core capital" includes share capital, reserves, net retained profits/loss carryforward and the planned operating result of the next twelve months. Hidden charges are deducted from risk cover.

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

- decline in core capital due to current losses at the Bank and rise in hidden charges deducted in advance in the equity capital provider view,
- reduction of the minimum benchmark capital reserved for total Bank risk in the equity capital provider view owing to the reduction of risk-weighted assets (see also "Regulatory capital situation" tables),
- non-repurchase of certain subordinated loans, the repurchase of which had already been anticipated in risk cover as at 31 March 2009.

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

In order to calculate "unexpected" counterparty default risk ("expected" counterparty risk is accounted for in risk provisioning planning), the Bank applies a self-developed credit portfolio model (see also "Quantifying the credit risk"). The statistical parameters used in this are adjusted as necessary by means of appropriate mark-ups or deductions in line with the risks involved to take expected changes into consideration (e.g. economic factors).

Market price risk is calculated as the integrated value at risk (VaR) by way of historical simulation assuming a holding period of one year for the entire portfolio of the Bank, taking into account all relevant risk factors (interest, exchange rates, credit spread, volatility). A 20% discount on the value at risk calculated is applied for the possibility of management intervention.

IKB regards market development between the Lehman insolvency in September 2008 and the end of the 2008 calendar year as an extraordinary stress scenario and assumes in its base case that there will not be another banking collapse of a similar magnitude and therefore that there will not be comparable market distortion. On these grounds, IKB calculates the VaR of the market price risk for the risk-bearing capacity excluding the above period of time on the basis of 430 working days.

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

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

Business risk is calculated on the basis on an historical observation of the quarterly deviations between the targeted and actual interest and fee/commission income and the observed deviations in administrative expenses.

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

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

*Table: Economic capital requirements – equity capital provider view*

|                                 | 31 March 2010  |            | 31 March 2009  |            |
|---------------------------------|----------------|------------|----------------|------------|
|                                 | in<br>€million | in %       | in<br>€million | in %       |
| Counterparty default risk       | 226            | 54         | 321            | 60         |
| Market price risk <sup>1)</sup> | 89             | 21         | 115            | 22         |
| Operational risk                | 29             | 7          | 30             | 6          |
| Business risk                   | 75             | 18         | 67             | 12         |
| <b>Total</b>                    | <b>419</b>     | <b>100</b> | <b>533</b>     | <b>100</b> |
| Minus diversification effects   | -108           |            | -121           |            |
| <b>Overall risk position</b>    | <b>311</b>     |            | <b>412</b>     |            |
| <b>Risk cover</b>               | <b>398</b>     |            | <b>687</b>     |            |

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

1) Market risk not including extreme market development from mid-September 2008 to the end of 2008 and credit spread risks for long-term investments. The market price risk rises by € 102 million if both positions are included.

The significant reduction in the overall risk position by a total of 25% (after diversification effects) as against the previous year to € 311 million is due to both a significant drop in credit risk and the decline in market price risks. The drop in the credit risk is partly due to the continued reduction of risk assets and partly due to the economic recovery forecast for 2010, which is reflected in a decline in default projections. The reduction in market price risk reflects the measures initiated in the last financial year to cut risks.

The rise in general business risk is the result of the increased volatility in income and expense development over the last two years.

Risk cover is still by far sufficient to cover the economic capital requirements of unexpected risks over the risk horizon. Utilisation of risk cover in excess of benchmark capitalisation was at 78% as at 31 March 2010 (60% as at 31 March 2009). Without the advance deduction of hidden charges expiring beyond the risk horizon and not resulting from closed positions, risk cover utilisation would be at 57% (previous year: 48%).

**Lender perspective.** The table below shows the economic capital requirements from the perspective of a non-subordinated lender at a confidence level adequate to the current "BBB-" rating of 99.76%.

Table: Economic capital requirements – lender perspective

|                                 | 31 March 2010  |            | 31 March 2009  |            |
|---------------------------------|----------------|------------|----------------|------------|
|                                 | in<br>€million | in %       | in<br>€million | in %       |
| Counterparty default risk       | 821            | 56         | 1,141          | 58         |
| Market price risk <sup>1)</sup> | 391            | 27         | 609            | 31         |
| Operational risk                | 84             | 6          | 84             | 4          |
| Business risk                   | 165            | 11         | 129            | 7          |
| <b>Total</b>                    | <b>1,462</b>   | <b>100</b> | <b>1,964</b>   | <b>100</b> |
| Minus diversification effects   | -166           |            | -243           |            |
| <b>Overall risk position</b>    | <b>1,296</b>   |            | <b>1,720</b>   |            |
| <b>Risk cover</b>               | <b>2,091</b>   |            | <b>1,979</b>   |            |

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

1) Market risk not including extreme market development from mid-September 2008 to the end of 2008. The market price risk rises by € 163 million if this development is included.

The total risk position from a non-subordinated lender perspective also declined by 25% to € 1,296 million as a result of the reduction of counterparty and market price risks.

At the same time – in spite of current losses at the Bank – risk cover has risen as against the start of the financial year from a lender perspective. This increase is as a result of the re-inclusion of subordinated loans originally intended for repurchase. The Bank is no longer pursuing this repurchase that had been planned last year.

Thus, risk cover utilisation was down significantly on the previous year's level at 62% (87%).

**Forecast calculations and stress tests.** In light of great uncertainty on the capital markets with regard to the further development of some states in the Eurozone, the Bank is also performing stress tests in addition to various forecast calculations. In addition to the Bank's business plan, the basis for these calculations are macroeconomic stress scenarios and potential stress events.

The findings of these analyses have been that, in the forecast calculations for the next two financial years based on the Bank's business plan, risk cover consistently exceeds the overall risk position from both an equity capital provider and lender perspective. This highlights its risk-bearing capacity.

The analysis of economic, even extreme, stress scenarios shows that, in the lender view with business at less than in the business plan, risk cover is able to cover the overall risk position.

From an equity capital provider view, risk cover is only insufficient in extreme stress scenarios.

### Risk strategy

The individual risk strategies are a component of the integrated business and risk strategy. They set the framework to which IKB's business activities are geared. All risk strategies were revised with regard to the new business outlook and economic situation in the 2009/10 financial year.

**Credit risk strategy.** In its lending business, the Bank intends to reduce 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. In addition to restricting credit ratings in new business to significantly improve the average credit rating again over time, this also includes limiting concentration risks at individual borrower and borrower group levels. Given its core business, its regional focus will also remain on Germany. Outside Germany, its activities (except for leasing) will be limited to Western Europe, particularly France, Italy and Spain. With regard to its target customers in the high-end SME segment, industry diversification is also highly



significant. In assessing its limits, the Bank looks at both the significance of the industry to the German economy as a whole 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. This is supplemented by the development of a brokerage model by accepting securities issued by existing customers in the trading book with the aim of promptly reselling them to third-party investors. For trading book transactions the Bank largely restricts itself to highly liquid products in the currencies of euro and US dollar, though the maximum risk positions this entails are kept very low.

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

### Counterparty default risk

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

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

**Credit approval process and individual exposure monitoring.** Key tasks within the scope of the credit approval process (front-office-independent credit analysis, loan approval, intensive support, problem exposure processing) are carried out by the 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, the term and, not least, the existing and planned portfolio structure.

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

The basis for every credit decision is a detailed credit analysis which shows and evaluates the information relevant to the decision, and documents this clearly in a decision paper. In this regard, a self-developed instrument, the "Portfolio Adviser", is used for portfolio management in the decision-making process, both at an individual transaction level and an exposure level. Various risk factors are calculated on the basis of the customer credit rating and transaction-specific features, such as the term and collateral, as well as portfolio-related ratios in order to

provide important stimulus in the context of portfolio management as soon as new business is acquired. At the same time, a great deal of importance is attached to the mobility of loans, i.e. their eligibility for outplacement, as the synthetic securitisation of loan receivables plays an important role in portfolio management.

Credit decisions regarding securitisation, portfolio investments and other structured loan products are made either by the person holding powers of approval in the Securitisation Structure Management central division or by the Board of Managing Directors within the scope of existing approval power regulations.

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

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

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

In July 2009, IKB introduced a new IKB master scale that now has 15 credit rating levels for non-defaulted borrowers rather than the previous nine levels. The greater differentiation in the new IKB master scale allows a more precise measurement of the default risks of individual borrowers on the basis of the underlying rating score.

As a customer's credit score ultimately reflects the current forecast for a one-year probability of default, expected future economic performance has been integrated into the rating as a point of reference for the probability of default. In spite of the fact that the economy is recovering, the Bank is assuming that probabilities of default in the 2010/11 financial year will be down on the 2009/10 financial year but still well above the average of recent years. This is reflected directly in the new master scale ratings that, taking economic assumptions into account, are usually one to two levels weaker than in an average economic situation.

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

The new rating scale has no impact on classification as a problem exposure as these criteria are based on the definitions of default found in Basel II (1. restructuring; 2. arrears; 3. provision for possible loan losses; 4. insolvency). As part of the introduction of the new master scale, the number of levels for defaulted borrowers has been increased from previously two to four to allow individual mapping and better analysis of these criteria in future.

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

Specific features for project and special financing are accommodated by means of special rating procedures. As the focus here is on the amount and sustainability of the cash flow for servicing interest payments and repayments which arise during the project duration, IKB applies models which allow a statement to be made as to the debt service capacity by means

of various scenarios and simulations. This quantitative assessment is supplemented by additional qualitative consideration of sponsors, operators, sales and procurement markets as well transaction specifics. However, the Bank does not intend to continue this form of financing for strategic reasons, which means that this model will not be developed further until further notice.

Previously, the Bank used an enhanced procedure based on the "IKB-Mittelstandsrating" for acquisition financing. In light of the experience and validation results in the wake of the recent recession, which left a noticeable mark on acquisition financing, the Bank has resolved to introduce a new rating model for this form of financing from mid-2010.

The real estate rating procedure used in commercial real estate financing rates credit-worthiness on the basis of a variety of specific property data and investor information. This includes not only detailed information on the location and nature of the property, but also information on tenant structure and creditworthiness, the property's financial capacity to repay the loan from the cash flow generated as well the individual credit rating of the investor taking into consideration assets and liquidity. As real estate financing is no longer part of the Bank's strategic focus and there will be no more new business, this rating method will no longer be developed further either.

**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 and other external sources are used as sources of information.

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

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. The Economic Research central division is responsible for promptly observing sector and market changes. This central division's extensive sector expertise is an important component of the cluster analyses carried out in the context of risk management. The aim here is to recognise and limit sector risks in the lending business as early as possible, taking into consideration expected developments.

Regular monitoring by the Limit Committee, which comprises representatives from the Economic Research and Credit Risk Management and Risk Controlling central divisions and the segments, is the starting point for determining concentration limits, which are oriented towards business policy target figures and risk policy guidelines. Volume and risk contribution limits are determined for individual economic sectors based on existing structures and in due consideration of identified sector risks and economic influences. In addition, upper limits for individual loans and loans to company groups are defined in order to avoid concentration risks. As a result of the current situation on the financial markets, a white list of counterparties with whom transactions may still be carried out has been prepared, in particular to limit the risk of default.

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

**Structure of counterparty default risk.** For internal reporting purposes, the Bank has calculated the credit volumes as at 31 March 2010 and 31 March 2009 as follows:

| Credit volume in €million  | 31 March 2010 | 31 March 2009 | Change        |
|--|---------------|---------------|---------------|
| Loans to banks   | 14            | 23            | -9            |
| Loans to customers   | 21,815        | 25,678        | -3,863        |
| Portfolio investments, corporate and government bonds                  | 4,018         | 4 201         | -183          |
| Operating and finance leases   | 1,959         | 2,101         | -142          |
| Contingent liabilities, CDSs <sup>1)</sup> and guarantees              | 1,004         | 1,283         | -279          |
| <b>Total credit volume</b>   | <b>28,810</b> | <b>33,286</b> | <b>-4,476</b> |
| Other significant counterparty default risks outside the credit volume |               |               |               |
| Loans and advances to banks  | 2,504         | 2,957         | -453          |
| Assets held for trading  | 1,311         | 3,680         | -2,369        |
| Investment securities  | 4,353         | 6,088         | -1,735        |
| Irrevocable loan commitments   | 2,266         | 2,932         | -666          |

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

1) Credit default swaps

Since the start of the financial year, the overall credit volume has declined by approximately € 4.5 billion.

The decrease in loans and advances to customers relates in particular to the Real Estate Clients and Structured Finance segments. There was a moderate increase in the Corporate Clients segment.

The downturn in portfolio investments and corporate and government bonds is due in particular to the sale and settlement of portfolio investments.

The decline in contingent liabilities, CDSs and guarantees is predominantly due to the return of guarantees.

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

Structure of credit volume.

| Size <sup>1)</sup><br>in € million        | 31 March 2010 |             |                      | 31 March 2009 |             |
|---|---------------|-------------|----------------------|---------------|-------------|
|   | Credit volume |             | Number <sup>1)</sup> | Credit volume |             |
| Under € 5 million                         | 4,582         | 16%         | 18,826               | 5,666         | 17%         |
| Between € 5 million and<br>€ 10 million   | 2,995         | 10%         | 429                  | 3,748         | 11%         |
| Between € 10 million and<br>€ 20 million  | 4,380         | 15%         | 331                  | 5,195         | 16%         |
| Between € 20 million and<br>€ 50 million  | 3,538         | 12%         | 123                  | 4,414         | 13%         |
| Over € 50 million                         | 3,427         | 12%         | 32                   | 3,124         | 9%          |
| <b>Total</b>                              | <b>18,921</b> | <b>66%</b>  | <b>19,741</b>        | <b>22,147</b> | <b>67%</b>  |
| Risk transfers <sup>2)</sup>              | 8,576         | 30%         |                      | 9,811         | 29%         |
| <b>Market segments (total)</b>            | <b>27,497</b> | <b>95%</b>  |                      | <b>31,957</b> | <b>96%</b>  |
|   |               |             |                      |               |             |
| Under € 50 million                        | 458           | 2%          |                      | 586           | 2%          |
| Between € 50 million and<br>€ 100 million | 390           | 1%          |                      | 294           | 1%          |
| Over € 100 million                        | 466           | 2%          |                      | 449           | 1%          |
| <b>Portfolio Investments segment</b>      | <b>1,313</b>  | <b>5%</b>   |                      | <b>1,329</b>  | <b>4%</b>   |
| <b>Group (total)</b>                      | <b>28,810</b> | <b>100%</b> |                      | <b>33,286</b> | <b>100%</b> |

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

1) Borrower groups in accordance with section 19 KWG

2) Hermes guarantees, indemnifications, risks transferred

In the size group "Over € 50 million", the average exposure amount for the market segments increased from € 100.8 million to € 107.1 million.

The volume of risk transfers was reduced by € 1,235 million to € 8,576 million as a result of repayments.

The essentially unchanged credit volume in the Portfolio Investments segment in the amount of € 1.3 billion consists of

- € 0.57 billion in assets with a nominal value of € 1.85 billion transferred to the special purpose entity Rio Debt Holdings with a residual risk for IKB of € 0.19 billion,
- € 0.58 billion in portfolio investments not sold to Rio Debt Holdings which are predominantly being wound up and which no longer contain any subprime risks, and
- € 0.17 billion in risks covered by KfW.

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

| Collateral<br>in € million     | 31 March 2010 |             | 31 March 2009 |             |
|--------------------------------|---------------|-------------|---------------|-------------|
|                                | Credit volume |             | Credit volume |             |
| Property liens and charges     | 6,327         | 22%         | 7,191         | 22%         |
| Transfers of ownership         | 2,440         | 8%          | 2,562         | 8%          |
| Other collateral <sup>1)</sup> | 5,496         | 19%         | 7,172         | 22%         |
| Without collateral             | 4,658         | 16%         | 5,222         | 16%         |
| <b>Total</b>                   | <b>18,921</b> | <b>66%</b>  | <b>22,147</b> | <b>67%</b>  |
| Risk transfers <sup>2)</sup>   | 8,576         | 30%         | 9,811         | 29%         |
| <b>Market segments (total)</b> | <b>27,497</b> | <b>95%</b>  | <b>31,957</b> | <b>96%</b>  |
| Portfolio Investments segment  | 1,313         | 5%          | 1,329         | 4%          |
| <b>Group (total)</b>           | <b>28,810</b> | <b>100%</b> | <b>33,286</b> | <b>100%</b> |

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

- 1) e.g. assignment of receivables, participation rights, assignment of shares, ownership rights, subordinations, fixed and floating charges, mortgage over shares
- 2) Hermes guarantees, indemnifications, risks transferred

Owing to the overall reduction in credit volume, credit volume backed by collateral decreased by around € 2.7 billion as against the start of the financial year. Due to the above-average reduction in the credit volume in the Structured Finance segment, the majority of this decrease is attributable to other collateral.

Risk limitation is supported by the collateral provided by risk transfer. In total, approximately € 22 billion has been transferred by means of synthetic securitisation since 2001. Risks currently transferred to third parties, which total € 8.6 billion, include loans for which the default risk has been assumed by other banks or public authorities, as well as the synthetic transfer of loan receivables. The Bank is secured against counterparty default risks by means of synthetic securitisations, although these are still reported in the balance sheet and continue to be managed by IKB. At the reporting date, the utilisation of these loans totalled € 5.4 billion, of which € 4.4 billion accounts for loans for which the Bank has only retained first loss risks of € 14 million. Loans with a volume of € 1.0 billion relate to risk transfers, for which only the expected, and parts of the unexpected, loss in the amount of € 39 million have been transferred. This subordination is currently still seen as sufficient on the basis of expected values, even under recession conditions.

**Geographical structure.** As at 31 March 2010, the total credit volume can be broken down by regions as follows:

| Regions<br>in €million         | 31 March 2010<br>Credit volume |             | 31 March 2009<br>Credit volume |             |
|--------------------------------|--------------------------------|-------------|--------------------------------|-------------|
|                                | €million                       | %           | €million                       | %           |
| Germany                        | 11,873                         | 41%         | 13,407                         | 40%         |
| Western Germany                | 9,934                          | 34%         | 11,258                         | 34%         |
| Eastern Germany                | 1,940                          | 7%          | 2,149                          | 6%          |
| Outside Germany                | 7,048                          | 24%         | 8,739                          | 26%         |
| Western Europe                 | 5,918                          | 21%         | 6,516                          | 20%         |
| Eastern Europe                 | 685                            | 2%          | 720                            | 2%          |
| North America                  | 184                            | 1%          | 1,180                          | 4%          |
| Other                          | 261                            | 1%          | 323                            | 1%          |
| <b>Total</b>                   | <b>18,921</b>                  | <b>66%</b>  | <b>22,147</b>                  | <b>67%</b>  |
| Risk transfers <sup>1)</sup>   | 8,576                          | 30%         | 9,811                          | 29%         |
| <b>Market segments (total)</b> | <b>27,497</b>                  | <b>95%</b>  | <b>31,957</b>                  | <b>96%</b>  |
| Portfolio Investments segment  | 1,313                          | 5%          | 1,329                          | 4%          |
| <b>Group (total)</b>           | <b>28,810</b>                  | <b>100%</b> | <b>33,286</b>                  | <b>100%</b> |

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

1) Hermes guarantees, indemnifications, risks transferred

Within the market segments, the decline in the credit volume relates in particular to Western Germany (down € 1,110 million) and North America (down € 544 million). The latter is attributable to the discontinuation of operations at IKB CC. Otherwise, the regional structure of the credit business remained largely unchanged as against the previous year.

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

| Country ratings <sup>1)</sup><br>Credit volume<br>in €million | 31 March<br>2010<br>Total <sup>2)</sup> | Country ratings |       |        |         |         |
|---|---|-----------------|-------|--------|---------|---------|
|   |   | 1 - 4           | 5 - 7 | 8 - 10 | 11 - 13 | 14 - 15 |
| Outside Germany   | 7,048                                   | 6,493           | 286   | 228    | 41      | 0       |
| Western Europe  | 5,918                                   | 5,768           | 150   | 0      | 0       | 0       |
| Eastern Europe  | 685                                     | 426             | 79    | 178    | 2       | 0       |
| North America   | 184                                     | 180             | 5     | 0      | 0       | 0       |
| Other   | 261                                     | 120             | 53    | 49     | 39      | 0       |

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

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

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

92% of the credit volume attributed to countries outside Germany were to be assigned to the best country risk classes, 1 to 4. In addition, risk transfers (e.g. secured by Hermes) of € 1.0 billion accounted for borrowers outside Germany.

The utilisation of loans and advances reported under risk classes 11 to 13 essentially related to Turkey (€ 25 million) and the Philippines (€ 9 million).

Within Western Europe, risks relate to the following states:

| <b>in €million</b>           | <b>Credit volume</b> | <b>of which companies</b> | <b>of which direct state risk</b> | <b>subordinated: other counterparty risk1)</b> |
|------------------------------|----------------------|---------------------------|-----------------------------------|--|
| UK                           | 1,213                | 1,213                     | -                                 | 729  |
| France                       | 1,205                | 1,157                     | 48                                | 781  |
| Italy                        | 1,103                | 471                       | 632                               | 70   |
| Spain                        | 901                  | 829                       | 73                                | 415  |
| Netherlands                  | 403                  | 361                       | 42                                | 101  |
| Ireland                      | 234                  | 234                       | -                                 | 20   |
| Switzerland                  | 162                  | 162                       | -                                 | 62   |
| Greece                       | 150                  | -                         | 150                               | -  |
| Luxembourg                   | 118                  | 118                       | -                                 | 45   |
| Belgium                      | 115                  | 56                        | 59                                | 20   |
| Other                        | 314                  | 251                       | 62                                | 361  |
| <b>Western Europe, total</b> | <b>5,918</b>         | <b>4,852</b>              | <b>1,066</b>                      | <b>2,605</b>                                   |

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

1) Money market transactions, bank bonds and market value derivatives not included in credit volume

The Bank also holds four first-to-default securities worth a total of € 0.2 billion to be repaid in the event of a state defaulting in the form of bonds of that country. Reference countries include Greece, Ireland, Italy, Spain and Portugal.

Since the end of 2009, the debt levels of some EU states have led to massive losses 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. Thanks to these support measures by the EU, the Bank does not feel that these states are exposed to elevated default risks at this time.

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

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



| Sectors<br>in €million            | 31 March 2010<br>Credit volume |             | 31 March 2009<br>Credit volume |             |
|-----------------------------------|--------------------------------|-------------|--------------------------------|-------------|
|                                   |                                |             |                                |             |
| Industrial sectors                | 13,094                         | 45%         | 15,791                         | 47%         |
| Mechanical engineering            | 1,257                          | 4%          | 1,365                          | 4%          |
| Energy supply                     | 1,105                          | 4%          | 1,267                          | 4%          |
| Transport support services        | 773                            | 3%          | 850                            | 3%          |
| Retail (excluding motor vehicles) | 767                            | 3%          | 817                            | 2%          |
| Services                          | 747                            | 3%          | 813                            | 2%          |
| Other industrial sectors          | 8,445                          | 29%         | 10,679                         | 33%         |
| Real estate                       | 2,631                          | 9%          | 3,256                          | 10%         |
| Financial sector                  | 569                            | 2%          | 989                            | 3%          |
| Public sector/banks               | 2,627                          | 9%          | 2,110                          | 6%          |
| <b>Total</b>                      | <b>18,921</b>                  | <b>66%</b>  | <b>22,147</b>                  | <b>67%</b>  |
| Risk transfers <sup>1)</sup>      | 8,576                          | 30%         | 9,811                          | 29%         |
| <b>Market segments (total)</b>    | <b>27,497</b>                  | <b>95%</b>  | <b>31,957</b>                  | <b>96%</b>  |
| Portfolio Investments segment     | 1,313                          | 5%          | 1,329                          | 4%          |
| <b>Group (total)</b>              | <b>28,810</b>                  | <b>100%</b> | <b>33,286</b>                  | <b>100%</b> |

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

1) Hermes guarantees, indemnifications, risks transferred

The degree of diversification in the industrial sectors is still high. No one industrial sector accounts for more than 5% of the portfolio. The higher credit volume in the “Public sector/banks” category is due to the increased investment of buffer liquidity in government bonds. Around 60% of real estate finance relates to office and commercial property. The rest is distributed between the other property types.

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

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

| Credit rating structure <sup>1)</sup><br>in €million | 31 March 2010<br>Credit volume |             | 31 March 2009<br>Credit volume |             |
|--|--------------------------------|-------------|--------------------------------|-------------|
|  |                                |             |                                |             |
| 1 - 4  | 1,842                          | 7%          | 1,444                          | 5%          |
| 5 - 7  | 3,312                          | 12%         | 4,084                          | 13%         |
| 8 - 10   | 5,130                          | 19%         | 6,366                          | 20%         |
| 11 - 13  | 4,588                          | 17%         | 5,949                          | 19%         |
| 14 - 15  | 1,279                          | 5%          | 1,571                          | 5%          |
| Problem exposures <sup>2)</sup>                      | 2,770                          | 10%         | 2,732                          | 9%          |
| <b>Total</b>   | <b>18,921</b>                  | <b>69%</b>  | <b>22,147</b>                  | <b>69%</b>  |
| Risk transfers <sup>3)</sup>                         | 8,576                          | 31%         | 9,811                          | 31%         |
| <b>Market segments (total)</b>                       | <b>27,497</b>                  | <b>100%</b> | <b>31,957</b>                  | <b>100%</b> |

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

1) Higher rating classes reflect lower creditworthiness.

2) Carrying amounts, i.e. after deducting losses from impaired financial assets (31 March 2010: € 98 million; 31 March 2009: € 156 million)

3) Hermes guarantees, indemnifications, risks transferred

The credit volumes and shares of the total portfolio in the middle rating classes 5 to 13 declined as a result of the overall reduction in the credit volume. The higher credit volume in the best rating class is due to the increased investment of buffer liquidity in government bonds. The increase in problem exposures is attributable to the recessionary macroeconomic environment. The Bank expects the credit rating structure to stabilise in the 2010/11 financial year.

**Identification and management of problem exposures.** All credit risk-bearing positions are monitored on an ongoing basis. The management of problem exposures is carried out in specialised management units. The aim of this special management is to take viable action in good time by means of close monitoring, in order to maintain the company's ability to survive or, in the event that these endeavours fail, to reduce the economic damage. Given the current economic situation, special attention is being given not just to non-performing loans but to all exposures for which permanent impairment is not expected but that require particular management from the units specialising in settlement or restructuring on the basis of the information available.

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

Table: Problem exposures<sup>1)</sup> of market segments

| Credit volume                         | 31 March 2010<br>in €million | 31 March 2009<br>in €million | Change         |              |
|---------------------------------------|------------------------------|------------------------------|----------------|--------------|
|                                       |                              |                              | in<br>€million | in %         |
| Impaired (non-performing loans)       | 2,172                        | 2,138                        | 34             | +1.6%        |
| Non-impaired                          | 696                          | 751                          | -55            | -7.3%        |
| <b>Total</b>                          | <b>2,869</b>                 | <b>2,889</b>                 | <b>-20</b>     | <b>-0.7%</b> |
| As % of market segments credit volume | 10.4%                        | 9.0%                         |                |              |

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

1) Carrying amounts including losses from impaired financial assets (31 March 2010: € 98 million; 31 March 2009: € 156 million)

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

Table: Non-performing loans by market segment

| Credit volume  | 31 March 2010<br>in €million | 31 March 2009<br>in €million | Change         |               |
|--|------------------------------|------------------------------|----------------|---------------|
|  |                              |                              | in<br>€million | in %          |
| Germany  | 1,561                        | 1,245                        | 316            | +25.4%        |
| Western Germany                                      | 953                          | 763                          | 190            | +24.9%        |
| Eastern Germany                                      | 608                          | 482                          | 126            | +26.1%        |
| Outside Germany                                      | 407                          | 472                          | -65            | -13.8%        |
| <b>Impaired loans</b>                                | <b>1,968</b>                 | <b>1,717</b>                 | <b>251</b>     | <b>+14.6%</b> |
| Securities (impaired financial assets) <sup>1)</sup> | 204                          | 421                          | -217           | -51.5%        |
| <b>Impaired (non-performing loans), total</b>        | <b>2,172</b>                 | <b>2,138</b>                 | <b>34</b>      | <b>+1.6%</b>  |
| As % of market segment credit volume                 | 7.9%                         | 6.7%                         |                |               |

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

1) Carrying amounts plus losses from impaired financial assets (31 March 2010: € 98 million; 31 March 2009: € 156 million)

The increase in non-performing loans is almost exclusively attributable to domestic corporate lending. This was offset by a slight decrease in problem exposures outside Germany as a result of the asset sales at IKB CC. Permanently impaired financial assets in the market segments also declined; this was largely due to first-to-default securities at a country level which are no longer classified as permanently impaired based on the current market spreads.

**Risk provisions.** Risk provisions in the form of a value adjustment are recognised for possible loan losses from an anticipated permanent impairment of the loan. For contingent liabilities, a provision is recognised in the event of threatened utilisation.

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

In the reporting period from 1 April 2009 to 31 March 2010, the provision for possible loan losses was € 494 million, significantly below the previous year's level of € 590 million. In the Structured Finance segment in particular (2009/10: € 194 million; 2008/09: € 324 million), a significant decrease in the provision for possible loan losses was posted in acquisition financing both inside and outside Germany. Negative economic developments were reflected in the previous financial year in the form of a sharp increase in portfolio allowances, meaning that very few additional portfolio allowances were necessary in the year under review (2009/10: € 2 million; 2008/09: € 100 million). In addition, releases of individual loan loss provisions increased by around € 43 million, while direct write-downs rose by € 39 million.

Table: Provision for possible loan losses

|   | 1 April 2009<br>to 31 March<br>2010<br>in € million | 1 April 2008<br>to 31 March<br>2009<br>in € million | Change      |
|---|---|---|-------------|
| Additions to individual loan loss provisions/accruals   | 554.6   | 549.0   | +1%         |
| Direct write-downs                                      | 50.5  | 11.9  | +324%       |
| Recoveries on loans previously written off              | -6.8  | -7.9  | -14%        |
| Additions to/releases of portfolio allowances           | 1.5   | 99.8  | -98%        |
| Reversal of specific valuation allowances/provisions    | -105.9  | -63.2   | +68%        |
| <b>Provision for possible loan losses</b>               | <b>493.9</b>  | <b>589.6</b>  | <b>-16%</b> |
| Development of individual loan loss provisions/accruals |   |   |             |
| Opening balance   | 871.3   | 801.5   | +9%         |
| Utilisation   | -349.4  | -399.9  | -13%        |
| Reversal  | -105.9  | -63.2   | +68%        |
| Reclassification  | -   | -0.8  | -100%       |
| Unwinding   | -24.8   | -21.1   | +18%        |
| Additions to individual loan loss provisions/accruals   | 554.6   | 549.0   | +1%         |
| Effect of changes in exchange rates                     | -4.8  | 5.8   | n/a         |
| <b>Total individual loan loss provisions/accruals</b>   | <b>941.0</b>  | <b>871.3</b>  | <b>+8%</b>  |
| Portfolio impairment                                    |   |   |             |
| Opening balance   | 184.6   | 83.0  | +122%       |
| Addition/release  | 1.5   | 99.8  | -98%        |
| Effect of changes in exchange rates                     | -1.0  | 1.8   | n/a         |
| <b>Total portfolio allowances</b>                       | <b>185.1</b>  | <b>184.6</b>  | <b>+0%</b>  |
| <b>Total risk provisions (including accruals)</b>       | <b>1,126.1</b>                                      | <b>1,055.9</b>                                      | <b>+7%</b>  |

Risk provisions for the Bank's traditional lending business, including portfolio allowances, totalled € 1,126 million as at 31 March 2010. The risk provision cover of loans classified as impaired amounted to 49% (31 March 2009: 49%). This decline is due to the continued derecognition of commitments considered uncollectible for which a significant bad debt allowance had already been established in previous years.

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

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

In calculating portfolio allowances, the parameters for estimating the probability of default were adjusted in the year under review with the introduction of a new rating scale and the

estimate of expected losses in the case of default of acquisition finance was revised. By contrast to September 2010, the probability of default for rating class 15 was increased in order to adequately reflect the expected credit defaults due to the crisis. In addition, the probabilities of default derived on the basis of historical data were calculated by using macroeconomic parameters in the model with a premium increased from 40% to 60% in order to reflect economic expectations; the premium for acquisition finance was reduced to 20%.

As at 31 March 2009, the current parameters would have had the following effect on the amount of portfolio allowances:

|   |                       |
|---|-----------------------|
| New rating scale:                       | € +0.5 million        |
| Expected losses on acquisition finance: | € +5.8 million        |
| Increased economic premium:             | € +6.1 million        |
| <b>Total:</b>                           | <b>€+12.4 million</b> |

The changes in estimates were recognised prospectively in line with IAS 8.

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

**Investments in structured credit products.** The risks of these positions were reduced further over the course of the financial year. At the same time, the fundamental and fair value of the remaining portfolio investments have increased.

As at 31 March 2010, the credit volume for the Portfolio Investments segment consisted of:

- € 0.57 billion (31 March 2009: € 0.57 billion) in assets transferred to the special purpose entity Rio Debt Holdings with a nominal value of € 1.85 billion (31 March 2009: € 2.65 billion). IKB's risk is limited to the junior loan with a carrying amount of € 0.19 billion (31 March 2009: € 0.12 billion). The additional risk above and beyond this first loss risk was assumed by KfW by a senior loan and by the Lone Star Group by a mezzanine loan. The nominal amount of these liabilities to KfW and Lone Star were reduced by € 0.43 billion to € 0.26 billion through repayments of the senior loan in the year under review. Additional repayments of € 0.06 billion were made after 31 March 2010.
- € 0.58 billion (31 March 2009: € 0.55 billion) in portfolio investments not sold to Rio Debt Holdings with a nominal value of € 0.61 billion (31 March 2009: € 0.73 billion) which no longer contain any sub-prime risks. Of this figure, € 0.34 billion are synthetic transactions that are being wound up as a result of the Lehman insolvency and are covered by corresponding collateral. This item also includes two synthetic transactions (nominal volume: € 0.20 billion) that are no longer backed by mixed reference assets (companies and ABS) following restructuring in May 2009, but that now solely reference companies and governments. The restructuring led to a significant increase in the stability and intrinsic value of the transactions. The balance sheet also contains a principal protected note with a nominal volume of € 0.07 billion whose original portfolio risk is 100% hedged.
- € 0.17 billion (31 March 2009: € 0.15 billion) in risks covered by KfW with a nominal volume of € 0.18 billion (31 March 2009: € 0.34 billion). This item is not included in the following tables. Covered risks with a volume of € 0.16 billion expired in the period under review without this resulting in losses for IKB or KfW. A further € 0.17 billion was reversed at par in April 2010, meaning that only one item remains with a nominal volume of € 0.01 billion and no additional risk.

In addition to the aforementioned portfolio investments, securitisation positions with a credit volume of € 0.11 billion and a nominal volume of € 0.21 billion (31 March 2009: credit volume

€ 0.16 billion, nominal volume € 0.26 billion) were held in the market segments. The positions attributable to IKB CC were sold in the second half of the financial year.

The rating class allocation of structured credit products from Rio Debt Holdings, the Portfolio Investments segment and the market segments for IKB is as follows:

*Table: Credit rating structure of structured credit products of the IKB Group\**

|                       | 31 March 2010          |            | 31 March 2009          |            |
|-----------------------|------------------------|------------|------------------------|------------|
|                       | Nominal<br>in €billion | in %       | Nominal<br>in €billion | in %       |
| Aaa                   | 0.2                    | 7          | 0.3                    | 8          |
| Aa                    | 0.1                    | 2          | 0.1                    | 2          |
| A                     | 0.1                    | 1          | 0.2                    | 7          |
| Baa                   | 0.3                    | 11         | 0.6                    | 17         |
| Ba/B                  | 0.4                    | 14         | 0.3                    | 9          |
| Sub B and no rating** | 1.7                    | 64         | 2.1                    | 57         |
| <b>Total</b>          | <b>2.7</b>             | <b>100</b> | <b>3.6</b>             | <b>100</b> |

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

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

\*\* The "Sub B and no rating" category includes four synthetic translations with a volume of € 0.34 billion being wound up as a result of the Lehman insolvency for which ratings have been withdrawn. The risks for IKB resulting from these transactions are limited to legal risks with regard to the winding up process and the credit quality of the collateral provided.

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

*Table: Underlying asset structure of structured credit products at the IKB Group*

| Underlying portfolios           | 31 March 2010          |            | 31 March 2009          |            |
|---------------------------------|------------------------|------------|------------------------|------------|
|                                 | Nominal<br>in €billion | in %       | Nominal<br>in €billion | in %       |
| Corporates                      | 0.8                    | 31         | 1.2                    | 32         |
| ABS                             | 1.8                    | 69         | 2.3                    | 62         |
| thereof with sub-prime content* | 1.2                    | 47         | 1.6                    | 44         |
| ABS/Corporates mixed            | -                      | -          | 0.2                    | 5          |
| thereof with sub-prime content  | -                      | -          | 0.2                    | 5          |
| <b>Total</b>                    | <b>2.7</b>             | <b>100</b> | <b>3.6</b>             | <b>100</b> |

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

\* € 0.12 billion relates to a synthetic CDO-of-ABS transaction being wound up that references subprime underlyings. The risks for IKB resulting from this transaction is limited to legal risks with regard to the wind-up process and the credit quality of the available collateral, i.e. IKB no longer bears any subprime risk from it.

Of the portfolio investments with underlying corporate assets (CDOs of corporates and CLOs), € 0.3 billion relate to the rating classes Sub B and 38% (31 March 2009: 49%) of the reference companies are domiciled in North America.

€ 1.7 billion of the portfolio investments with ABS underlyings are held by Rio Debt Holdings. The item also contains an investment being wound up (CDO of ABS) in the amount of € 0.1 billion and a student loan ABS (€ 0.01 billion) with an Aaa rating. The vast majority of the underlying assets are located in North America (97%; 31 March 2009: 94%).

### Liquidity and market price risk

#### *Liquidity risk*

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

The Bank covered its short-term liquidity requirements in the reporting period – and will continue to do so in future – by secured borrowing on the interbank money market (cash and term deposits), participation in ECB tenders and accepting customer deposits. The volume of new client deposits developed positively in the reporting period, now amounting to around € 2.7 billion.

A key factor in generating medium-term liquidity was the additional guarantee from SoFFin (see “Significant events”).

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

IKB has terminated the two lines of liquidity at KfW of € 3 billion limited to March 2011 ahead of schedule.

Depending on the development of its new business, the Bank expects its liquidity requirements to amount to between € 6 billion and € 7 billion over the next twelve months. To refinance these requirements, the main options available are drawing options at the ECB, accepting liabilities guaranteed by the Deposit Protection Fund and selling balance sheet assets. IKB is also planning the placement of its own unsecured bonds on the capital market in the course of the 2010/11 financial year, which will include using the updated debt issuance programme.

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. One possible scenario for this would be market developments that neither allow assets to be sold nor liabilities guaranteed by the Deposit Protection Fund to be increased nor the placement of IKB’s unsecured bonds on the capital market.

#### *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 trading, the investment portfolio (proprietary investments and 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. Loan refinancing covers the lending business, the credit substitute business (e.g. corporate bond and promissory note loan investments) and the non-subordinated refinancing instruments of the Bank. All portfolios are valued daily. Their risk content is measured in a present-value 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 instru-

ments, both in its trading book and non-trading book. Risks in the trading and non-trading book are measured and monitored using comparable methods.

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

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

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

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

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

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

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

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



| in €million                        | 31 March<br>2010 | 31 March<br>2009 |
|------------------------------------|------------------|------------------|
| <b>Basis point value</b>           | <b>0.02</b>      | <b>0.1</b>       |
| <b>Vega</b>                        | <b>-1.0</b>      | <b>-17.1</b>     |
| VaR – foreign currency             | -8.6             | -9.3             |
| VaR – interest rate and volatility | -38.1            | -126.1           |
| VaR – spread                       | -112.6           | -123.8           |
| Correlation effect                 | 49.6             | 54.7             |
| <b>VaR total</b>                   | <b>-109.7</b>    | <b>-204.5</b>    |

The drop in vega and value at risk (interest and volatility) result from the strategy largely implemented in the 2009/10 financial year of reducing non-strategic assets and derivatives in the investment portfolio with embedded option writer positions. This asset reduction also led to a decline in spread VaR of around € 11 million.

The remaining credit spread risk is largely the result of government bonds, mortgage bonds, corporate bonds and promissory note loans. The credit spread risk for IKB resulting from portfolio investments is only of minor significance due to the loans granted by KfW and Lone Star (LSF Aggregated Lendings S.A.R.L.) to Rio Debt Holdings and the risk that was transferred as a result.

**Limiting.** Limiting consists of a value at risk limit for the Group based on a 99% confidence level and assuming a holding period of 10 days. The value at risk limit is aligned towards the limit amount for the risk-bearing capacity of the Bank. Furthermore, currency risks in aggregate holdings are restricted by way of a volume limit for the open positions. No limits were exceeded in the past financial year.

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

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

### Operational risk

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

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

All business units are required to report loss events which have occurred or almost occurred to Operational Risk Management. All loss events are compiled in a central loss database and examined for how they were caused and the impact they had. Ideas for improvement can be derived from this and implemented. A risk assessment is carried out once every quarter for the OpRisk areas of activity HR, processes, infrastructure, legal risks and projects in cooperation with the head of the central division responsible. All findings are included in the quarterly risk report.

The loss volume identified in the financial year amounted to a total of € 1.5 million. The Bank currently feels that the greatest potential for operating risks lies in its legal risks (see “Legal risks”). A further risk that should not be underestimated is that entailed by rising, externally driven reporting requirements and ongoing litigation, which lay claim to considerable resources in addition to day-to-day operations or project work and therefore lead to a not insubstantial amount of extra work for employees.

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

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

The quality of the contingency plans and user exercises is ensured by means of regular emergency drills in all central divisions, front-office units and subsidiaries.

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

### Legal risk

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

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

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

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

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

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

The following legal proceedings are particularly relevant to risk.

**Legal proceedings due to alleged incorrect capital market information.** Around 140 claims have been made against the Bank by investors in IKB securities since the start of the crisis in summer 2007. These claims relate to the alleged incorrect content of the press release issued on 20 July 2007, but partly also to the alleged false content of the financial press conference held on 28 June 2007 and the alleged incorrect content of capital market information prior to this date.

The legal proceedings detailed above have a (provisional) total value in dispute of almost € 9 million. The possibility that additional investors will claim for damages against the Bank cannot be ruled out. The success of these claims could increase the overall risk to which the Bank is exposed.

More than 100 of these suits by investors have already been rejected in the first instance by the Düsseldorf Regional Court; these decisions are legally binding in at least 80 of these cases. However, this does not mean that conclusions can be drawn as to the outcome of the other legal proceedings or any decisions by higher courts. However, different civil divisions of the Düsseldorf Higher Regional Court have already dismissed appeals in nine cases. The civil divisions declared these cases to be not subject to review. Plaintiffs were not awarded damages in any of the crucial cases.

IKB considers the outstanding claims by investors not yet dismissed (with a remaining provisional value of around € 6 million) to be unfounded. Nonetheless, the possibility that additional investors will claim for damages against the Bank cannot be ruled out. The success of these claims could increase the overall risk to which the Bank is exposed.

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

**Other legal proceedings.** On 10 March 2008, the US Financial Guaranty Insurance Company (FGIC) and its British subsidiary (together FGIC) filed claims against IKB, its (then) subsidiary IKB Credit Asset Management GmbH, Düsseldorf, Havenrock II Limited and Calyon S.A. with a New York court. In the first instance, the plaintiffs applied to be released from contractual obligations in respect of Havenrock II and Calyon totalling up to US\$ 1.875 billion. Claims for an unspecified amount of damages were also filed against IKB. IKB held the view that the accusations set out in the court submission are unfounded.

In late August 2008, FGIC announced that FGIC and the Calyon (now Crédit Agricole Corporate & Investment Bank) had agreed a separate settlement, under the terms of which FGIC paid US\$ 200 million to Calyon.

The New York court dismissed the claim filed by FGIC for the first time in late December 2008 for procedural reasons.

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

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

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

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

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

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

At the start of February 2010, IKB filed to have the suits dismissed on the grounds of incompetence of the court owing to, among other things, failure to state a claim. The proceedings were dismissed by way of rulings dated 4 May and 18 May 2010. Owing to the applicable provisions of US procedural law, IKB is therefore now at the start of discovery proceedings for both matters. IKB is of the opinion that the accusations made against IKB by the plaintiffs are unfounded and will defend itself against these actions.

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

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

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

**Criminal proceedings/investigation by the public prosecutors.** In July 2009, the Düsseldorf Department of Public Prosecution brought an action against the former Chairman of the Board of Managing Directors, Mr Stefan Ortseifen, as a result of market manipulation and breach of trust. Following the opening of main proceedings by the responsible chamber of the Düsseldorf Regional Court, Mr Ortseifen has been on public trial at the Düsseldorf Regional Court since 16 March 2010. The proceedings for breach of trust, which relate solely to charges in connection with construction projects on properties inhabited by former members of the Board of Managing Directors – but owned by the Bank – were provisionally

suspended in accordance with section 154 (2) of the Strafprozessordnung (StPO – German Code of Criminal Procedure).

Orders of summary punishment have been issued for two other former members of the Board of Managing Directors in connection with the charges of breach of trust described above.

Further proceedings against all other defendants (also in terms of proceedings for breach of trust concerning irresponsible investments) were suspended at the end of June 2009 owing to insufficient evidence. Proceedings relating to the suspicion of misrepresentation have also been suspended.

**CDOs arranged by Lehman Brothers.** The Bank invested in structured credit products (five synthetic CDOs) in which Lehman Brothers acted as the secured party through a special purpose entity. Following the insolvency of Lehman Brothers, the transactions concerned were terminated by the issuer on the basis of its contractual options. In such event, the documentation provided for the liquidation of the transaction collateral and the distribution of the profits in a specific order (transaction waterfall).

Under the contractually agreed regulations, in the event of its insolvency, the swap counterparty is subordinate to the investors in the distribution of the proceeds from the transaction collateral. This regulation on seniority has since been reviewed by courts in the UK and the US. While courts of first and second instance in the UK have upheld the validity of this regulation, a first instance insolvency court in the US has granted a violation of basic insolvency law principles. The ruling of the US insolvency court is not final and an appeal is expected to be filed. It is the Bank's view, which has been confirmed by external legal opinion, that the ruling is contradictory and contains methodological defects. If the legal opinion of the US insolvency court is upheld by US and English courts, the measurements of these exposures would have to be adjusted.

**State aid proceedings.** In connection with the rescue measures taken by KfW with the support of the banking associations for the benefit of IKB, the European Commission qualified the measures as aid and approved them in October 2008 under strict conditions. The Bank must deploy considerable resources to implement these conditions. If it is unable to do so, the Bank may be significantly disadvantaged, both legally and economically. Furthermore, the EU Commission's ruling of 17 August 2009 on the admissibility of the extended SoFFin guarantee entails strict obligations with regard to IKB's operations, non-compliance with which could lead to material legal and economic disadvantages for the company.

**Recessionary actions against resolutions from General Meetings.** A recessionary and revocation claim against resolutions made at the General Meeting held on 28 August 2008 under item 6 of the agenda (election of the Supervisory Board) is currently still pending. The disputed resolutions were unaffected by the court of first instance. The ruling as of 24 June 2010 is not yet final.

The following actions against resolutions made at the Extraordinary General Meeting held on 25 March 2009 are currently still pending (as at 24 June 2010):

- 12 recessionary and revocation claims regarding agenda item 1 (authorised capital),
- 12 recessionary and revocation claims regarding agenda item 2 (contingent capital increase),
- 28 recessionary and revocation claims regarding agenda items 3 and 4 (cancelling the special audit with regard to the Board of Managing Directors and the Supervisory Board),
- 9 recessionary and revocation claims regarding agenda item 5 (election of the Supervisory Board),
- 1 recessionary and revocation claim regarding agenda item 8 (amendment of the Articles of Association with regard to the election of the Chairman of the General Meeting) and

- 4 claims against the resolution to refuse the motion brought forward in the General Meeting to vote out the Chairman of the General Meeting.

The following actions against resolutions made at the Annual General Meeting held on 27 August 2009 are currently still pending (as at 24 June 2010):

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

### Risks in connection with SoFFin conditions

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

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

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

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

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

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

### IT risk

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

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

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

Staff training is also a key element of security precautions.

These measures are supported and verified by regular checks and emergency drills. The implementation of a suitable management system for IT security in accordance with ISO 27001 was again certified by TÜV Rheinland.

### Compliance risk

As a bank, IKB is subject to specific legal standards. These include regulations on avoiding conflicts of interest, market manipulation as well as insider trading and money laundering.

The regulations on money laundering prevention are contained in special organisational instructions for IKB as well as in specific handbooks at each of the affected sites abroad. Furthermore, IKB has implemented a compliance concept in which conduct requirements with regard to securities compliance are specified as binding for all employees. This is supplemented by the Group guideline on handling conflicts of interest. Location-specific compliance concepts have been issued for each of the sites in London, Luxembourg and New York. IKB has formulated a Code of Conduct updated in the reporting period that describes the moral concepts and beliefs of IKB. The principles given in the IKB Code of Conduct include requirements for the conduct of all employees at all locations of the Group. These provide a binding frame of reference for day-to-day business.

In December 2009, responsibility for the coordination of compliance functions was assigned to the head of Legal as the Chief Compliance Officer. In the same month, regulations were passed on dealing with gifts and other benefits in a business context. A Compliance Board was established in March 2010 and began work in May 2010.

In the financial year prior to the reporting period it was found that, based on external fraud, an average threat situation to IKB, equal to that of other banks of a similar size and business model, was to be assumed. This assessment was confirmed by a detailed analysis completed at the end of the reporting period. This detailed analysis examined the risks of external/internal fraudulent activities identified and options for minimising them in depth. Overall it was found that IKB is not exposed to any atypical (by industry standards) or excessive risks of fraud. Nonetheless, potential for optimisation was identified. Corresponding improvement measures are intended for the 2010/11 financial year. An external whistleblower system has not been established.

IKB updated its threat analysis in terms of money laundering risk in March 2010. This covers all foreign branches and the new business areas of IKB. Risks specific to customers, products and transactions are recorded, identified and categorised accordingly in the threat analysis. Indicators have been derived from the risks identified, which now form the basis of monitoring as search criteria and parameters.

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

Measures to improve legitimisation were introduced in the reporting period on the basis of internal process weaknesses. There was no elevated risk of money laundering.

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

### **Personnel risk**

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

As a result of the extensive reorganisation of the Bank, there was a reorganisation of the workplace and a reduction in the number of jobs. Existing structures and deeply-rooted processes were changed and job descriptions modified. The possible distortions described in the Group management report as at 31 March 2009 did not occur as a result of the clear regulations in the reconciliation of interests and the redundancy scheme as well as consistently stable management structures.

Resignations by employees decreased sharply in the reporting period in light of the stabilisation of the Bank, the published redundancy scheme and the general situation on the labour market. It can also be considered a risk-minimising factor that a number of highly qualified new employees and executives were recruited. Also, the new positions created under the restructuring measures have been largely filled by internal reassignments. This was not the case for only a small number of these positions, with the result that the start-up and error risks were limited – particularly in the new central divisions.

### **Strategic risk and reputational risk**

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

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



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

A key aim of IKB over the course of the new strategic focus is to improve its reputation once more, which has been damaged as a result of the crisis. Reputational 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 reputational risks.

### Business risk

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

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

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

**Risk reporting and risk communication.** Deviations from planning and target figures are reported to the Board of Managing Directors as well as the relevant central division and front-office managers on a monthly basis in order to be able to take countermeasures in good time. In so doing, all front-office and central divisions are provided with the information they require in good time and in full.

### Investment risk

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

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

The Strategic Planning and Investment Management central division handles and coordinates the operative investment processes. The Legal, Office of the Board of Managing Directors and Compliance central division is responsible for examining and designing all matters relating to company and regulatory law and consults on the legal aspects of strategic decisions and on the performance of shareholder functions. Authority for decisions on strategic investments lies with the Board of Managing Directors as a whole. If the subject of

the transaction in question accounts for more than 5% of the liable equity of IKB, the acquisition, disposal or founding of companies must be approved by the Executive Committee of the Supervisory Board.

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

The investment companies are integrated into the implementation of Group-wide business and risk strategy by way of annual investment workshops, in which performance goals and risk limits are stipulated, for each significant strategic investment. Furthermore, regular management discussions and analyses are held for the early detection of undesirable trends and the initiation of adequate measures. The investments affected by the conditions of the EU Commission are managed in the context of IKB's winding up projects in terms of their implementation.

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

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

### Overall assessment of the risk situation

The risk situation at IKB has improved in recent months. Factors contributing to this included the tangible decrease in market price risks, the reduced credit portfolio and the extensive specific and portfolio allowances recognised for them. Furthermore, risks of structured credit products have been greatly limited by their reduction. In line with planning, liquidity is secure with a sufficient buffer until early 2012 thanks to the bonds issued under SoFFin guarantees.

The Tier I ratio for the Group of 10.4% is higher than the required minimum of 8%. Thus, risk-bearing capacity is intact from a regulatory viewpoint. This also applies to the economic viewpoint (equity capital provider and lender perspective) as at 31 March 2010 and for the forecast period.

However, in a market environment still defined by uncertainty and volatility, IKB remains exposed to risks arising from unexpected defaults as well as interest, liquidity and legal risks. It is also still unknown which additional regulatory requirements will be imposed on the banking industry by legislators in future.

While there are currently signs of an upturn in economic performance, this remains fragile, and the medium-term effects of the European debt crisis on counterparty default risk are difficult to predict at this time.

Partly driven by speculation, volatility is still high on all capital markets, which could lead to measurement losses on a rise in credit spreads, for example.

In particular, a crucial factor for the continuation of IKB as a going concern will be the extent to which the new business model – especially the expansion of business with derivatives, customer-based capital market products and consultancy services with the aim of increasing fee and commission income – leads to success and that the planned income is generated in the Bank's customer business.

IKB's future ability to perform on the capital market is also closely tied to this. Even though IKB's new market presence requires significantly less funding in the coming years than in the past, at least some of the funds guaranteed by SoFFin must be replaced from 2012.

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

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

To do this, it is of paramount importance that

- the Tier I ratio of at least 8% is adhered to at individual Bank level and Group level,
- total Group assets are reduced to € 33.5 billion by 30 September 2011,
- the Real Estate Finance segment and activities at the Luxembourg site are ceased on schedule and
- risk-bearing capacity is also present in the future in due consideration of the above points and the new business model.

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

The Board of Managing Directors is assuming that

- the EU requirements will be implemented on time and that the business conditions will be complied with,
- the amended business model can be successfully implemented in the medium term and thereby the Bank can restore its ability to perform on the capital market and
- the economic crisis situation will ease and the regulatory environment will not worsen dramatically.

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

### Applicable legal provisions, accounting standards and first-time adoption

Under section 289 (5) HGB, publicly traded corporations must describe the material features of their internal control and risk management system with regard to their accounting process (ICSA) in their management report. Information is considered to be material if its omission could influence the economic decisions of users of the financial statements and other elements of accounting. Materiality cannot be generally determined and the relevance of the information to the overall assessment of the annual financial statements is taken into account in its appraisal. The requirements of German Accounting Standard (DRS) 5 of the German Accounting Standards Committee (DRSC) (comments in the management report with regard to the risk management and control system) were also complied with if applicable. The reporting requirement applies to financial years beginning on or after 31 December 2008.

### Responsibility for the ICSA

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

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

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

The Supervisory Board commissioned PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft to audit the consolidated financial statements. The responsibility of the auditor is to audit the consolidated financial statements, consisting of the consolidated balance sheet, consolidated income statement and notes to the consolidated financial statements, including the bookkeeping and the Group management report. The audit of the consolidated financial statements was performed in accordance with section 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the *Institut der Wirtschaftsprüfer* (Institute of Public Auditors in Germany) (IDW). The responsibility of the auditor is to express an opinion on the consolidated financial statements and the Group management report based on its audit. The effectiveness of the ICSA was examined primarily on a test basis within the framework of the audit.

### Organisation of accounting

Accounting at IKB is essentially performed centrally in the Finance central division at the main site in Düsseldorf. However, accounting for the Luxembourg, Paris and London branches is performed at the Luxembourg location. The Finance central division is responsible for the preparation of the consolidated financial statements. The Finance central division is

supported by other divisions of the Bank in the performance of tasks within the preparation of the annual financial statements. The Taxes department is responsible for processing all tax matters at the Bank, providing tax support for foreign units (foreign branches, foreign subsidiaries, foreign investment companies) of the Bank and for calculating deferred taxes in line with HGB/IFRS. Credit Risk Management and Securitisation Structure Management calculate valuation allowances and provisions in connection with lending business and valuation allowance requirements for securitisation respectively. Financial instruments that are not related to lending business are measured by Risk Controlling. The Group management report is prepared under the guidance of the Communications department with the involvement of other areas of the Bank.

### Objectives and limits of the ICSA

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

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

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

### Organisation and function

#### Requirements of the internal control system

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

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

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

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

### **Use of IT and specifications in the internal control system**

IT systems not only have to properly map accounting policies, they must also comply with the generally accepted principles of computerised accounting systems (GoBS) and the generally accepted principles of proper accounting when using information technology (IDW RS FAIT 1). By systematically selecting its systems and contractual agreements, IKB AG ensures that its systems meet these requirements at all times. This is verified by regular internal and external audits. The necessary separation of functions is ensured in the accounting systems used by IKB by only issuing the authorisations required to process tasks. Internal Audit regularly reviews the appropriateness and compliance of the authorisation concept. The dual control principle is a component of the internal application control system. Proper operation of the systems is based on extensive system documentation and regular training.

### **Designing the ICSA**

In the accounting system there are clear instructions on recognition, measurement and reporting and posting rules for transactions as well as for the necessary disclosures in the notes and the management report. These rules are compiled in accounting manuals that are accessible to accounting employees. There is a clearly defined process for creating and revising accounting manuals. Starting with the changes in HGB and IFRS accounting policies, the effects on IKB are examined on the basis of legal drafts and drafts of accounting standards. This ensures that requirements with a more extensive impact on accounting, processes and IT systems are implemented properly and on time through the projects initiated. Changes in accounting provisions are drafted into the accounting manuals. Quality assurance of the accounting manuals by external accounting experts ensures that the changes in accounting provisions are incorporated correctly and in full. The accounting effects of new types of transactions and their presentation in accounting are prepared in new product processes and implemented into work flows, possibly with the aid of external experts.

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

The implementation of the “no accounting entries without documentation” principle and the separation of performance, approval and recording functions also ensure that only transactions that actually happened are recognised.

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

A similar process is used for the purchase and sale of securities and other financial instruments. Here, transactions are automatically copied from the trade system into the sub-

ledger system. Downstream manual and computer controls ensure that data is copied to the sub-ledger system accurately and in full. In addition, the balances of bank, nostro and security accounts are regularly checked against accounting amounts. Transactions are measured using processes entered in the system. In addition, procedures are implemented that ensure that financial instruments for which prices cannot be derived from an active market can be identified. The fair value of these instruments is calculated using recognised measurement methods in Risk Controlling. The measurement models are reviewed for suitability internally and regularly adapted in line with changing requirements. Risk Management determines factors leading to impairment on long-term investments, calculates the amount of impairment and enters this in the systems.

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

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

### **Structural and procedural organisation of the single-entity and consolidated financial statement process**

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

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

## **6. Events after 31 March 2010 (Supplementary report)**

The following new developments have arisen since 31 March 2010.

### **Status of implementation of EU conditions**

IKB has also worked continuously to satisfy the EU conditions since 31 March 2010. The current status of its work is described in “Significant events in the reporting period”.

### **Legally relevant events**

The US SEC filed suit against Goldman Sachs and one of its bond traders in mid-April 2010. The charge is that the defendant deliberately withheld vital information from investors (including RFCC) on the parties involved and risk selection processes in the creation of the Abacus 2007 AC-1 transaction. IKB is intensively examining the documents available including the indictment with a view to its legal claims.

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



## 7. Outlook

Generally, forward-looking statements relate to the subsequent financial year and the financial year immediately after that. Forecasts of overall economic development – and thereby the progress of the financial crisis and the condition of the capital markets – are extremely difficult on account of the current situation and at best only very short-term. The forward-looking statements on the opportunities of future development, the asset, liquidity and income situation are therefore subject to the condition that the financial and economic crisis will gradually recede and not continue to dominate the markets for a much longer period to such an extent that economic developments over the next two financial years will be largely defined by it.

### Future general economic conditions

The basic trend of the economy is rising following a deep slump as a result of the financial crisis. Incoming orders rose strongly in the spring of 2010 and exports are continuing to recover. Companies are also optimistic about the future. In light of this, economic institutes are anticipating in their joint economic forecast that the upturn on the economy will continue but remain moderate.

The recovery is being driven by exports, which slumped to an unexpectedly strong degree in the recession. These are benefiting from the lively expansion in the emerging markets in particular. Investment in equipment – a key indicator for IKB's lending business – will recover only slowly following its dramatic crash in 2009. The financial scope of many companies is improving only gradually on account of the erosion of equity in the crisis. Furthermore, only moderate easing is expected in the conditions for external financing in light of the ongoing problems in the banking sector. As the year progresses, investments are expected to receive more tangible stimulus from rising sales expectations in Germany and abroad. Research institutes are forecasting that equipment investment will grow by 2.2% in 2010 and 2.9% in 2011. All in all, gross domestic product in Germany is expected to increase by around 1.5% in real terms in both 2010 and 2011.

In terms of basic trend, the process of recovery in the real economy observed internationally and in Europe is not expected to be impaired by the crisis in some southern European member states of the euro zone. The rescue aid resolved at EU level has made an important contribution towards this. The economy is gradually stabilising in the countries of Western Europe relevant to IKB. Research institutes are forecasting GDP growth in 2010 of 1.5% in France and 0.5% in Italy. The UK will have difficulty emerging from the recession owing to the financial market crisis (2010: GDP growth rate of 0.6%). Spain will continue to feel the consequences of its domestic real estate crisis and the associated slump in the construction industry keenly in 2010 (2010: GDP growth rate of -0.3%). As a result of the crisis, all countries are facing severe budget deficits, especially in countries where the latest recession was coupled with a crisis in the financial or real estate sector, such as the UK and Spain. Overall, economic policy in all countries will be dominated by budget consolidation.

In spite of the basic positive prospects for a general economic recovery, the risks are still considerable. The extensive reduction of budget deficits now aimed at in all euro countries in the coming years involves major imponderables. There has not been a situation like this since the end of the Second World War. It is therefore difficult to assess how much the contractive impulses entailed with consolidation will be amplified in an international context and affect economic growth in the euro nations. Germany's recovery in particular is dependent on the export markets in Europe not losing momentum.

The economic situation for companies will also remain tense despite positive growth signals. Liquidity bottlenecks and financing difficulties will continue to pose major problems. According to Creditreform estimates, a rise in insolvency figures is therefore inevitable.

Also, the situation in the banking sector is still difficult. In Germany it cannot be ruled out that the supply of credit to the economy is not sufficiently guaranteed overall or can only be guaranteed for selected groups of SME companies as a number of negative factors take their

toll on banks' lending options. This could also become a prolonged situation. In Germany it will also become important how much banks can extend their lending scope by way of securitisation. However, the securitisation market is still not functional.

The risk-bearing capacity of the financial markets has also been lastingly impaired since the crisis – as shown by the example of Greece's debt crisis. It therefore cannot be ruled out that there will be further crises of confidence on the finance markets.

### Opportunities of future development

The long duration of the financial and economic crisis means opportunities, but there are also still risks. It is essential at this time that IKB can focus more and more of its efforts on financing business with SMEs. This has been aided by the stabilisation of the situation as regards its liquidity, capital resources and portfolio investments. In addition, the progress in meeting the EU's conditions is such that the limitations and burdens these have placed on IKB will be gradually lifted by September 2011 and a majority of them have already been processed.

In spite of the crisis situation, IKB has maintained its business with German SMEs, albeit at a reduced level. It has streamlined its organisation during the crisis and focused on new SME business. Customers are being offered a growing range of services with corresponding consultancy expertise and products. IKB is building the human resources capacity required for this, as SMEs are increasingly seeking comprehensive service. They have changed their financing habits. They now rate liquidity and margins differently and are also increasingly seeking consultancy services, which mainly relate to issues such as hedging specific risks and strategic positioning – whether this means business acquisitions or being able to operate on the capital market.

The upheaval in the banking market will be ongoing for some time. Thus, IKB has good prospects for selectively and sustainably extending its provision of consultancy, hedging and credit products to new and existing customers. With time, these business relationships will generate the diversified income that IKB's business model is striving for. When credit demand picks up again driven by economic recovery, interest income will also rise again.

IKB still has to cut its administrative costs. A key contribution to this will come from the reduction of complexity that arose from the wide range of business areas and subsidiaries. Here, too, significant progress has been made. This streamlining is also important in capping the anticipated additional expenses of the comprehensive redesign of the qualitative regulatory rules for banks and more intensive ongoing monitoring.

Part of IKB's business model is that it will use the capital market more for itself and its customers again. This means that the markets have to work better again. This will gradually come about as the economic recovery continues. In terms of transferring risk in particular, IKB will then be able to build on its many years of experience from its own securitisation operations to significantly expand its banking options with such transactions. This, in particular, will allow for matching financing maturities.

The risks essentially lie in the fact that the economic recovery is taking its time and the finance markets are still not clear of the crisis by a long way. A further significant risk is the uncertainty regarding the effects of international plans for bank regulation and bank fees. Not only could equity requirements be increased substantially and options for forming core capital be reduced, different effects on various business models could also be triggered.

### Net assets

The solvency ratio and in particular the Tier 1 capital ratio of IKB, at 14.9% and 10.4% respectively, are significantly higher than the minimum statutory requirements. Key factors contributing to this were the capital increase by Lone Star and the targeted reduction in total assets. The Tier 1 capital ratio, which is well over 8% for IKB AG and the Group, has become a main control parameter. IKB is contractually required, particularly in respect of SoFFin, to

maintain minimum Tier 1 capital of 8%. Although the economic environment remains difficult, IKB still expects to meet these minimum targets also in future. Thus, it will also continue to meet the KWG requirements provided that these are not significantly increased by international banking regulation projects in terms of the amount and composition of the necessary equity. To ensure this and other minimum ratios, IKB will essentially manage its total assets by reducing risk assets and transferring risk. It will take further measures to strengthen its capital base if necessary, particularly if the financial crisis persists.

### Liquidity situation

From a current perspective, IKB has sufficient liquidity resources until the first quarter of 2012 thanks to the issues of € 10 billion under the SoFFin guarantee, the planned sale of balance sheet assets and deposits by customers. These resources would also allow the Bank to bridge temporary, unexpected liquidity requirements, such as could emerge if the crisis were to flare up again or if there were a credit crunch in the corporate sector.

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

Planning also includes a liquidity effect of € 2 billion from the reduction of assets required to meet the EU conditions on total Group assets.

Given the current rating (Baa3/BBB-), the economically logical issuance of unsecured bearer bonds on the capital market will initially be possible only very selectively and in small amounts. This may improve in the longer term as a result of a change in investor behaviour and/or positive changes in the rating or if the capital markets starts to work better again.

The future liquidity situation is dependent on the development of new business, the extent to which customers draw on existing loan commitments and the collateral provided for derivatives business. These factors have been taken into account in the Bank's liquidity scenarios.

### Earnings performance

IKB's business performance may continue to be impaired by the financial and economic crisis and may be subject to strong earnings volatility depending on its intensity and duration. This applies to its core business and, in particular, to its positions carried at fair value.

Once its restructuring is complete, IKB is expected to have a substantially different earnings structure and a lower overall income level than in the financial years prior to 2007/08 as its total Group assets, and therefore its interest-bearing business in particular, will be considerably less. In time, there will be commission income from consultancy business, derivatives and capital market business with a growing number of SME customer relationships in addition to income from lending business. Results in the 2010/11 financial year could be affected by defaults in the corporate sector if the financial crisis lasts that long. In any event, there will still be the effect of the costs of meeting the EU's requirements, which will be incurred by the closure of locations, restrictions on business and the active reduction of total assets. In addition – depending on how the crisis progresses – there will still be an elevated allowance for losses on loans and advances and the sharp rise in refinancing costs. The reduction of administrative costs in the Group will be more moderate than in the previous year. In time, the effect of the aforementioned negative factors on net income will lessen but the structural cost savings and interest and commission income will become significant influencing factors. The medium-term goal of achieving an appropriate return on capital in operating activities requires the further expansion of consultancy services, derivative and capital market transactions in order to generate gradual growth in commission income and trading gains from customer transactions. Lending business also has to be steadily increased with sufficient margins on a smaller administrative and risk cost base.

Furthermore, the ongoing development of IKB is currently dependent on the capital markets returning to normal in this year or the next so that adequate refinancing will be possible again. This could also entail a reduction of the Bank's refinancing costs that are currently largely defined by the costs of the SoFFin guarantees.

The need to service the agreements on compensation from future profits entered into in return for the provision of € 1,050 million of regulatory core capital by KfW Bankengruppe in the 2007/08 financial year, the compensation agreement relating to the waiver by LSF6 Europe of its repayment claim and future interest payment claims arising from the subordinated bonds of IKB assumed in November and December 2008 and the impairment loss reversal rights of hybrid investors is likely to result in the Group and IKB AG not reporting any, or only minimal profit, for several financial years to come.

## **8. Remuneration report**

This remuneration report relates to the remuneration of members of the Board of Managing Directors and the Supervisory Board in and for the 2009/10 financial year and presents the organisation of the remuneration systems in and for this financial year. The design of the remuneration report takes into account the regulations of the German Commercial Code and the principles of the German Corporate Governance Code.

### **The remuneration system of the Board of Managing Directors**

The members of the Board of Managing Directors in the 2009/10 financial year were:

- Hans Jörg Schüttler (Chairman of the Board of Managing Directors),
- Dr Dieter Glüder,
- Dr Reinhard Grzesik (until 3 July 2009),
- Claus Momburg,
- Dr Michael H. Wiedmann.

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

A new remuneration structure has not been developed as yet in view of the Bank's current economic situation.

The Supervisory Board as a whole stipulates the total remuneration of individual members of the Board of Managing Directors at the proposal of its Executive Committee, resolves the remuneration system for the Board of Managing Directors and reviews it regularly.

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

The entire Supervisory Board regularly reviews the appropriateness of the respective total remuneration. This includes any remuneration from Group mandates.

IKB was granted an extended guarantee by SoFFin in August 2009. However, SoFFin imposed several conditions when granting these funds, including that the members of the Board of Managing Directors of IKB must waive payments in excess of € 500 thousand p.a. from 3 July 2009 to 31 December 2010 and that suitable agreements be put in place to ensure that any claims to subsequent payment do not affect the IKB balance sheet, i.e. that no provisions are recognised or liabilities posted in particular. This does not affect fringe benefits (e.g. company cars, insurance, pension instalments, telephone use) and subsequent payments are only permitted after the end of the SoFFin guarantees.

### *Non-performance-related remuneration components*

The non-performance-related basic annual salary is paid as a monthly salary. Owing to the SoFFin requirements in connection with the guarantee, the contracts for the Board of Managing Directors were adjusted and the basic annual salary for its members was set at € 500 thousand from 1 July 2009.

Members of the Board of Managing Directors also receive fringe benefits in the form of remuneration in kind, consisting mainly of insurance premiums and the use of a company car. As these fringe benefits are a remuneration component, the individual member of the Board of Managing Directors must pay tax on them. The exact amount will vary among the individual members of the Board of Managing Directors, depending on their personal situation. No loans or advances were granted to members of the Board of Managing Directors in the reporting year.

### *Performance-related remuneration components*

In accordance with the recommendations of the German Corporate Governance Code, the remuneration system in place in the 2009/10 financial year consists of fixed and variable components. The variable remuneration component (bonus) involves a risk element, which means that this remuneration is not assured. A minimum bonus has not been agreed.

In order to meet the SoFFin requirements in connection with the guarantee, the members of the Board of Managing Directors in office have waived bonus payments (including the previously agreed minimum bonus) from the 2008/09 financial year until 31 December 2010. Thus, the remuneration of members of the Board of Managing Directors does not exceed the cap agreed with SoFFin.

The basis for variable remuneration is the attainment of the targets agreed in writing with each active member of the Board of Managing Directors. The Supervisory Board and the members of the Board of Managing Directors have agreed only goals based on the restructuring and stabilisation of the Bank with a multi-year assessment basis and a long-term incentive effect for the coming years. The performance goals are based on the specifications, conditions and requirements of the EU, SoFFin and the Deposit Protection Fund and can be changed by the Supervisory Board in consultation with the respective member of the Board of Managing Directors in line with the company's development.

The amount of variable remuneration is stipulated according to the extent to which the targets are achieved. A target bonus is agreed with each member of the Board of Managing Directors for 100% attainment of a target. This bonus can rise or fall depending on the extent to which the target is achieved. A bonus cap has also been agreed. The bonus is limited to a maximum of 200% in two cases and a maximum of 130% or 137% of the target bonus in two other cases.

Furthermore, the Supervisory Board can also consider other aspects at its due discretion in stipulating the bonus in line with the company's results and economic situation as well as the performance of the member of the Board of Managing Directors. This may result in a higher or lower bonus within the set limits.

To date, the bonuses for members of the Board of Managing Directors have been resolved in full after the close of the financial year. In future, a bonus will be determined with a view to the sustainable development of the company over multiple years. Progress payments are permitted.

### *Change of control*

The contracts of the members of the Board of Managing Directors in office contain change of control clauses on account of the adjustments made in the 2009/10 financial year. These clauses state that each member of the Board of Managing Directors is entitled to terminate his contract to the end of the month and resign his office as from the end of his contract in the

event of a change of control. The special right of termination can only be exercised within six months of a change of control taking place. A change of control occurs if, within the meaning of sections 21 ff. of the Wertpapierhandelsgesetz (WpHG – German Securities Trading Act), a person not affiliated with LSF6 Europe within the meaning of sections 15 ff. of the Aktiengesetz (AktG – German Stock Corporation Act) acquires more than 50% of voting rights in the company or these shares are attributable to this party.

***Payments from third parties***

In the last financial year, no member of the Board of Managing Directors received payments or promises of such from a third party in respect of their function as a member of Board of Managing Directors. Furthermore, no remuneration was paid to members of the Board of Managing Directors for assuming executive functions at subsidiaries in the 2009/10 financial year.

***Overview of Board of Managing Directors remuneration***

Details of the remuneration of the Board of Managing Directors for the 2009/10 financial year in accordance with contractual agreements and the resolutions of the full Supervisory Board are presented in the table below:

| <b>Annual remuneration in €thousand</b> | <b>Fixed remuneration</b> | <b>Variable remuneration</b> | <b>Pension compensation</b> | <b>Value of fringe benefits*</b> | <b>Total</b> |
|---|---------------------------|------------------------------|-----------------------------|----------------------------------|--------------|
| Hans Jörg Schüttler                     | 562**                     | 0                            | 120                         | 18                               | 700          |
| Dr Dieter Glüder                        | 495                       | 0                            |                             | 16                               | 511          |
| Dr Reinhard Grzesik (until 3 July 2009) | 124                       | 0                            | 31                          | 6                                | 161          |
| Claus Momburg                           | 477                       | 0                            |                             | 24                               | 501          |
| Dr Michael H. Wiedmann                  | 495                       | 0                            | 120                         | 17                               | 632          |
| <b>Total</b>                            | <b>2,153</b>              | <b>0</b>                     | <b>271</b>                  | <b>81</b>                        | <b>2,505</b> |

\* Remuneration for assuming executive functions at subsidiaries was no longer incurred in the 2009/10 financial year.

\*\* The basic annual salary of the members of the Board of Managing Directors was set to € 500 thousand each from 1 July 2009 in accordance with the SoFFin conditions (remuneration cap from 3 July 2009 to 31 December 2010). Mr Schüttler's fixed remuneration for the 2009/10 financial year of € 562 thousand results from the payment of the previously higher basic salary for the months April to June.

Annual remuneration for the Board of Managing Directors as a whole for the 2008/09 financial year amounted to € 7,068 thousand. € 2,380 thousand of this related to fixed remuneration, € 3,117 thousand to variable remuneration, € 280 thousand to pension compensation and € 1,291 thousand to fringe benefits (including compensation). However, variable remuneration was not paid to Mr Schüttler, Dr Glüder, Mr Momburg or Dr Wiedmann for the 2008/09 financial year on account of their waiver.

***Payments in the event of termination of employment and pensions***

As described above, all the members of the Board of Managing Directors in office on 31 March 2010 have a special right of termination for the event of a change of control. Compensation for members of the Board of Managing Directors who exercise this right has not been agreed to date but will be decided after 31 December 2010 if necessary.

On retirement, the Board of Managing Directors members Dr Glüder and Mr Momburg have a right to a life-long pension. The pension is payable if the respective member's contract (a) ends when or after the member reaches the age of 63, (b) ends before the member reaches the age of 63 on account of long-term disability or (c) ends before the member reaches the age of 63 on the grounds of early termination or non-renewal, whereby the pension is not payable in this case if the respective member refuses an offer to renew his contract at the same or more advantageous (to the member) conditions or if the early termination or non-renewal is for good cause for which that member is responsible, limited to gross negligence or

intent. The pension shall also be payable to Mr Momburg and Dr Glüder within the meaning of the case described in (c) in the event of their contracts ending on the basis of a change of control; this does not apply, however, if the Bank exercises its own right of extraordinary termination for good cause.

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

The pension benefit paid depends on the length of service on the Board of Managing Directors. The basic entitlement amounts to 35% of pensionable income for Dr Glüder and 50% for Mr Momburg. The amount of the transitional payment depends on the age of the member of the Board of Managing Directors and amounts to between 5% and 75% of the last basic annual salary. However, in the event of their contracts being terminated early on account of a change of control and, for Dr Glüder, for the event of the Bank terminating his contract, the transitional payments will amount to at least € 150 thousand p.a. Other pension entitlements and other income from employment shall be offset against the company's pension benefits to a specific extent. Current pensions shall be adjusted annually in accordance with the development of the consumer price index for Germany.

Mr Momburg has entered an agreement to waive his contractual entitlement to transitional payments under the condition precedent that a court determines personal liability (intent or gross negligence) in a final and absolute judgement in connection with the crisis of the Bank. This does not apply to his entitlement to transitional payment in the event of a change of control, though this entitlement only applies if his contract is not terminated for good cause.

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

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

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

| <b>in € thousand</b> | <b>Annual benefits in the event of a pension claim as of 31 March 2010</b> | <b>Addition to pension provisions as of 31 March 2010 (service cost)</b> |
|----------------------|--|--|
| Dr Dieter Glüder     | 375*   | 447  |
| Claus Momburg        | 375*   | 122  |

\* Assuming employment until the member's 63rd birthday

The members of the Board of Managing Directors Mr Schüttler and Dr Wiedmann and the former member of the Board of Managing Directors Dr Grzesik are not or were not, respectively, entitled to receive pension benefits from IKB on account of different regulations.



***Repayment claims of the company***

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

An annulment agreement was concluded with the former member of the Board of Managing Directors Mr Braunsfeld on his contract regarding the repayment of bonuses for the 2006/07 financial year, under which the repayment claim (€ 25 thousand) was offset.

The claims to management bonuses between IKB and the former members of the Board of Managing Directors Dr Doberanzke and Dr Guthoff were settled in December 2008. Voluntarily and without prejudice, Dr Doberanzke and Dr Guthoff repaid the management bonuses claimed by the Bank (€ 583 thousand and € 600 thousand respectively) in the amounts of € 494 thousand and € 499 thousand respectively in October and December 2008. The repayments were made by mutual consent. The differences between the gross amounts and the amounts repaid represent the tax disadvantage which resulted because the management bonuses paid in 2007 were not repaid until 2008. In addition, the difference in Dr Doberanzke's case is due to the fact that, in the 2006/07 financial year, he was a member of the Board of Managing Directors for only ten months. In the context of the repayment agreements with Dr Doberanzke and Dr Guthoff, it was agreed with both parties to pay the remuneration previously withheld for their role on the Advisory Councils in companies of the IKB Group in the financial year 2006/07 (€ 24 thousand and € 50 thousand respectively). The remuneration was paid in January 2009.

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

Each month since May 2008, IKB has been offsetting pension payments owed to the former member of the Board of Managing Directors Mr Neupel, to the extent permitted by law, against its claim for the return of the overpaid bonus for the 2006/07 financial year (€ 451 thousand). Mr Neupel instituted legal proceedings leading to a judgement for payment of his pension benefits for the months from May to July 2008. A provisional judgement in Mr Neupel's favour was then issued in December 2008. The company has appealed to have this judgement revoked. Furthermore, IKB is countersuing Mr Neupel for compensation for the Bank's expenses for the costs of unjustified and unapproved construction work to the residential building owned by the company and rented by Mr Neupel as well as for the Bank's expenses, for which Mr Neupel is responsible, in connection with the unjustified and unapproved construction work on the residential building rented by Mr Ortseifen, which is also owned by the Bank (€ 324 thousand in total). Since May 2010, IKB has also been offsetting the pension claims of Mr Neupel for the months of May to July 2008 for which he sued and his current pension claims against these claims for damages in addition to its claim for repayment of the overpaid bonus for the 2006/07 financial year. However, the declared offsetting of Mr Neupel's pension benefits against the claim for repayment of the bonus paid to Mr Neupel for the 2006/07 financial year occurred for the last time in May 2010 as this marked the fulfilment of IKB's claim for repayment of € 451 thousand. On 8 April 2010, the Düsseldorf Regional Court ruled to suspend the proceedings with Mr Neupel until the criminal proceedings being conducted against Mr Stefan Ortseifen have been concluded.

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

### ***Former members of the Board of Managing Directors***

The total remuneration for former members of the Board of Managing Directors and their surviving dependents amounted to € 3,314 thousand (previous year: € 3,097 thousand). Provisions of € 50,001 thousand were recognised for pension obligations to former members of the Board of Managing Directors and their surviving dependents (previous year: € 45,959 thousand).

### **The remuneration system of the Supervisory Board**

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

The Chairman of the Supervisory Board receives double and each Deputy Chairman receives 1.5 times the remuneration of a member of the Supervisory Board. The remuneration also increases by a factor of 0.25 of a Supervisory Board member's remuneration for each position held on a Supervisory Board committee and by a factor of an additional 0.25 for each Supervisory Board committee chaired. This does not include members of the Nomination Committee, who do not receive any additional remuneration for their duties in accordance with the by-laws of the Supervisory Board. The additional remuneration for committee work cannot exceed the remuneration of a member of the Supervisory Board. Members of the Supervisory Board who belong to the Supervisory Board or a committee for only part of the financial year receive pro rata remuneration for the month or part of a month in which their position was held.

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

### ***Remuneration of the Supervisory Board***

The Supervisory Board members will not receive any variable remuneration for the financial year 2009/10 on the assumption that a dividend will not be distributed as a result of the company's circumstances.

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

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

Details on the remuneration of the Supervisory Board for the 2009/10 financial year can be found in the table below:

| <b>in € thousand</b>                                | <b>Total (fixed remuneration only; variable remuneration will not be paid because no dividend is to be distributed)</b> |
|---|---|
| Bruno Scherrer (Chairman)                           | Waived  |
| Dr Karsten von Köller (Deputy Chairman)             | Waived  |
| Stefan A. Baustert                                  | 20  |
| Wolfgang Bouché                                     | 25  |
| Olivier Brahin                                      | Waived  |
| Dr Lutz-Christian Funke                             | 20  |
| Ulrich Grillo                                       | 20  |
| Arndt G. Kirchhoff                                  | 20  |
| Jürgen Metzger                                      | 20  |
| Dr Claus Nolting                                    | Waived  |
| Dr Thomas Rabe (from 23 June 2009)                  | 17  |
| Dr Eberhard Reuther (until 27 April 2009)           | 2   |
| Dr Carola Steingräber (until 27 August 2009)        | 8   |
| Carmen Teufel (from 27 August 2009)                 | 13  |
| Dr Andreas Tuczka                                   | Waived  |
| Ulrich Wernecke                                     | 25  |
| Andreas Wittmann                                    | 20  |
| <b>Sub-total</b>                                    | <b>210</b>  |
| Value-added tax payable on earnings (VAT)           | 34  |
| Reimbursement of Supervisory Board expenses (total) | 10  |
| <b>Total</b>  | <b>254</b>  |

## **9. Other financial information**

### **Disclosures in accordance with Section 315 (4) HGB**

As at 31 March 2010, the share capital of the company amounted to € 1,621,315,228.16, comprising 633,326,261 no-par value bearer shares. All shares convey the same rights. Each share conveys one vote and is the determinant for participation in the company's profit.

By way of resolution of the Annual General Meeting of IKB AG on 28 August 2008, the Board of Managing Directors was authorised to issue convertible and option bonds with a total nominal value of € 900,000,000.00 and a maximum duration of 20 years by 27 August 2013 and to grant the bearers of these bonds conversion or option rights to up to 48,339,843 no-par value bearer shares in the company with a stake of up to € 123,749,998.08 in the share capital according to the relevant bond conditions. On 19 November 2008, the Board of Managing Directors of the company resolved to issue subordinate bonds with a total nominal value of up to € 123,671,070.72 with a contingent conversion obligation and contingent conversion privilege for up to 48,309,012 shares in the company from contingent capital with a shareholders' subscription right. The conditions for the existence of a conversion obligation and conversion privilege were that the recessionary action against the authorisation granted on 28 August 2008 is settled and the contingent capital associated with the authorisation is entered as final into the company's commercial register. The convertible bonds were offered to shareholders of the company in a non-public offer for subscription between 24 November 2008 and 8 December 2008. A subsidiary of the Lone Star group, LSF6 Rio S.à.r.l., had undertaken to assume all bonds not subscribed to by other IKB AG shareholders. Bonds totalling € 150,174.72 were subscribed to by other shareholders and the remaining amount of € 123,520,896.00 was acquired by Lone Star (LSF6 Rio S.à.r.l.). A bond of nominally € 23.04 entitles the bearer to subscribe to nine new shares from contingent capital at a conversion price of € 2.56 per share. Since 1 July 2009, the conditions for the existence of a conversion obligation and a conversion privilege have been met. As a result, a conversion privilege has existed since this time. A conversion obligation shall exist not later than on 11 April 2012, or earlier if the company falls below certain regulatory financial ratios. LSF6 Rio S.à.r.l. exercised its conversion right in full on 2 July 2009. On issuance of the subscribed shares on 14 July 2009, this increased the share capital of the company by € 123,520,896.00 to € 1,621,315,228.16.

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 2009/10 financial year.

By way of resolution of the Extraordinary General Meeting on 25 March 2009, the Board of Managing Directors was authorised, with the approval of the Supervisory Board, to increase the share capital of the company by a total of up to € 247,499,996.16 against cash or non-cash contributions by issuing up to 96,679,686 new no-par value bearer shares until 24 March 2014. With the approval of the Supervisory Board, the statutory subscription rights of shareholders can be disapplied under this authorisation. Recessionary and revocation claims have been brought against this resolution on which a verdict has not yet been reached. This has not yet been entered in the commercial register.

By way of a further resolution of the Extraordinary General Meeting held on 25 March 2009, the Board of Managing Directors was authorised to issue convertible and option certificates and convertible and/or option bonds with a total nominal value of € 900,000,000.00 by 24 March 2014 and to grant the bearers of these bonds conversion or option rights to shares in the company with a share of up to € 618,749,990.40 in the share capital according to the relevant bond conditions. The residual authorisation to issue convertible and option bonds of up to € 776,328,929.28 from 28 August 2008 was revoked by way of resolution of the

Extraordinary General Meeting on 25 March 2009. Actions for annulment have been brought against this resolution that have not yet been resolved. This has not yet been entered in the commercial register.

The resolution of the Annual General Meeting on 28 August 2008 authorised the company to acquire and sell treasury shares for the purpose of securities trading up to 27 February 2010. The amount of shares acquired for this purpose cannot exceed 5% of the share capital at the end of any one day. Together with the treasury shares acquired for other reasons held by the company or assigned to it in accordance with sections 71a ff. AktG, the shares acquired on the basis of this authorisation cannot exceed 10% of the share capital at any time. This authorisation was not utilised in the 2009/10 financial year.

In the Annual General Meeting held on 28 August 2008, the company was also authorised to acquire treasury shares of up to 10% of the share capital for purposes other than securities trading until 27 March 2010. The shares can be acquired on the stock exchange or by way of a public bid to all shareholders. The acquisition of shares may be carried out using put or call options. Such share acquisitions are limited to shares of a maximum volume of 5% of the share capital at the time of the resolution on this authorisation by the Annual General Meeting on 28 August 2008. Together with the treasury shares acquired for trading purposes and other reasons held by the company or assigned to it in accordance with sections 71a ff. AktG, the treasury shares acquired on the basis of these authorisations cannot exceed 10% of the share capital of the company at any time. In line with a decision by the Board of Managing Directors, the acquired shares can be sold on the stock exchange or in some other way or, in full or in part, called in. These authorisations were not utilised in the 2009/10 financial year.

By a resolution of the Annual General Meeting on 27 August 2009, the Board of Managing Directors was authorised to acquire and sell treasury shares for the purpose of securities trading until 26 February 2011. The amount of shares acquired for this purpose cannot exceed 5% of the share capital at the end of any one day. Together with the treasury shares acquired for other reasons held by the company or assigned to it in accordance with sections 71a ff. AktG, the shares acquired on the basis of this authorisation cannot exceed 10% of the share capital at any time. This authorisation was not utilised in the 2009/10 financial year. The authorisation to acquire treasury shares for trading purposes granted by the Annual General Meeting on 28 August 2008 and limited until 27 February 2010 was revoked by way of resolution of the Annual General Meeting on 27 August 2009 for the period from the new authorisation coming into effect.

At the Annual General Meeting held on 27 August 2009, the company was also authorised to acquire treasury shares of up to 10% of the share capital for purposes other than securities trading until 26 February 2011. The shares can be acquired on the stock exchange or by way of a public bid to all shareholders. The acquisition of shares may be carried out using put or call options. Such share acquisitions are limited to shares of a maximum volume of 5% of the share capital at the time of the resolution on this authorisation by the Annual General Meeting on 27 August 2009. Together with the treasury shares acquired for trading purposes and other reasons held by the company or assigned to it in accordance with sections 71a ff. AktG, the treasury shares acquired on the basis of these authorisations cannot exceed 10% of the share capital of the company at any time. In line with a decision by the Board of Managing Directors, the acquired shares can be sold on the stock exchange or in some other way or, in full or in part, called in. These authorisations were not utilised in the 2009/10 financial year. The authorisation to acquire and use treasury shares in line with section 71 (1) no. 8 AktG granted by the Annual General Meeting on 28 August 2008 and limited until 27 February 2010 was revoked by way of resolution of the Annual General Meeting on 27 August 2009 for the period from the new authorisation coming into effect.

Since 29 October 2008, a 90.81% share of voting rights in IKB AG has been held directly by LSF6 Europe and indirectly by LSF6 Europe Partners, LLC (Delaware), Dallas, USA, Lone Star Europe Holdings, L.P. (Bermuda), Hamilton, Bermuda, Lone Star Europe Holdings, Ltd. (Bermuda) Hamilton, Bermuda, and Mr John P. Grayken, USA. As a result of the exercise of conversion rights from bonds in the company by the subsidiary of the Lone Star group, LSF6 Rio S.à.r.l., on 2 July 2009, the share of the voting rights held by the Lone Star group

increased slightly with the issue of subscribed shares on 14 July 2009 to 91.51%. Since 20 July 2009, a 91.51% share of voting rights has been held directly by LSF6 Europe and indirectly by LSF6 Europe Partners, LLC (Delaware), Dallas, USA, Lone Star Europe Holdings, L.P. (Bermuda), Hamilton, Bermuda, Lone Star Europe Holdings, Ltd. (Bermuda) Hamilton, Bermuda, and Mr John P. Grayken, USA. The remaining capital is held by institutional and private investors.

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

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

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

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

- The composition of the share capital is based on Article 5 of the Articles of Association. The company has only issued ordinary shares. There are no preference shares or special rights for individual shareholders.
- With regard to the expiry of the two authorisations on 26 February 2011 for the acquisition and sale of treasury shares for the purpose of securities trading and for other purposes, the Board of Managing Directors intends to request the Annual General Meeting in 2010 to issue new authorisations of a similar type.
- In LSF6 Europe, a company of the Lone Star financial investor, IKB has a main shareholder that supports a continued focus on the medium and long-term financing of German medium-sized enterprises with an extended range of services offered to Corporate Clients.
- The appointment and dismissal of members of the Board of Managing Directors is in accordance with the provisions of the law and the Articles of Association. In accordance with the by-laws of the Supervisory Board, the Supervisory Board appoints the Chairman of the Board of Managing Directors from the members of the Board of Managing Directors. Changes to the Articles of Association are facilitated to legally permissible extent.

Düsseldorf, 24 June 2010

IKB Deutsche Industriebank AG  
The Board of Managing Directors

Consolidated Financial Statements  
in accordance with International  
Financial Reporting Standards  
for the year ended 31 March 2010

**Consolidated statement of comprehensive income of IKB Deutsche Industriebank AG for the period from 1 April 2009 to 31 March 2010**

**Consolidated income statement**

| in € million  | Notes | 1 Apr 2009 -<br>31 Mar 2010 | 1 Apr 2008 -<br>31 Mar 2009 |
|---|-------|-----------------------------|-----------------------------|
| <b>Net interest income</b>  | (24)  | <b>178.5</b>                | <b>302.6</b>                |
| Interest income   |       | 2,002.5                     | 2,560.7                     |
| Interest expenses   |       | 1,824.0                     | 2,258.1                     |
| <b>Provision for possible loan losses</b>                             | (25)  | <b>493.9</b>                | <b>589.6</b>                |
| <b>Net interest income (after provision for possible loan losses)</b> |       | <b>-315.4</b>               | <b>-287.0</b>               |
| <b>Net fee and commission income</b>                                  | (26)  | <b>-51.5</b>                | <b>33.2</b>                 |
| Fee and commission income   |       | 45.0                        | 53.7                        |
| Fee and commission expenses   |       | 96.5                        | 20.5                        |
| <b>Net income from financial instruments at fair value</b>            | (27)  | <b>-598.9</b>               | <b>-162.1</b>               |
| <b>Net income from investment securities</b>                          | (28)  | <b>159.2</b>                | <b>-282.1</b>               |
| <b>Result of investments accounted for at equity</b>                  | (29)  | <b>-0.7</b>                 | <b>-8.4</b>                 |
| <b>Administrative expenses</b>  | (30)  | <b>301.5</b>                | <b>375.3</b>                |
| Personnel expenses  |       | 164.2                       | 179.4                       |
| Other administrative expenses   |       | 137.3                       | 195.9                       |
| <b>Other operating income</b>   | (31)  | <b>163.9</b>                | <b>131.3</b>                |
| Other operating income  |       | 329.2                       | 491.3                       |
| Other operating expenses  |       | 165.3                       | 360.0                       |
| <b>Restructuring expenses</b>   | (32)  | <b>6.4</b>                  | <b>51.8</b>                 |
| <b>Operating result</b>   |       | <b>-951.3</b>               | <b>-1,002.2</b>             |
| Income taxes  | (33)  | 18.8                        | -426.5                      |
| Other taxes   |       | 4.0                         | 4.6                         |
| <b>Consolidated net loss</b>  |       | <b>-974.1</b>               | <b>-580.3</b>               |
| Minority interests  |       | 0.2                         | 0.3                         |
| <b>Consolidated net loss after minority interests</b>                 |       | <b>-973.9</b>               | <b>-580.0</b>               |

**Earnings per share**

|  | 1 Apr 2009 -<br>31 Mar 2010 | 1 Apr 2008 -<br>31 Mar 2009 |
|--|-----------------------------|-----------------------------|
| Consolidated net loss after minority interests (€ million) | -973.9                      | -580.0                      |
| Average number of shares outstanding (million)             | 621.3                       | 308.2                       |
| <b>Earnings per share (€)</b>                              | <b>-1.57</b>                | <b>-1.88</b>                |

As the conversion conditions were met on 2 July 2009, the number of no-par value bearer shares included in calculating earnings per share increased to 633,384,923 during the period under review (including those shares still to be converted). Accordingly, the average number of shares outstanding in the 2009/10 financial year was 621,307,670.

Diluted earnings per share were not calculated.



Statement of comprehensive income

| in € million   | 1 Apr 2009 -<br>31 Mar 2010 | 1 Apr 2008 -<br>31 Mar 2009 |
|--|-----------------------------|-----------------------------|
| <b>Consolidated net loss</b>   | <b>-974.1</b>               | <b>-580.3</b>               |
| Changes in financial assets available for sale recognised directly in equity                   | 37.4                        | -59.5                       |
| Changes in financial assets available for sale recognised in profit or loss                    | 3.2                         | 46.1                        |
| Changes in cash flow hedges recognised in profit or loss                                       | -                           | -37.4                       |
| Changes in derivatives hedging fluctuations in future cash flows recognised directly in equity | 0.8                         | -12.1                       |
| Currency translation differences recognised directly in equity                                 | 3.3                         | -27.5                       |
| Changes due to actuarial gains/losses (IAS 19) recognised directly in equity                   | -9.5                        | -27.2                       |
| Deferred taxes on other income   | -9.6                        | 33.2                        |
| <b>Other income</b>  | <b>25.6</b>                 | <b>-84.4</b>                |
| <b>Total comprehensive income</b>  | <b>-948.5</b>               | <b>-664.7</b>               |

The corresponding tax effects are discussed in note 66.

| in € million                                      | 1 Apr 2009 -<br>31 Mar 2010 | 1 Apr 2008 -<br>31 Mar 2009 |
|---|-----------------------------|-----------------------------|
| <b>Total comprehensive income attributable to</b> |                             |                             |
| Shareholders of IKB AG                            | -948.3                      | -664.4                      |
| Minority interests                                | -0.2                        | -0.3                        |

Consolidated balance sheet of IKB Deutsche Industriebank AG  
as of 31 March 2010

| in € million  | Notes    | 31 Mar 2010     | 31 Mar 2009 *   | 31 Mar 2008     |
|---|----------|-----------------|-----------------|-----------------|
| <b>Assets</b>   |          |                 |                 |                 |
| Cash reserve  | (8, 34)  | 14.9            | 4.2             | 308.8           |
| Loans and advances to banks   | (9, 35)  | 2,518.3         | 2,979.5         | 2,850.3         |
| Loans and advances to customers   | (9, 36)  | 23,665.1        | 27,927.9        | 28,843.6        |
| Provision for possible loan losses  | (10, 37) | -1,072.2        | -997.7          | -861.2          |
| Assets held for trading   | (11, 38) | 1,341.3         | 3,732.8         | 3,637.7         |
| Investment securities   | (12, 39) | 8,340.7         | 10,236.3        | 12,839.7        |
| of which € 576.9 million investment securities pledged as collateral, available for sale or reassignment by the protection purchaser as of 31 March 2010 (31 March 2009: € 631.4 million; 31 March 2008: € 1,957.0 million) |          |                 |                 |                 |
| Companies accounted for using the equity method   | (13, 40) | 9.5             | 7.5             | 14.7            |
| Intangible assets   | (14, 41) | 12.9            | 19.1            | 32.1            |
| Property, plant and equipment   | (15, 42) | 179.5           | 256.1           | 218.8           |
| Current tax assets  | (16, 43) | 42.7            | 57.7            | 44.8            |
| Deferred tax assets   | (16, 44) | 233.2           | 256.2           | 183.6           |
| Other assets  | (17, 45) | 258.5           | 228.2           | 2,111.1         |
| Non-current assets held for sale  | (18, 46) | 190.7           | 3.1             | -               |
| <b>Total</b>  |          | <b>35,735.1</b> | <b>44,710.9</b> | <b>50,224.0</b> |

|   |                  |                 |                 |                 |
|---|------------------|-----------------|-----------------|-----------------|
| <b>Equity and liabilities</b>                       |                  |                 |                 |                 |
| Liabilities to banks                                | (9, 47)          | 11,998.0        | 15,318.7        | 17,449.3        |
| Liabilities to customers                            | (9, 48)          | 7,517.9         | 5,818.8         | 5,751.5         |
| Securitised liabilities                             | (19, 49)         | 10,788.6        | 14,025.9        | 18,184.8        |
| Liabilities held for trading                        | (11, 50)         | 2,481.9         | 5,480.0         | 5,410.9         |
| Provisions  | (20, 21, 51, 52) | 156.8           | 172.3           | 83.7            |
| Current tax liabilities                             | (16, 53)         | 109.8           | 94.8            | 88.1            |
| Deferred tax liabilities                            | (16, 54)         | 103.3           | 139.6           | 149.2           |
| Other liabilities                                   | (17, 55)         | 432.1           | 547.9           | 163.4           |
| Liabilities in connection with assets held for sale | (18, 56)         | 2.6             | 0.0             | 0.0             |
| Subordinated capital                                | (22, 57)         | 1,214.2         | 1,357.9         | 1,779.7         |
| Equity  | (23, 58)         | 929.9           | 1,755.0         | 1,163.4         |
| Issued capital                                      |                  | 1,621.3         | 1,497.8         | 247.8           |
| Capital reserve                                     |                  | 597.8           | 597.8           | 597.8           |
| Retained earnings                                   |                  | -291.2          | -206.8          | 318.3           |
| Currency translation reserve                        |                  | -17.2           | -20.5           | 7.0             |
| Revaluation surplus                                 |                  | -6.9            | -35.9           | 2.8             |
| Minority interests                                  |                  | 0.0             | 0.1             | 0.4             |
| Consolidated cumulative loss                        |                  | -973.9          | -77.5           | -10.7           |
| <b>Total</b>  |                  | <b>35,735.1</b> | <b>44,710.9</b> | <b>50,224.0</b> |

\* Figures adjusted

Statement of changes in equity

| in € million   | Issued capital | Capital reserve | Retained earnings               |        | Currency translation reserve | Revaluation surplus                 |   |                        | Consolidated income/cumulative loss | Total   | Minority interests | Total equity |
|--|----------------|-----------------|---------------------------------|--------|------------------------------|-------------------------------------|---|------------------------|-------------------------------------|---------|--------------------|--------------|
|  |                |                 | Actuarial gains/losses (IAS 19) | Other  |                              | Financial assets available for sale | Derivatives hedging fluctuations in future cash flows | Hedges (IFRS 1 IGB0 B) |                                     |         |                    |              |
| <b>Equity as of 1 April 2008</b>                               | 247.8          | 597.8           | -8.9                            | 327.2  | 7.0                          | -22.8                               | -   | 25.6                   | -10.7                               | 1,183.0 | 0.4                | 1,183.4      |
| Capital increase   | 1,250.0        |                 |                                 |        |                              |                                     |   |                        |                                     | 1,250.0 |                    | 1,250.0      |
| Changes: scope of consolidation/other                          |                |                 |                                 | 6.3    |                              |                                     |   |                        |                                     | 6.3     |                    | 6.3          |
| Netting of consolidated net loss 1 April 2007 to 31 March 2008 |                |                 |                                 | -10.7  |                              |                                     |   |                        | 10.7                                |         |                    |              |
| Withdrawal from retained earnings                              |                |                 |                                 | -502.5 |                              |                                     |   |                        | 502.5                               |         |                    |              |
| Total comprehensive income                                     |                |                 | -18.2                           | -179.7 | -27.5                        | -4.8                                | -8.3  | -25.6                  | -580.0                              | -664.4  | -0.3               | -664.7       |
| <b>Equity as of 31 March 2009</b>                              | 1,497.8        | 597.8           | -27.1                           | -179.7 | -20.5                        | -27.6                               | -8.3  | -                      | -77.5                               | 1,754.9 | 0.1                | 1,755.0      |
| Capital increase   | 123.5          |                 |                                 |        |                              |                                     |   |                        |                                     | 123.5   |                    | 123.5        |
| Changes: scope of consolidation/other                          |                |                 |                                 | -0.2   |                              |                                     |   |                        |                                     | -0.2    | 0.1                | -0.1         |
| Netting of consolidated net loss 1 April 2008 to 31 March 2009 |                |                 |                                 | -77.5  |                              |                                     |   |                        | 77.5                                |         |                    |              |
| Total comprehensive income                                     |                |                 | -6.7                            |        | 3.3                          | 28.5                                | 0.5   |                        | -973.9                              | -948.3  | -0.2               | -948.5       |
| <b>Equity as of 31 March 2010</b>                              | 1,621.3        | 597.8           | -33.8                           | -257.4 | -17.2                        | 0.9                                 | -7.8  | -                      | -973.9                              | 929.9   | 0.0                | 929.9        |

Cash flow statement for the period from 1 April 2009 to 31 March 2010

| in € million  | 2009/10         | 2008/09         |
|---|-----------------|-----------------|
| <b>Consolidated net loss</b>  | -974.1          | -580.3          |
| <b>Non-cash items included in net loss for the year and reconciliation of net loss to cash flow from operating activities</b>   |                 |                 |
| +/- Write-downs, impairment, reversals of write-downs on receivables and addition to provisions for possible loan losses  | 500.8           | 593.2           |
| +/- Write-downs less reversals of write-downs on property, plant and equipment and investment securities  | -96.7           | 383.4           |
| +/- Changes in other non-cash items (essentially changes in other provisions and certain liabilities and positive and negative fair values of derivative financial instruments) | 429.7           | 438.5           |
| +/- Gain on the disposal of investment securities   | 93.8            | 426.4           |
| +/- Gain/loss on the disposal of property, plant and equipment  | -12.6           | -0.1            |
| +/- Other adjustments (essentially the reclassification of interest including net income from leases and income taxes)  | -148.7          | -338.0          |
| <b>Sub-total</b>  | <b>-207.8</b>   | <b>923.1</b>    |
| <b>Changes in assets and liabilities from operating activities after adjustment for non-cash components</b>   |                 |                 |
| +/- Loans and advances to banks   | -373.0          | -86.0           |
| +/- Loans and advances to customers   | 3,531.1         | 683.7           |
| +/- Assets held for trading   | 475.8           | -567.0          |
| +/- Other assets from operating activities  | -22.0           | 1,119.2         |
| +/- Liabilities to banks  | -3,268.5        | -2,199.2        |
| +/- Liabilities to customers  | 1,163.3         | 285.5           |
| +/- Liabilities held for trading  | -267.9          | -51.4           |
| +/- Securitised liabilities   | -3,484.7        | -3,858.6        |
| +/- Other liabilities from operating activities   | -163.3          | 83.0            |
| + Interest received   | 1,356.9         | 2,397.3         |
| + Dividends received  | 2.6             | 13.8            |
| - Interest paid   | -1,252.4        | -1,931.1        |
| +/- Income tax  | -47.8           | -2.5            |
| <b>Cash flow from operating activities</b>  | <b>-2,557.7</b> | <b>-3,190.2</b> |
| Proceeds from the disposal of   |                 |                 |
| + Investment securities   | 5,741.8         | 5,414.0         |
| + Property, plant and equipment   | 96.6            | 25.6            |
| Payments for the acquisition of   |                 |                 |
| - Investment securities   | -3,098.2        | -3,622.7        |
| - Property, plant and equipment   | -55.8           | -97.5           |
| Effects of the changes in the scope of consolidation  | -0.1            | 8.0             |
| <b>Cash flow from investing activities</b>  | <b>2,684.3</b>  | <b>1,727.4</b>  |
| + Proceeds from capital increases   | 0.0             | 1,250.0         |
| - Repayment of subordinated capital   | -115.9          | -317.0          |
| + Issue of subordinated capital   | 0.0             | 225.2           |
| <b>Cash flow from financing activities</b>  | <b>-115.9</b>   | <b>1,158.2</b>  |
| <b>Cash and cash equivalents at end of the previous period</b>  | <b>4.2</b>      | <b>308.8</b>    |
| +/- Cash flow from operating activities   | -2,557.7        | -3,190.2        |
| +/- Cash flow from investing activities   | 2,684.3         | 1,727.4         |
| +/- Cash flow from financing activities   | -115.9          | 1,158.2         |
| <b>Cash and cash equivalents at end of the period</b>   | <b>14.9</b>     | <b>4.2</b>      |

## **Principles of Group accounting**

The consolidated financial statements were prepared by the Board of Managing Directors on 24 June 2010 and thereby authorised for publication within the meaning of IAS 10.17 sentence 1. It is possible that the Supervisory Board will not approve the consolidated financial statements without changes.

The consolidated financial statements of IKB Deutsche Industriebank AG (IKB AG), Wilhelm-Böttkes-Str. 1, 40474 Düsseldorf, Germany, for the year ended 31 March 2010 have been prepared in accordance with the International Financial Reporting Standards (IFRS) applicable at the reporting date on the basis of Regulation No. 1606/2002 of the European Parliament and of the Council of 19 July 2002 and the related subsequent regulations. This includes the interpretations issued by the Standing Interpretations Committee (SIC) and the International Financial Reporting Interpretation Committee (IFRIC). The national provisions of section 315a (1) of the Handelsgesetzbuch (HGB – German Commercial Code) were also applied.

The consolidated financial statements include the balance sheet, the income statement, the statement of comprehensive income (two-statement approach), the statement of changes in equity, the cash flow statement and the notes to the consolidated financial statements. The segment reporting can be found in the notes.

With reference to IFRS 7 B6, the following individual provisions of IFRS 7 are met outside the consolidated financial statements in the risk report contained in the Group management report:

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

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

### **Overview of accounting provisions**

Over recent years, the International Accounting Standards Board (IASB) has published a number of amendments to standards, in some cases in response to the crisis on the financial markets. The following table provides a chronological overview of these standards ordered by their publication date.

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| Standard/<br>Interpretation  | Title   | Date of publication<br>by the IASB | Required to be applied<br>for financial years<br>beginning on or after<br>the following date<br>according to the IASB | Adoption into European law |   |
|--|---|------------------------------------|---|----------------------------|---|
|  |   |                                    |   | on                         | Required to be applied<br>for financial years<br>beginning on or after<br>the following date<br>according to EU law |
| <b>Accounting standards applied for the first time in the 2009/10 financial year</b> |   |                                    |   |                            |   |
| IFRS 8   | Operating Segments  | 30.11.2006                         | 01.01.2009  | 21.11.2007                 | 01.01.2009  |
| IFRIC 12   | Service Concession Arrangements   | 30.11.2006                         | 01.01.2008  | 25.03.2009                 | 29.03.2009  |
| IAS 23   | Borrowing Costs   | 29.03.2007                         | 01.01.2009  | 10.12.2008                 | 31.12.2008  |
| IFRIC 13   | Customer Loyalty Programmes   | 28.06.2007                         | 01.07.2008  | 16.12.2008                 | 31.12.2008  |
| IFRIC 14/IAS 19  | The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction                                  | 04.07.2007                         | 01.01.2008  | 16.12.2008                 | 31.12.2008  |
| IAS 1  | Presentation of Financial Statements  | 06.09.2007                         | 01.01.2009  | 17.12.2008                 | 31.12.2008  |
| IFRS 2   | Share-based Payment: Vesting Conditions and Cancellations   | 17.01.2008                         | 01.01.2009  | 16.12.2008                 | 31.12.2008  |
| IAS 32/IAS 1   | Financial Instruments: Presentation - Puttable Instruments  | 14.02.2008                         | 01.01.2009  | 21.01.2009                 | 31.12.2008  |
| AIP (2008)   | Improvements to IFRS  | 22.05.2008                         | 01.01.2009  | 23.01.2009                 | 31.12.2008/30.6.2009  |
| IFRS 1/IAS 27  | Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate   | 22.05.2008                         | 01.01.2009  | 23.01.2009                 | 31.12.2008  |
| IFRS 7   | Financial Instruments: Disclosures  | 05.03.2009                         | 01.01.2009  | 27.11.2009                 | 31.12.2008  |
| IFRIC 9 / IAS 39   | Reassessment of Embedded Derivatives  | 12.03.2009                         | 01.07.2009  | 30.11.2009                 | 31.12.2008  |
| <b>Accounting standards to be applied in the coming 2010/11 financial year</b>       |   |                                    |   |                            |   |
| IFRS 3 / IAS 27  | Business Combinations and Consolidated and Separate Financial Statements  | 10.01.2008                         | 01.07.2009  | 03.06.2009                 | 30.06.2009  |
| IFRIC 15   | Agreements for the Construction of Real Estate  | 03.07.2008                         | 01.01.2009  | 22.07.2009                 | 31.12.2009  |
| IFRIC 16   | Hedges of a Net Investment in a Foreign Operation   | 03.07.2008                         | 01.10.2008  | 04.06.2009                 | 30.06.2009  |
| IAS 39   | Financial Instruments: Recognition and Measurement of Exposures Qualifying for Hedge Accounting                           | 31.07.2008                         | 01.07.2009  | 15.09.2009                 | 30.06.2009  |
| IFRS 1   | First-time Adoption of International Financial Reporting Standards - amended and revised 2008                             | 27.11.2008                         | 01.07.2009  | 25.11.2009                 | 31.12.2009  |
| IFRIC 17   | Distributions of Non-cash Assets to Owners  | 27.11.2008                         | 01.07.2009  | 26.11.2009                 | 31.10.2009  |
| IFRIC 18   | Transfers of Assets from Customers  | 29.01.2009                         | 01.07.2009  | 27.11.2009                 | 31.10.2009  |
| AIP (2009)   | Improvements to IFRS  | 16.04.2009                         | 1.7.2009/1.1.2010   | 23.03.2010                 | 31.12.2009  |
| IFRS 2   | Share-based Payment: Group Cash-Settled Transactions  | 18.06.2009                         | 01.01.2010  | 23.03.2010                 | 31.12.2009  |
| IAS 32   | Financial Instruments: Presentation: Classification of Subscription Rights  | 08.10.2009                         | 01.02.2010  | 23.12.2009                 | 31.01.2010  |
| <b>Standards published by the IASB but not yet adopted into EU law</b>               |   |                                    |   |                            |   |
| IFRS 1   | First-time Adoption of International Financial Reporting Standards: second amendment                                      | 23.07.2009                         | 01.01.2010  |                            |   |
| IAS 24   | Related Party Disclosures   | 04.11.2009                         | 01.01.2011  |                            |   |
| IFRS 9   | Financial Instruments: Classification and Measurement   | 12.11.2009                         | 01.01.2013  |                            |   |
| IFRIC 14   | Employee Benefits: Voluntary Prepaid Contributions under Minimum Financing Requirements                                   | 26.11.2009                         | 01.01.2011  |                            |   |
| IFRIC 19   | Extinguishing Financial Liabilities with Equity Instruments   | 26.11.2009                         | 01.07.2010  |                            |   |
| IFRS 1/IAS 7   | First-time Adoption of International Financial Reporting Standards: Revision in conjunction with the amendments to IFRS 7 | 28.01.2010                         | 01.07.2010  |                            |   |

### Accounting standards applied for the first time in the past financial year

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

The following standards and interpretations are not currently relevant for IKB: IFRIC 12, IFRIC 13, IFRIC 14/IAS 19, IFRS 2 and IFRS 1/IAS 27.

IFRS 8 "Operating Segments" supersedes IAS 14 "Segment Reporting". The main differences as against the previous provisions of IAS 14 lie in the definition of operating segments and their standards of measurement with the introduction of the management approach as opposed to the previous risk and reward approach. Segment information is now presented in line with the same internal measurement standards as are used for regular internal management information. The new segment structure was prepared in accordance with the provisions of IFRS 8.

The new provisions of IFRS 8 did not result in any significant changes to IKB's original segment structure. The consolidated financial statements contain a voluntary presentation of both the current segment structure and the new segment structure, which will apply from 1 April 2010 as a result of the Bank's continued restructuring.

IAS 23 "Borrowing Costs" previously contained the option either to recognise borrowing costs relating directly to the acquisition, construction or manufacture of a qualified asset as an expense in the income statement or to capitalise them. Under the amended IAS 23, borrowing costs relating to qualifying assets must be capitalised. The adoption of this amendment has not had any significant effect for IKB.

The revised IAS 1 "Presentation of Financial Statements" contains terminological amendments and extended comparative disclosures. This results in disclosure requirements as of three balance sheet dates in the year of transition in accounting policies or in the event of corrections in errors. On the one hand, the new standard requires a reorganisation of the content of the income statement. This new statement can either be shown in one table as a statement of comprehensive income (single-statement approach) or in two statements (two-

statement approach): the income statement in its previous form and a supplementary statement. The revised version of IAS 1 also entails a different presentation of changes in equity in the statement of changes in equity. In addition, the corresponding income tax must be shown for each individual component of other comprehensive income. Accordingly, the adoption of IAS 1 affects the presentation of the various reporting elements (balance sheet, statement of comprehensive income, statement of changes in equity and notes).

The amendments to IAS 32 “Financial Instruments: Presentation – Puttable Instruments” modified the distinction between equity and debt. As a result, certain financial instruments shall be reported as equity in future IFRS financial statements rather than as financial liabilities. This affects puttable instruments and financial instruments resulting in a payment obligation for the company in the event of liquidation if these also represent the most subordinate class of capital. The amendments had no effect on IKB’s consolidated financial statements.

As part of the ongoing IFRS annual improvement project, the IASB published an amendment standard for the first time in May 2008. In connection with the annual IFRS improvement project, a number of changes to existing standards were implemented, generally remedying inconsistencies within or between existing standards or clarifying the wording of the standards. These changes did not have any significant effects for IKB.

The amendments to IFRS 7 “Financial Instruments: Enhanced Disclosures on Financial Instruments” relate to disclosures on the calculation of fair values and liquidity risk. Information on the calculation of the fair value was specified such that a breakdown for each class of financial instrument is being introduced on the basis of a three-level fair value hierarchy. The scope of disclosure requirements is also being expanded. The interpretation also expanded the disclosures on liquidity risk. Separate disclosures on liquidity risk must be made for derivative and non-derivative financial instruments. As well as breaking down undiscounted cash flows by their remaining contractual terms, IFRS 7 prescribes expanded qualitative and quantitative disclosures on liquidity risk based on internal management reporting. This includes presenting expected cash flows and remaining maturities in the form of funding matrices taken from the liquidity risk report. In this context, the maturities and amounts of the cash flows shown must be explained. The application of the amended IFRS 7 affected the presentation of the tables on fair value disclosures and the presentation of the Bank’s liquidity risk disclosures compared with the previous year.

The amendments to IFRIC 9 “Reassessment of Embedded Derivatives” and IAS 39 “Financial Instruments: Recognition and Measurement” clarified that the reclassification of financial instruments classified as held for trading requires an examination as to the existence of separable embedded derivatives. However, if an estimate of the fair value of the separable derivative is not possible, the reclassification of the entire structured financial instrument is not permitted. In the past financial year, the Group did not reclassify any financial instruments from the “at fair value through profit or loss” category. Accordingly, the amendments to IFRIC 9/IAS 39 were only relevant for IKB to a minimal extent in the past financial year.

### Accounting standards to be applied in future

The following section discusses the standards and interpretations published by the IASB and adopted by the European Union during the 2009/10 financial year.

The following standards and interpretations are not currently relevant for IKB: IFRIC 16, IFRS 1, IFRIC 17, IFRIC 18 and IFRS 2.

IKB has opted against the early application of the following standards and interpretations in the present consolidated financial statements.

While the application of the purchase method to business combinations was developed further in the revised IFRS 3 “Business Combinations”, the modified version of IAS 27 “Consolidated and Separate Financial Statements” contains amended provisions for calculating minority interests and accounting for the loss of control over a subsidiary. The

amendments apply solely to future transactions. Under the new provisions, changes to a parent's interest in a subsidiary as a result of the acquisition of minority interests or the disposal of shares in minorities without losing control are recognised as equity transactions. Any difference between the purchase price or the proceeds from the sale and the pro rata carrying amount of the recognised net assets of the subsidiary are offset in equity under retained earnings. However, sales of shares resulting in a loss of control are recognised in profit and loss. This amendment has not had any significant effect for IKB.

The basic question behind IFRIC 15 "Agreements for the Construction of Real Estate" is whether a contract is designed in such a way that it falls within the scope of IAS 11 "Construction Contracts" or if it has more features requiring the application of IAS 18 "Revenue". This includes clarification of whether revenue can only be recognised on completion of the real estate or whether it is reported in line with the percentage of completion. The amendments did not have any significant effects for IKB.

The amendment to IAS 39 "Financial Instruments: Recognition and Measurement – Eligible Hedged Items" relates to the hedging of inflation risk with hedged items in certain cases and the designation of options as hedging instruments at their intrinsic or fair value. The amendments did not have any significant effects for IKB.

With the new "Improvements to IFRS" amendment standard published in April 2009, a number of changes to existing standards were implemented with the general aim of remedying inconsistencies within or between existing standards or clarifying the wording of the standards. The amendments are not expected to have any significant effects for IKB.

In accordance with the amendments to IAS 32 "Classification of Subscription Rights and Similar Rights", the issuers of certain subscription rights, options and warrants for the purchase of a fixed number of equity instruments in a currency other than the functional currency are now required to recognise such items as equity instruments and not as liabilities as was previously the case. The amendments are not currently significant for IKB.

The following standards and interpretations were published by the IASB but had not been endorsed in EU law as of 31 March 2010:

The following standards and interpretations, which have only been partially published by the IASB and have not yet been endorsed in EU law, could have significant effects on IKB's accounting practice. The amendments are expected to be implemented from the date on which they are required to be applied.

The provisions of IAS 24 "Related Party Disclosures" contain amendments to the definition of related parties, as well as clarifying that certain government-controlled entities are excluded from some of the disclosure requirements of the standard in respect of their relationships with the government or other government-controlled entities.

The provisions of IFRS 9 "Financial Instruments: Classification and Measurement", which currently only apply to financial assets, are intended to improve the understandability of the financial statements with regard to the classification and measurement of financial instruments. The previous classification of financial assets into four categories in accordance with IAS 39 is superseded by two measurement categories: "amortised cost" and "fair value". Financial instruments must be allocated to one of these two categories on initial recognition. As a matter of principle, initial measurement is performed at fair value, taking any transaction costs into account. Subsequent measurement is based on amortised cost or fair value depending on the initial classification of the respective instrument. Financial assets are measured at amortised cost if the objective of the entity's business model is to hold the financial asset to collect the contractual cash flows. The cash flows must also constitute payments of principal or interest on the principal outstanding. Financial instruments that do not meet both of these conditions should be measured at fair value.

The amendment to IFRIC 14 “Prepayments of a Minimum Funding Requirement” modifies the accounting treatment of pension claims. The provision relates to entities that are subject to minimum funding requirements and that make prepayments of the corresponding contributions. The amendment means that entities are now permitted to recognise the benefit of such prepayments as an asset.

IFRIC 19 “Extinguishing Financial Liabilities with Equity Instruments” applies when an entity issues equity instruments to extinguish all or part of a financial liability. Accordingly, the liability is derecognised to the extent that it is extinguished with equity instruments. The equity instruments issued are measured at fair value if this can be reliably determined. If the fair value cannot be reliably determined, the equity instruments issued are measured at the fair value of the liability extinguished. The difference between the carrying amount of the financial liability extinguished and the initial carrying amount of the equity instruments issued is recognised in profit or loss.



## **Special matters**

### **(a) Sonderfonds Finanzmarktstabilisierung (SoFFin)**

On 18 August 2009, Sonderfonds Finanzmarktstabilisierung (SoFFin – Special Fund for the Stabilisation of the Financial Market) expanded the guarantee framework for new bonds granted to IKB Deutsche Industriebank AG (IKB AG) by € 7 billion, from € 5 billion to € 12 billion.

In response to an application by IKB AG on 4 February 2010, SoFFin reduced the total guarantee framework granted to IKB from € 12 billion to € 10 billion. The desired reduction relates to the expansion of the guarantee framework.

The state-guaranteed bonds under the expanded framework may have a maturity of up to 36 months for a maximum volume of € 4 billion and a maturity of up to 60 months for a maximum volume of € 3 billion. In September 2009, IKB utilised guarantees with a volume of € 2 billion and a term of 3 years. In February 2010, state-guaranteed bonds were issued with a volume of € 2 billion and a term of 5 years and a volume of € 1 billion and a term of 3 years respectively.

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

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

### **(b) Issue of mandatory convertible bonds**

On account of the authorisation of the Annual General Meeting of IKB on 28 August 2008, the Board of Managing Directors of IKB resolved to issue subordinated bonds of € 123.7 million with a contingent conversion obligation and contingent conversion right in denominations of € 23.04. As the conversion conditions were met on 1 July 2009 (discharge of investor lawsuits, entry of the resolution on the contingent capital increase in the commercial register), the conversion obligation shall arise no later than 12 April 2010 or earlier if IKB fails to maintain specific regulatory ratios. On 2 July 2009, LSF6 Rio S.à.r.l. utilised its conversion right in the amount of € 123.5 million and converted the bonds into no-par value shares that are recognised in equity.

The remaining bonds not yet converted are reported as subordinated capital and reported in other financial liabilities.

### **(c) Registered bonds**

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

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

Due to the unchanged interest and repayment conditions in the case of compensation, the existing liability has not been derecognised. As previously, subsequent measurement is at

amortised cost. Due to a change in the expected future cash flows, the carrying amount has been adjusted in accordance with IAS 39.AG8. The debt waiver is reported in subordinated capital at the estimated present value calculated in accordance with IAS 39.AG8. The adjustment for remeasurement is reported in other operating income.

### **(d) Restructuring measures**

In order to implement the conditions imposed by the European Union, the following restructuring measures were undertaken in the past financial year:

#### **a) Sale of Movesta**

IKB Beteiligungen GmbH, Düsseldorf (IKB Beteiligungen), was the legal and economic owner of 50% of the shares in Movesta. The company was previously included in the consolidated financial statements as a joint venture. On 28 August 2009, IKB Beteiligungen and KfW IPEX-Beteiligungsholding GmbH, Frankfurt (KfW IPEX), concluded an agreement for the sale of all (IKB Beteiligungen) or most of their shares in Movesta to the real estate holding company LHA Anlagenverwaltungsgesellschaft mbH, Munich, a member of the LHI Group. The shares were transferred in December 2009 with the fulfilment of the conditions agreed by the parties to the agreement.

The purchase agreement also stated that the project development business of MD Capital Beteiligungsgesellschaft mbH, Düsseldorf (MD Capital), and its subsidiaries would be effectively spun off from Movesta. The corresponding shares were transferred to IKB Beteiligungen and KfW IPEX Bank GmbH (50% each) when the transfer of the shares in Movesta was completed. Under the terms of the purchase agreement, two companies were “synthetically” spun off from Movesta Lease and Finance. A synthetic spin-off means that ownership under civil law remains with Movesta but the parties to the agreement act as if Movesta had already sold and effectively transferred the project development business and the special companies to the buyer from an economic perspective. IKB Beteiligungen is obliged to assume 50% of the profits and losses of these companies until the settlement date.

IKB Beteiligungen and IKB AG have assumed joint and several guarantees and indemnity obligations under the terms of the agreements concluded.

#### **b) Closure of IKB Capital Corporation, New York (IKB CC)**

As part of the closure of IKB CC, all of the company's assets were sold and its operating activities fully discontinued in the year under review. The final winding-up of the company in the form of voluntary liquidation under US law is expected to take several years.

## **Changes in line with IAS 8**

These consolidated financial statements contain various changes as against the previous year. To ensure comparability between the different sets of financial statements, the adjustments described below were made to last year's consolidated financial statements prepared on 13 July 2009:

### **(a) Adjustment of accounting policies**

A profit participation right in the amount of € 33.8 million that was due on 31 March 2009 was reclassified from profit participation capital (subordinated capital) to other liabilities. As a result, the carrying amount of subordinated capital decreased by € 33.8 million, from € 1,391.7 million to € 1,357.9 million, while the carrying amount of other liabilities increased by the same amount, from € 514.1 million to € 547.9 million.

### **(b) Changes in estimates**

#### ***(ba) Portfolio allowances***

In calculating portfolio allowances, the parameters for estimating the probability of default were adjusted in the year under review with the introduction of a new rating scale, and the estimate of expected losses in the case of default of acquisition finance was revised. By contrast to 30 September 2009, the probability of default for rating class 15 was increased in order to adequately reflect the expected credit defaults due to the crisis. In addition, the probabilities of default derived on the basis of historical data were calculated by using macroeconomic parameters in the model with a premium increased from 40% to 60% in order to reflect economic expectations; the premium for acquisition finance was reduced to 20%.

If they had been applied at 31 March 2009, the current parameters would have led to an increase in portfolio allowances of € 12.4 million.

#### ***(bb) Measurement of collateralised loan obligations (CLO)***

Impairment losses are calculated using a fundamental valuation model that was adjusted in the year under review in order to reflect the changes in market conditions. The adjustments in question primarily relate to the assumed probabilities of default, the timing of defaults during the term of a transaction and, in particular, the special structural features of a transaction with regard to the priority of payments ("waterfall structures") for the securities invested.

The adjustments to the valuation method were the systematic consequence of the recognition of the changes in market conditions and the recalibrated risk measurement factors on the part of the rating agencies. In practice, this resulted in the reparametrisation of the valuation method and required the introduction of a new model structure allowing a distinction between fair value losses due solely to temporary fluctuations and fundamental losses in conjunction with the systematic expansion of in-house risk assessment expertise. The valuation models are already subject to continuous development to the extent that future market development makes changes in the risk measurement factors necessary.

The conservative nature of the new parameters meant that additional impairment losses were recognised in the year under review compared with the previous procedure. In order to forecast future cash flows, the expected cumulative default rate for the respective securitised credit portfolio is first determined. As a matter of principle, the expected loss per borrower is calculated on the basis of the default rates resulting from the models of the rating agencies. The default rates for borrowers with certain critical characteristics were also increased (notching). Fair value is calculated as the present value of the expected cash flows discounted using the effective interest rate.

As of 31 March 2010, the adjustments to the parameters resulted in changes totalling € 34.8 million.

***(bc) Measurement of RMBS transactions***

The calculation of impairment losses on the RMBS transactions sold to the fully consolidated special purpose entity Rio Debt Holdings (Ireland) Ltd. in the year under review was adjusted at the reporting date and is now performed using a fundamental valuation method allowing the detailed loss allocation of the underlying credit portfolio.

The adjustments to the valuation method were the systematic consequence of the recognition of the changes in market conditions and the recalibrated risk measurement factors on the part of the rating agencies. In practice, this resulted in the reparametrisation of the valuation method and required the introduction of a new model structure allowing a distinction between fair value losses due solely to temporary fluctuations and fundamental losses in conjunction with the systematic expansion of in-house risk assessment expertise. The valuation models are already subject to continuous development to the extent that future market development makes changes in the risk measurement factors necessary.

The new fundamental value of the securities is the present value of the discounted expected cash flows. The spread of the securities is applied for discounting purposes. As past fluctuations in market value are not recognised in this model, the impairment losses required were lower than was previously the case.

As of 31 March 2010, the adjustments to the parameters resulted in changes totalling € 84.3 million.

The changes in estimates were recognised prospectively in line with IAS 8. The effects for subsequent periods cannot be estimated.

***(c) Correction of errors as of 30 September 2009***

The conversion conditions precedent for the mandatory convertible bond issued on 28 August 2008 came into force on 1 July 2009. From this date, IKB is no longer obliged to settle the issued bond in cash. The resulting derecognition of the debt instruments led to an increase in issued capital in the amount of the shares issued. The conversion right is treated as a separable derivative under IFRS. With the fulfilment of the conversion conditions, the value of the derivative previously recognised as an asset held for trading became zero, meaning that it was required to be derecognised through profit or loss. This inadvertently failed to occur. The interest paid also had to be recognised in profit or loss. The resulting adjustments served to increase issued capital by € 38.6 million and reduce net profit for the period by € 38.6 million compared with the published half-yearly financial statements for the period ended 30 September 2009.

(d) Overview of IAS 8 changes as of 30 September 2009

*Consolidated statement of total comprehensive income*

| in € million  | IAS 8 section | 1 Apr 2009 -<br>30 Sep 2009<br>before<br>changes | Changes<br>in line with<br>IAS 8 | 1 Apr 2009 -<br>30 Sep 2009<br>after changes |
|---|---------------|--|----------------------------------|--|
| <b>Net interest income</b>  | <b>c</b>      | <b>101.9</b>                                     | <b>-7.8</b>                      | <b>94.1</b>                                  |
| Interest income   |               | 1,026.0  |                                  | 1,026.0                                      |
| Interest expenses   | c             | 924.1  | 7.8                              | 931.9  |
| <b>Provision for possible loan losses</b>                           |               | <b>210.0</b>                                     |                                  | <b>210.0</b>                                 |
| <b>Net interest income after provision for possible loan losses</b> | <b>c</b>      | <b>-108.1</b>                                    | <b>-7.8</b>                      | <b>-115.9</b>                                |
| <b>Net fee and commission income</b>                                |               | <b>-13.0</b>                                     |                                  | <b>-13.0</b>                                 |
| Fee and commission income   |               | 22.4   |                                  | 22.4   |
| Fee and commission expenses   |               | 35.4   |                                  | 35.4   |
| <b>Net income from financial instruments at fair value</b>          | <b>c</b>      | <b>-334.4</b>                                    | <b>-30.8</b>                     | <b>-365.2</b>                                |
| <b>Result on investment securities</b>                              |               | <b>12.6</b>                                      |                                  | <b>12.6</b>                                  |
| <b>Result on investments accounted for at equity</b>                |               | <b>-1.1</b>                                      |                                  | <b>-1.1</b>                                  |
| <b>Administrative expenses</b>                                      |               | <b>145.7</b>                                     |                                  | <b>145.7</b>                                 |
| Personnel expenses  |               | 81.4   |                                  | 81.4   |
| Other administrative expenses                                       |               | 64.3   |                                  | 64.3   |
| <b>Other operating income</b>                                       |               | <b>140.3</b>                                     |                                  | <b>140.3</b>                                 |
| Other operating income  |               | 226.1  |                                  | 226.1  |
| Other operating expenses  |               | 85.8   |                                  | 85.8   |
| <b>Operating result</b>   |               | <b>-449.4</b>                                    | <b>-38.6</b>                     | <b>-488.0</b>                                |
| Income taxes  |               | 2.9  |                                  | 2.9  |
| Other taxes   |               | 1.9  |                                  | 1.9  |
| <b>Consolidated net loss</b>  |               | <b>-454.2</b>                                    | <b>-38.6</b>                     | <b>-492.8</b>                                |
| Minority interests  |               | 0.2  |                                  | 0.2  |
| <b>Consolidated net loss after minority interests</b>               |               | <b>-454.0</b>                                    | <b>-38.6</b>                     | <b>-492.6</b>                                |

| in € million   | IAS 8 section | 1 Apr 2009 -<br>30 Sep 2009<br>before<br>changes | Changes<br>in line with<br>IAS 8 | 1 Apr 2009 -<br>30 Sep 2009<br>after changes |
|--|---------------|--|----------------------------------|--|
| <b>Consolidated net loss</b>   |               | <b>-454.2</b>                                    | <b>-38.6</b>                     | <b>-492.8</b>                                |
| Changes in financial assets available for sale recognised directly in equity                   |               | 47.7   |                                  | 47.7   |
| Changes in financial assets available for sale recognised in profit or loss                    |               | 4.0  |                                  | 4.0  |
| Changes in cash flow hedges recognised in profit or loss                                       |               | -  |                                  | 0.0  |
| Changes in derivatives hedging fluctuations in future cash flows recognised directly in equity |               | 1.8  |                                  | 1.8  |
| Currency translation differences recognised directly in equity                                 |               | 2.5  |                                  | 2.5  |
| Changes due to actuarial gains/losses (IAS 19) recognised directly in equity                   |               | 28.2   |                                  | 28.2   |
| Deferred taxes on other income/expenses  |               | -25.2  |                                  | -25.2  |
| <b>Other income/expenses</b>   |               | <b>59.0</b>                                      | <b>0.0</b>                       | <b>59.0</b>                                  |
| <b>Total comprehensive income</b>  |               | <b>-395.2</b>                                    | <b>-38.6</b>                     | <b>-433.8</b>                                |

*Consolidated balance sheet*

| in € million                                    | IAS 8 section | 30 Sep 2009<br>before<br>changes | Changes<br>in line with<br>IAS 8 | 30 Sep 2009<br>after changes |
|---|---------------|----------------------------------|----------------------------------|------------------------------|
| <b>Assets</b>                                   |               |                                  |                                  |                              |
| Cash reserve                                    |               | 25.2                             |                                  | 25.2                         |
| Loans and advances to banks                     |               | 3,285.7                          |                                  | 3,285.7                      |
| Loans and advances to customers                 |               | 26,584.9                         |                                  | 26,584.9                     |
| Provision for possible loan losses              |               | -950.0                           |                                  | -950.0                       |
| Assets held for trading                         |               | 3,121.7                          |                                  | 3,121.7                      |
| Investment securities                           |               | 8,946.8                          |                                  | 8,946.8                      |
| Companies accounted for using the equity method |               | 7.2                              |                                  | 7.2                          |
| Intangible assets                               |               | 16.0                             |                                  | 16.0                         |
| Property, plant and equipment                   |               | 260.8                            |                                  | 260.8                        |
| Current tax assets                              |               | 49.5                             |                                  | 49.5                         |
| Deferred tax assets                             |               | 251.5                            |                                  | 251.5                        |
| Other assets                                    |               | 255.2                            |                                  | 255.2                        |
| Non-current assets held for sale                |               | 106.8                            |                                  | 106.8                        |
| <b>Total</b>                                    |               | <b>41,961.3</b>                  | <b>-</b>                         | <b>41,961.3</b>              |

|                               |   |                 |          |                 |
|-------------------------------|---|-----------------|----------|-----------------|
| <b>Equity and liabilities</b> |   |                 |          |                 |
| Liabilities to banks          |   | 13,280.2        |          | 13,280.2        |
| Liabilities to customers      |   | 6,340.4         |          | 6,340.4         |
| Securitised liabilities       |   | 14,053.8        |          | 14,053.8        |
| Liabilities held for trading  |   | 4,778.0         |          | 4,778.0         |
| Provisions                    |   | 149.6           |          | 149.6           |
| Current tax liabilities       |   | 142.8           |          | 142.8           |
| Deferred tax liabilities      |   | 129.0           |          | 129.0           |
| Other liabilities             |   | 482.5           |          | 482.5           |
| Subordinated capital          |   | 1,160.3         |          | 1,160.3         |
| Shareholders' equity          |   | 1,444.7         | -        | 1,444.7         |
| Issued capital                | c | 1,582.7         | 38.6     | 1,621.3         |
| Capital reserve               |   | 597.8           |          | 597.8           |
| Retained earnings             |   | -265.0          |          | -265.0          |
| Currency translation reserve  |   | -18.0           |          | -18.0           |
| Revaluation surplus           |   | 1.3             |          | 1.3             |
| Minority interests            |   | -0.1            |          | -0.1            |
| Consolidated cumulative loss  | c | -454.0          | -38.6    | -492.6          |
| <b>Total</b>                  |   | <b>41,961.3</b> | <b>-</b> | <b>41,961.3</b> |

## **Accounting policies**

### **(1) Accounting principles**

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

Generally, the financial statements of the consolidated subsidiaries are prepared as of the reporting date of the parent company. Financial statements prepared as of 31 December 2009 are shown in the scope of consolidation. Adjustments for significant effects in the transition period from 31 December 2009 to 31 March 2010 were recognised if material.

One company with a reporting date of 30 November was included in consolidation with interim financial statements prepared as of 31 March. The difference between the reporting dates of this company and IKB AG are due to customer interests in the fund business environment.

### **(2) Management estimates and assessments**

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

In particular, this affects the following positions:

#### **Determination of the fair value of specific financial assets and liabilities**

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

For fair values calculated on the basis of measurement techniques where the value would change significantly if one or more model assumptions were adjusted, IKB advises readers of this fact and explains their effects (see changes in accordance with IAS 8). Financial instruments whose fair value is calculated using initial parameters that are not fully based on observable market parameters are discussed separately in note 63 (Level classification).

#### **Determination of amortised cost**

Estimates and assumptions must also be applied in determining amortised cost. Particularly for liabilities where interest deferral or loss participation may occur, for example, the calculation of amortised cost using the effective interest method implies that these liabilities are recognised at present value determined by way of a reassessment of the underlying interest and principal cash flows discounted using the original return on the instrument

(effective interest rate at the issue date) (IAS 39.AG8). Estimation uncertainty arises in particular with regard to the amount and timing of the cash flows.

#### **Calculation of impairment**

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

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

#### **Determination of deferred tax assets**

Deferred tax assets and liabilities result from the difference between the IFRS carrying amounts and the tax carrying amounts of assets, liabilities and tax loss carryforwards and the resulting expected future income tax expenses or relief. Deferred tax assets are recognised and adjusted in line with management assessments of the items' value and the estimate of the taxable profit to be generated by the individual Group entities in future. The estimates made by the management are based on historical data and planning forecasts.

#### **Determination of provisions for pensions and other provisions**

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

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

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

### **(3) Scope of consolidation**

In addition to the parent company, a total of 30 German companies (31 March 2009: 27; 31 March 2008: 29) and 17 foreign companies (31 March 2009: 17; 31 March 2008: 16) are included in the consolidated financial statements of IKB as of 31 March 2010 in accordance with IAS 27. IKB AG holds the majority of the voting rights in these companies.

The consolidated financial statements also include one associate in accordance with IAS 28 (31 March 2009: one; 31 March 2008: one) and one joint venture in accordance with IAS 31



(31 March 2009: one; 31 March 2008: one), both of which are consolidated using the equity method.

In accordance with SIC 12, the consolidated financial statements include no German special purpose entities (31 March 2009: one; 31 March 2008: none) and four foreign special purpose entities (31 March 2009: six; 31 March 2008: four).

The consolidated companies are listed in note 82.

There were the following changes in the scope of consolidation as of 31 March 2010:

The sale of Movesta was completed in December 2009 and resulted in the deconsolidation of the company, which was previously recognised at equity. As a result of the deconsolidation, a gain of € 7.2 million was reported in other operating income in the consolidated financial statements.

In conjunction with the sale of Movesta, IKB Beteiligungen increased its stake in IKB Immobilien Management GmbH, Düsseldorf (IKB IMG) from 75% to 100% in December 2009.

50% of the shares in MD Capital were also acquired in conjunction with the sale of Movesta. This company bundles the real estate project development interests that were not transferred to the buyer as part of the sale of the shares in Movesta. MD Capital is included in the consolidated financial statements at equity on the basis of the preliminary financial statements prepared as of 31 December 2009.

IKB Struktur GmbH, Düsseldorf, was included in consolidation for the first time with effect from 31 March 2010. The purpose of the newly formed company is to acquire and hold equity interests.

In March 2010, Zweite Equity Suporta GmbH, Düsseldorf, which was previously unconsolidated due to immateriality, was included in the scope of consolidation. The purpose of the company is to acquire, hold and sell equity interests, securities and financial instruments.

Tempelhofer Hafen GmbH, Düsseldorf, was also included in consolidation for the first time in March 2010 as part of the items “non-current assets held for sale” and “liabilities in connection with non-current assets held for sale”. The sale of the company has already been agreed by way of a notarised purchase agreement and is expected to be concluded in July 2010.

The special purpose entity IKB Partner Fonds, Luxembourg, was also included in consolidation in March 2010. Investments in this newly created investment fund, which can be liquidated at short notice, are an integral part of the Bank’s liquidity provision and serve the purpose of investing available liquidity.

Two notes of the issuing company ELAN Ltd., Jersey (ELAN), were sold in June and October 2009 respectively. As a result, IKB no longer has any units of the company requiring consolidation. The deconsolidation of the units had no significant effect on the income statement.

In September 2009, the transaction with the special purpose entity REPV-DS Finance 2008-1 GmbH, Frankfurt/Main, was terminated as scheduled. Following the reversal of the transaction, the company no longer has any significant assets or liabilities and there are no further risks or opportunities for IKB; accordingly, the company was deconsolidated. The deconsolidation had no significant effect on the income statement.

In December 2009, the Havenrock companies (Havenrock Ltd., Jersey, and Havenrock II Ltd., Jersey) were deconsolidated due to immateriality. The deconsolidation had no significant effect on the income statement.

#### **(4) Consolidation methods**

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

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

Associated companies are measured at equity and shown separately in the balance sheet as companies carried at equity. The carrying amounts of these investments and any goodwill are calculated as of the time of first inclusion in the consolidated financial statements. The same rules are applied as for subsidiaries. At subsequent reporting dates, the carrying amount is increased or reduced by the Group's interest in the profit or loss of the companies (including amounts taken directly to equity).

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

In accordance with IAS 28.1 in conjunction with IAS 39, direct investments of IKB Private Equity GmbH and IKB Capital Fund GmbH (previously IKB Equity Capital Fund I GmbH & Co. KG; change of legal form entered in the commercial register on 7 December 2009) are carried at fair value and reported in investment securities.

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

#### **(5) Currency translation**

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

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

Financial statements of foreign entities not prepared in the functional currency (the Euro) must be translated at the balance sheet date in accordance with the functional currency concept. The foreign-currency annual financial statements of foreign subsidiaries are translated in line with the modified closing rate method. With the exception of the revaluation surplus, equity is translated at the historical rate and all other balance sheet items are translated at the reference rate of the European Central Bank on the balance sheet date. All expenses and income are translated at the average rate. Any resulting foreign exchange gains and losses are recognised directly in equity. Foreign exchange gains or losses resulting from consolidation are also reported separately in equity.

#### **(6) Financial instruments: recognition and measurement**

Accounting for financial instruments is regulated in IAS 39 "Financial Instruments: Recognition and Measurement". This states that all financial instruments are recognised at fair value plus any incidental costs of acquisition at the time of addition, providing that they are not recognised at fair value through profit or loss. In case of recognition at fair value through profit or loss, the incidental costs of acquisition are recognised in profit or loss at the date of addition. The date of addition for derivatives is always the trade date. Financial instruments that are settled within a generally accepted settlement period are recognised or de-recognised by IKB at the settlement date. If financial instruments are not settled within this standard market

period, they are carried at fair value as forward transactions. Under IAS 39, the fair value of a financial asset or a financial liability is the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction.

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

**(a) Financial assets**

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

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

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

This voluntary allocation is only permitted if:

- accounting mismatches are avoided or substantially reduced or
- the financial instrument contains one or more embedded derivatives or
- the management and performance measurement of a portfolio of financial instruments is based on its fair value.

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

**Loans and receivables.** All non-derivative financial assets with fixed or determinable payments that are not traded in an active market are assigned to the loans and receivables category unless they are recognised at fair value through profit or loss.

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

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

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

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

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

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

### ***(b) Financial liabilities***

#### **Financial liabilities at fair value through profit or loss**

As on the assets side of the balance sheet, there are two sub-categories for financial liabilities in this category:

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

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

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

#### **Other financial liabilities (IAS 39.47)**

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

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

This method applies to the following other financial liabilities:

- loans with debt waivers and compensation from future profits that are reported under liabilities to customers and
- subordinated liabilities, profit participation rights and silent partnerships/preferred shares reported under subordinated capital.

*(c) Measurement policies*

**General**

The fair value for financial instruments traded in an active market can be derived from the (quoted) market price of identical instruments as of the balance sheet date. If there are no prices available, the fair value is determined by comparison with similar market transactions.

If there are no similar market transactions available, suitable valuation models (such as the discounted cash flow method and option pricing models, e.g. the Black-Scholes model) are used to determine the fair value. Among other things, information on yield curves and volatility factors directly observed on the market are included in the valuation models. For more complex financial instruments and financial instruments that are considered to be unique on account of their specific structure and conditions, valuation models reflecting these characteristics are applied depending on the extent to which they are relevant for the respective financial instrument or class of financial instruments. In particular, these models involve assumptions on correlations, default rates and expected losses and other parameters that cannot be directly observed on the market in full.

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

**Overview of valuation methods**

**Loans and advances to customers and banks carried at amortised cost.** The fair value of loans and advances to customers and banks reported at amortised cost is generally calculated on the basis of the discounted cash flow method. As part of this, a risk-adjusted credit spread is created for each loan. Discounting is carried out over the different terms of the swap rates with risk-adjusted credit spreads. The swap rate is based on the current market conditions on the valuation date. The credit spread for the loan fluctuates according to changes in the measured standard risk costs, which are determined by the customer rating, the security situation and the remaining term of the loan on the valuation date. Equity and funding costs also affect the credit spread. As such, any changes to the fair values compared to the carrying amounts can be triggered by funding, interest rates and credit ratings.

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

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

**Financial assets at amortised cost.** Based on these values, grounds for impairment were examined for securities assigned to the loans and receivables category and impairment losses were recognised as appropriate. Adjusting events were taken into consideration until the preparation date of the consolidated financial statements if the loss events had demonstrably already occurred as of the reporting date.

**Liabilities to banks and customers.** The fair value of liabilities to banks and customers is, as a matter of principle, calculated on the basis of the discounted cash flow method. Discounting is carried out using term-differentiated risk-free swap rates and market spreads. IKB's liabilities are measured using models which apply market spread as a significant influencing factor. Current senior liabilities are based on the spreads from reverse trading. Long-term senior liabilities and subordinated issues are based on CDS spreads. In the case

of promissory note loans not held by banks, it is important to take into account the fact that the spreads are lower than for promissory note loans held by banks, since the guarantee fund generally provides cover. Spreads derived from current transactions are applied in discounting global loans.

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

#### **Portfolio investments**

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

**Measurement of asset-backed securities.** If there is a price from an external data provider for the respective securities that has been verified using suitable methods, this is used to calculate the fair value of asset-backed securities (ABS). A present value is determined for the remaining securities on the basis of contractually agreed cash flows with spreads for securities with similar risk profiles.

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

**Measurement of CDO portfolios primarily referencing securities with business risks (CDO of corporates).** The measurement of CDO portfolios is based on the valuation methods typically used by market participants for these structures (copula model). If CDOs reference other CDOs (CDO2), these are initially combined to form a single CDO. Any special features are taken into account when determining the lower and upper limits of the loss participation of the single CDO. The key measurement parameters – CDS spreads and correlations for the underlying business risks – were available on the market or were derived from market data and adjusted to any special features of the portfolio structure.

**Measurement of collateralised loan obligations (CLO).** Impairment losses are calculated using a fundamental valuation model that was adjusted in the year under review in order to reflect the changes in market conditions. The adjustments in question primarily relate to the assumed probabilities of default, the timing of defaults during the term of a transaction and, in particular, the special structural features of a transaction with regard to the priority of payments ("waterfall structures") for the securities invested.

The adjustments to the valuation method were the systematic consequence of the recognition of the changes in market conditions and the recalibrated risk measurement factors on the part of the rating agencies. In practice, this resulted in the reparametrisation of the valuation method and required the introduction of a new model structure allowing a distinction between fair value losses due solely to temporary fluctuations and fundamental losses in conjunction with the systematic expansion of in-house risk assessment expertise. The valuation models are already subject to continuous development to the extent that future market development makes changes in the risk measurement factors necessary.

The conservative nature of the new parameters meant that additional impairment losses were recognised in the year under review compared with the previous procedure. In order to forecast future cash flows, the expected cumulative default rate for the respective securitised credit portfolio are first determined. As a matter of principle, the expected loss per borrower is calculated on the basis of the default rates resulting from the models of the rating agencies. The default rates for borrowers with certain critical characteristics were also increased (notching). Fair value is calculated as the present value of the expected cash flows discounted using the effective interest rate.

**Measurement of RMBS transactions.** The calculation of impairment losses on the RMBS transactions sold to the special purpose entity Rio Debt Holdings (Ireland) Ltd. in the year under review was adjusted at the reporting date and is now performed using a fundamental valuation method allowing the detailed loss allocation of the underlying credit portfolio.

The adjustments to the valuation method were the systematic consequence of the recognition of the changes in market conditions and the recalibrated risk measurement factors on the part of the rating agencies. In practice, this resulted in the reparametrisation of the valuation method and required the introduction of a new model structure allowing a distinction between fair value losses due solely to temporary fluctuations and fundamental losses in conjunction with the systematic expansion of in-house risk assessment expertise. The valuation models are already subject to continuous development to the extent that future market development makes changes in the risk measurement factors necessary.

The new fundamental value of the securities is the present value of the discounted expected cash flows. The spread of the securities is applied for discounting purposes. As past fluctuations in market value are not recognised in this model, the impairment losses required were lower than was previously the case.

#### ***(d) Hedge accounting***

IKB uses derivatives as hedging instruments to reduce market price risks (e.g. interest rate and currency risks). As IAS 39 permits the use of different valuations for underlyings (e.g. loan receivables and obligations) and hedging transactions (derivatives), it also allows a special type of accounting, known as hedge accounting, to ensure accounting in line with the accrual principle.

A series of restrictive conditions must be met in order to be able to map financial hedges using hedge accounting. In addition to the formal documentation of the hedge, evidence must also be provided that the hedge offers effective risk compensation at the inception of the hedge and on subsequent balance sheet dates (prospective effectiveness). Documentation must also prove that the hedge satisfies the effectiveness criteria for the duration of the hedge (retrospective effectiveness). A fundamental distinction must be made between fair value hedge accounting and cash flow hedge accounting.

**Fair value hedge accounting.** A fair value hedge secures a recognised asset or liability or a firm commitment against changes in fair value attributable to certain risk factors (IAS 39.86). This hedge can be on the basis of a 1:1 relationship (micro hedges) or a portfolio with similar assets or liabilities being grouped together. Macro hedge accounting is only permitted when hedging fixed interest assets and liabilities against interest-induced changes in fair value; in this case, the portfolio consists of assets and liabilities with counter exposure (IAS 39.81A).

In fair value hedge accounting, changes in the fair value of the hedging derivatives and risk-related changes in the value of the underlying are offset in the result for the period. As a result, the carrying amounts of the designated underlyings are adjusted through profit or loss by the cumulative gains or losses on measurement due to a change in the hedged risk factors since the time the hedge was designated. In micro hedge relationships, these changes in carrying amount (hedge adjustments) are reported in the respective transactions. IAS 39.89A allows interest-induced changes in the value of the underlyings to be reported in a separate line item exclusively for macro hedge accounting for interest rate risks.

IKB uses macro hedge accounting for interest rate risks. Interest-induced changes in the value of the asset (liability) underlyings are reported in the respective item of the underlying. Changes in the value of the underlying included in the hedge relationship are also reported in the fair value result along with fair value changes in the hedge derivative. Derivatives that are hedging instruments in an effective fair flow hedge are carried at fair value and reported under positive/negative fair values of derivative hedging instruments in assets/liabilities held for trading.

Due to the restrictive conditions of hedge accounting, it is impossible to apply hedge accounting to all hedges. For this reason, IKB applies the fair value option permitted in IAS 39.9 to financial instruments which are in a financial hedge and for which risk compensation is expected. Financial instruments that are subject to full fair value measurement as part of this are primarily fixed-interest financial instruments in a financial micro hedge.

**Cash flow hedge accounting.** IAS 39 permits the use of cash flow hedge accounting for derivatives used to hedge future variable cash flows. Risks exist regarding the amount of future cash flows, particularly for variable interest loans, securities and liabilities as well as forecast transactions (e.g. expected lending or investing). In addition, IAS 39 provides for the application of cash flow hedge accounting when hedging future cash flows from onerous contracts.

Derivatives that are hedging instruments in an effective cash flow hedge are carried at fair value and reported under positive/negative fair values of derivative hedging instruments in assets/liabilities held for trading. The gain or loss on remeasurement must be divided into an effective and an ineffective portion. The effective portion is the portion of the gain or loss on remeasurement that represents an effective hedge against the cash flow risk. This is taken directly to equity in a separate item in the revaluation surplus, "derivatives hedging fluctuations in future cash flows". The ineffective portion of the gain or loss on remeasurement is recognised in the income statement under the result from hedge relationships.

The general accounting policies described above do not change for the underlyings of the hedged cash flows.

In addition to the above requirements, the application of hedge accounting is dependent on a number of additional conditions. In particular, these relate to the documentation requirements for the hedge relationship and its effectiveness described above.

#### ***(e) Financial instruments with embedded derivatives***

Accounting for financial instruments with embedded derivatives depends on whether or not the derivatives have to be reported separately from the host contract. Embedded derivatives must be accounted for separately if the financial characteristics of the host contract and embedded derivative are not closely related.

If there is a close financial association, the instruments cannot be separated. The instrument is then recognised using the same method as the host contract. If there is not a close association between the derivative and the host contract, the two instruments must be separated; the derivative is measured at fair value through profit or loss unless the instrument is reported at fair value through profit or loss. Securities with embedded derivatives are not reported separately at IKB. Instead, the fair value option is applied to report an instrument in the financial instruments at fair value through profit or loss category. Embedded derivatives that have to be disclosed separately are only recognised separately in exceptional cases. In this case, the corresponding derivatives are recognised separately from the host contract in assets and liabilities held for trading at fair value. The host contract is reported according to its holding category.



***(f) Financial guarantees***

In accordance with IAS 39, a financial guarantee is a contract that obligates the guarantor to make certain payments. These payments are compensation for a loss incurred by the holder because a debtor fails to make payment when due in accordance with the terms of a debt instrument.

The value of a financial guarantee at inception is zero as the premium under market conditions is identical to the value of the consideration. Subsequent measurements must review whether or not an obligation must be recognised.

A financial guarantee is recognised when the guarantee offer is accepted.

***(g) Securities repurchase agreements***

Securities repurchase agreements are combinations of securities spots and futures (sale and repurchase) with the same counterparty (repos). In repos, the securities reported in the repurchase agreement (spot sale) continue to be reported in the balance sheet. The inflow of liquidity from the transactions is reported in the balance sheet as an amount due to banks or customers depending on the counterparty. Reverse repos (spot buy of securities) are recognised as loans and advances to banks or customers. Securities accepted under repurchase agreements are not reported in the balance sheet. The repo rate received or paid is recognised in net interest income on a pro rata basis.

***(h) Derecognition of financial instruments***

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

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

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

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

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

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

IKB implements the classification of financial instruments required by IFRS 7.6 as follows:

| <b>Assets</b>                                     |   |
|---|---|
| Fair value through profit or loss                 | <b>Held for trading</b>   |
|   | <i>Assets held for trading</i>  |
|   | <i>Derivative financial instruments recognised at fair value through profit or loss</i> |
|   | <i>Non-current assets held for sale</i>   |
| Fair value through profit or loss                 | <b>Fair value option</b>  |
|   | <i>Loans and advances to banks</i>  |
|   | <i>Loans and advances to customers</i>  |
|   | <i>Investment securities</i>  |
| Hedging derivatives                               | <i>Assets held for trading</i>  |
| Fair value in equity                              | <b>Available for sale</b>   |
|   | <i>Investment securities</i>  |
|   | <i>Non-current assets held for sale</i>   |
| Amortised cost                                    | <b>Loans and receivables</b>  |
|   | <i>Loans and advances to banks</i>  |
|   | <i>Loans and advances to customers (including hedge fair value adjustments)</i>         |
|   | <i>Investment securities</i>  |
|   | <i>Non-current assets held for sale</i>   |
| Receivables from finance leases                   | <i>Loans and advances to customers</i>  |
| Other financial instruments not covered by IFRS 7 | <i>Investments accounted for using the equity method</i>                                |
| <b>Equity and liabilities</b>                     |   |
| Fair value through profit or loss                 | <b>Held for trading</b>   |
|   | <i>Liabilities held for trading</i>   |
|   | <i>Derivative financial instruments recognised at fair value through profit or loss</i> |
|   | <i>Negative fair values of non-current assets held for sale</i>                         |
|   | <b>Fair value option</b>  |
| Fair value through profit or loss                 | <i>Liabilities to banks</i>   |
|   | <i>Liabilities to customers</i>   |
|   | <i>Securitised liabilities</i>  |
|   | <i>Subordinated capital</i>   |
|   | <b>Other financial liabilities</b>  |
| Amortised cost                                    | <i>Liabilities to banks</i>   |
|   | <i>Liabilities to customers</i>   |
|   | <i>Securitised liabilities (including hedge fair value adjustments)</i>                 |
|   | <i>Subordinated capital</i>   |
|   | <b>Contingent liabilities</b>   |
| Off-balance sheet transactions                    | <b>Other obligations</b>  |

Reporting classes are grouped together in accordance with the IAS 39 holding categories for the corresponding balance sheet items. Derivatives in hedge relationships and receivables from finance leases are reported in separate reporting classes as these cannot be allocated to any of the holding categories under IAS 39. Off-balance sheet transactions are also covered by IFRS 7 and are therefore reported in a separate class. Financial instruments that are carried at equity in accordance with IAS 28 and IAS 31 do not fall within the scope of IFRS 7 and are therefore posted in a separate reporting class.

**(8) Cash reserve**

The cash reserve comprises cash-in-hand and balances at central banks. It is reported at nominal value.

**(9) Loans and advances to and liabilities from banks/customers**

At IKB, loans and advances to and liabilities from banks and customers not held for trading and not traded in an active market are measured at amortised cost. Premiums and discounts are reported under the corresponding balance sheet item. They are amortised through profit or loss over their expected life using the effective interest method and recognised under net interest income. Further information on impairment can be found in the Provisions for possible loan losses section.

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

***Finance leases***

IAS 17 classifies a lease as a finance lease if it transfers substantially all the risks and rewards incident to ownership to the lessee. Under finance leases the Bank, as the lessor, reports lease receivables at their net investment value within the balance sheet item loans and advances to customers.

Finance leases are generally part amortisation agreements under which the residual value is defined contractually with the lessee. During the non-cancellable lease term, the acquisition costs are only amortised in part. Amortisation is carried out on the basis of the implicit interest rates. A residual value is calculated at the end of the agreement. The residual value is based on the expected fair value of the leased item at the end of the agreement. Part amortisation agreements differ between agreements with a put option for IKB and agreements without a put option in respect of the lessee. Agreements without put options can also include hedges in the form of repurchase agreements with third parties. In foreign companies customers are sometimes offered call options under this type of agreement. Agreements without put options or with repurchase agreements can also be reported in the balance sheet as an operating lease depending on the calculated residual value. For example, correspondingly high residual values occur in machinery leasing.

In addition, there are also full amortisation agreements, puttable agreements and hire purchase agreements that are reported on the balance sheet as finance leases. For full amortisation agreements, the full acquisition cost is amortised over the non-cancellable lease term. These agreements are used for leased items that are not expected to have any significant fair value at the end of the term. Puttable agreements have a non-cancellable lease term after an automatic extension provided that the agreement is not cancelled by the customer. In the event of cancellation, the customer must make a final payment. This results in full amortisation. In hire purchase agreements, legal ownership passes to the customer on payment of the final instalment.

The finance lease ends once the contracting parties have fulfilled all their obligations in accordance with the agreement.

**(10) Provision for possible loan losses**

To assess whether a loss event has arisen at an individual level, all the Bank's significant credit relationships are checked for objective indications of impairment each quarter. Debtors are examined for any financial difficulties.

Impairment on individual assets is recognised in the amount of the potential default as soon as the probability of the interest and repayment receivables defaulting is sufficiently large. Loans are tested for impairment if one of the following criteria is met: existing impairment, insolvency, arrears of 90 days or more, or restructuring measures. The potential default is

calculated as the differences of the current carrying amount and the present value of the cash flows still expected. The discount factor is equal to the original effective interest rate of the receivable.

Portfolio provisions are recognised for credit risks on the basis of empirical default/loss rates; these provide risk cover for acute default risks that exist but have not yet become apparent. The delay before an event is identified or becomes known is taken into account by portfolio-oriented parameters (loss identification period factor).

For impaired financial instruments classified as loans and receivables, the interest income is calculated by unwinding future forecast cash flows using the original effective interest rate. Thus, the present value as of the next reporting date (unwinding) is recognised rather than the contractually agreed interest income.

Risk provisions are reported on the assets side of the balance sheet with a minus sign. The item includes impairment requirements on loans and advances to banks and customers. Financial assets are always reported net of impairment. Irrecoverable debts are written off directly; recoveries on loans previously written off are recognised through profit and loss. If the basis for a direct write-down no longer applies, the write-down is reversed to not more than the amortised cost.

The procedure for determining provisions for off-balance sheet obligations for possible loan losses resembles the method used for loans. Impairment losses are recognised in the balance sheet as provisions for possible loan losses under other provisions and recognised in the income statement as an element of the provision for possible loan losses.

#### **(11) Assets and liabilities held for trading**

All derivatives are allocated to assets and liabilities held for trading in accordance with IAS 39. These are carried at fair value. In addition, financial instruments held for trading, which essentially comprise holdings in promissory loan notes and bonds that the Bank intends to place in the market, are allocated to these items.

Please refer to note 6 for information on the procedure for determining the fair value of assets held for trading. The net gain or loss on remeasurement and realised gains and losses are reported under net income from financial instruments at fair value. Interest income and interest expenses are reported in net interest income.

#### **(12) Investment securities**

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

Holdings that are not traded in an active market on addition are measured at amortised cost unless the fair value option has been exercised. Any premiums or discounts are allocated directly to the corresponding financial instruments and distributed over the remaining term using the effective interest method and the resulting gains or losses are reported under net interest income.

All other holdings reported under investment securities are measured at fair value on addition and on each subsequent reporting date. If the fair value of shares in unconsolidated subsidiaries and other investments cannot be reliably determined, these items are recognised at acquisition cost. Investments recognised at acquisition cost include shares in limited liability companies (GmbH) and shares in partnerships for which there is a significant degree of fluctuation in the reasonable estimates of the fair value and for which the probability of the various estimates cannot be reasonably assessed.

The gains and losses on the measurement of holdings in the "financial assets available for sale" category are reported in the revaluation surplus under equity. Gains and losses are only recognised in profit or loss under net income from investment securities when the holdings

are realised, e.g. when the instruments are sold or an impairment loss is recognised. In accordance with IAS 39.59, investment securities must be examined for objective evidence of whether losses occurred after their initial recognition resulting in a reduction in the cash flows. For example, permanent or material impairment is considered to have occurred in the case of loss events, breach of contract or increased probability of default. In addition, there is objective evidence of impairment if the fair value falls significantly below acquisition cost over a considerable period of time. In this case, the remeasurement gains and losses are no longer reported in the revaluation surplus under equity, but are instead reported in net income from investment securities.

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

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

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

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

### **(13) Companies accounted for using the equity method**

All investments in associated companies and joint ventures that are accounted for using the equity method are reported under this item.

Gains and losses are reported separately in the consolidated income statement under net income from investments accounted for using the equity method.

### **(14) Intangible assets**

In addition to internally generated intangible assets, which mainly result from the directly attributable development costs of internally generated software, IKB also reports purchased software that is not an integral part of hardware under intangible assets. They are measured at cost less cumulative amortisation. If intangible assets constitute qualifying assets within the meaning of IAS 23, the attributable borrowing costs are included in the calculation of cost.

Amortisation is recognised on a straight-line basis over a useful life of five years. Write-downs are recognised if there are indications of impairment. Assets are tested for impairment and the appropriateness of their useful lives at least every balance sheet date. Write-downs are reported in the income statement under administrative expenses.

### **(15) Property, plant and equipment**

All land, buildings and operating and office equipment are reported under property, plant and equipment. Property, plant and equipment is measured at cost less cumulative depreciation in accordance with the standard useful life. If items of property, plant and equipment constitute qualifying assets within the meaning of IAS 23, the attributable borrowing costs are included in the calculation of cost.

Depreciation on buildings is recognised on a straight-line basis over a useful life of between 33 and 50 years; depreciation on operating and office equipment is recognised over a useful life of between three and 20 years. This is reported under administrative expenses.

Write-downs are recognised if there are indications of impairment due to technical or commercial obsolescence or a decline in market prices.

Gains on disposal are reported under other operating income, losses on disposal under other operating expenses.

### **Operating leases**

IAS 17 classifies a lease as an operating lease if it does not transfer substantially all the risks and rewards incident to ownership to the lessee. Leased items that IKB recognises under operating leases as the lessor are reported under property, plant and equipment.

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

Operating leases can result from part amortisation agreements and puttable agreements where a residual value is taken into account. In part amortisation agreements both the term and the residual value are contractually agreed. The residual value is amortised at the end of the agreement resulting from the sale or sub-leasing of the leased item. IKB generally has a put option in respect of the residual value in line with the terms of the agreement. In vehicle part amortisation agreements, the lessee can also participate in additional proceeds under the terms of the agreement if the proceeds from realisation exceed the residual value. Puttable agreements are concluded for indefinite periods. The calculated term, the termination rights and the corresponding compensatory payments are agreed on a case-by-case basis.

### **(16) Tax assets and liabilities/deferred tax assets and liabilities**

Taxes are calculated for the individual Group companies in accordance with the tax laws in each country. Current tax expenses and income and expenses from changes in deferred tax assets or liabilities are reported in the income statement as taxes on income.

Current and deferred tax assets and liabilities are reported separately in the balance sheet as asset and liability items. Taxes are reported under the items current tax assets and liabilities in the amount of reimbursements by or payments to the tax authorities. Deferred tax assets and liabilities are reported under the items deferred tax assets and liabilities.

In line with IAS 12, deferred tax assets and liabilities are calculated on the basis of the balance sheet method. They arise from the differences between the carrying amount of assets/liabilities in the consolidated financial statements and their tax carrying amounts if they are expected to result in tax expenses or relief in the future (temporary differences). The temporary differences are measured in line with the country-specific tax rates that are expected to apply at the time that the differences reverse.

Deferred tax assets on an entity's unused tax loss carryforwards are recognised when it is more than 50% likely that the entity will generate sufficient tax income in the coming years to use the respective loss carryforward.

Deferred taxes are not discounted. Deferred taxes are calculated on the basis of the applicable tax rates at the balance sheet date. Changes in tax rates are taken into account when calculating deferred tax assets and liabilities if it is certain that they will be in effect as of the balance sheet date.

Depending on the matter at hand, deferred tax assets are recognised and reversed either in profit or loss as taxes on income or in equity.

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

### **(17) Other assets/liabilities**

Other assets/liabilities essentially include lease receivables, trade receivables and prepaid expenses and deferred income.

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

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

In accordance with IFRS 5.7 and 5.8, a non-current asset is classified as held for sale if it is available for immediate sale in its present condition, an active programme to locate a buyer has been initiated and its sale is highly probable within the next twelve months. The asset available for sale is reported in a separate balance sheet item, "non-current assets held for sale". The liabilities of a disposal group classified as held for sale are also presented separately (IFRS 5.38). Measurement at the reporting date is based on a comparison of the current carrying amount with the fair value less costs to sell. In the case of financial instruments, measurement is performed in accordance with IAS 39.

### **(19) Securitised liabilities**

Securitised liabilities include issued bonds and money market securities (e.g. certificates of deposit, euro notes, commercial papers). These financial instruments are carried at either amortised cost (other financial liabilities) or fair value if the fair value option has been exercised.

### **(20) Provisions for pensions and similar obligations**

Provisions are recognised for pension commitments to employees of IKB AG and the subsidiaries IKB Leasing GmbH, Hamburg, IKB Leasing Berlin GmbH, Erkner, IKB IMG, IKB Private Equity GmbH, IKB Data GmbH, Düsseldorf, and IKB International S.A. Luxembourg (IKB S.A.). The pension schemes are based on defined benefit plans.

In particular, IKB uses the provisions for pensions and similar obligations to cover payments under its company pension scheme on the basis of its indirect pension commitments. Under these schemes, pensions are paid from the start of retirement due to reaching pension age or early retirement on account of disability or to surviving dependents in the event of death. The amount of provisions for defined benefit pensions is dependent on the applicable pension fund plan (VO) regulations. While the pension fund plan for 1979 is essentially based on factors such as the eligible service period and eligible earnings, the plan for 1994 features a so-called benchmark model and a pension module system. Under the 1994 plan, the amount of obligations recognised as liabilities for income components below the upper income limit (in line with the applicable German calculation parameters for statutory pension insurance) is based on final salary and the benchmark value and, for income components above the social security contribution ceiling, on the amount of the pension module earned on an annual basis.

With the introduction of the 2006 pension scheme, IKB followed the trend emerging on the market of basing pensions more strongly on the development of the corresponding investments. The 2006 pension plan is a cash balance plan, which is performance-based but includes a minimum interest rate and additional benefits for incapacity or death. The 2006 pension plan applies to employees hired at IKB AG, IKB Data GmbH, IKB Leasing GmbH and IKB Private Equity GmbH from the 2006/07 financial year.

All pension obligations are calculated using the projected unit credit method in line with IAS 19. The carrying amounts of future obligations are based on actuarial opinions prepared by independent actuaries. These calculations take into account not only the pensions known and benefits acquired on the balance sheet date but also expected future increases in eligible salaries and pensions and rates of fluctuation. The current market interest rate for long-term investments is used to calculate the present value, with biometric probabilities taken into account using the 2005G Heubeck mortality tables.

The expense of direct commitments recognised through profit and loss is divided into the main components of interest and service costs. The former is reported under net interest income, the service cost under staff costs. Actuarial gains and losses can arise from changes in the actuarial parameters on which the original pension opinions were based, accounting policies and changes in holdings. These increases or decreases in obligations, namely the difference from the originally estimated obligation, are recognised in full in retained earnings in the year in which they arise.

Similar obligations also include provisions for early retirement schemes and deferred compensation obligations, calculated on the basis of actuarial principles.

Provisions for anniversary bonuses, which are also determined on the basis of actuarial opinions, are reported under other provisions under IFRS.

In addition, IKB introduced a deferred income accounts scheme in 2006, which is also reported under similar obligations. Based on the *Gesetz zur sozialrechtlichen Absicherung flexibler Arbeitszeitregelungen (FlexiGesetz* – German Act on Social Protection for Flexible Working Times), employees can waive immediate salary components not relating to their regular monthly salary and instead invest these funds in fixed-income or equity funds under this scheme. With the future receipt of these investments with a guaranteed interest rate of 2.25%, this model supplements IKB's existing pension regulations and thereby offers a further option for deferred compensation and an instrument allowing a flexible transition into retirement. The deferred income accounts scheme is available to employees of IKB AG and its subsidiaries IKB Leasing GmbH, IKB Leasing Berlin GmbH, IKB IMG, IKB Private Equity GmbH and IKB Data GmbH.

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

The assets contributed by IKB to the CTAs constitute plan assets as defined by IAS 19 and are therefore netted against the corresponding obligations. Plan assets are measured at fair value. Differences between the plan income recognised in the income statement and current income are recognised in equity as actuarial gains and losses in retained earnings. The expected return on plan assets – together with the expense of unwinding obligations – is reported in net interest income.

### (21) Other provisions

In accordance with IAS 37, other provisions are recognised for current legal or constructive obligations for which the date and/or the amount of the obligation are uncertain, and for which an outflow of resources required to settle the obligation is probable. The amount recognised for the provision is the best possible estimate of the amount required to meet the obligation on the balance sheet date, taking into account the risks and uncertainties of the obligations.

They are measured in the amount of expected utilisation. Provisions are carried at present value where the effect of the time value of money is material. Unwinding effects are reported in net interest income.



## **(22) Subordinated capital**

### ***Subordinated liabilities***

Subordinated liabilities include liabilities that can only be repaid after all non-subordinated creditors in the event of insolvency or liquidation. Subordinated liabilities are own funds as defined by the *Kreditwesengesetz* (KWG – German Banking Act) and count as liable equity under certain conditions. If the liabilities have a remaining term of less than two years, they are only partially allocated to eligible capital. No provision is made for a participation in operating losses for subordinated liabilities; interest is due and paid irrespective of the Bank's net profit or loss for the year.

### ***Profit participation certificates***

Profit participation certificates fully participate in the loss of the Company. Interest payments are only made if the Company reports net income for the year or net retained profits. The claims of profit participation certificate bearers to capital repayment are subordinate to the claims of other creditors. Profit participation capital is used to strengthen liable capital in accordance with the provisions of the German Banking Act. If IKB posts a net loss for the year or net accumulated losses (under the German Commercial Code (HGB)), the profit participation certificates participate in this fully by reducing their repayments amounts in proportion to their carrying amount for the equity reported in the annual financial statements of IKB AG (including profit participation certificates but not any other subordinated liabilities).

### ***Silent partnership contributions/preferred shares***

Silent partnership contributions include issues in the form of capital contributions made by silent partners. In addition, IKB also reports preferred shares of two US subsidiaries under this item.

These liabilities are carried at either amortised cost (other financial liabilities) or fair value if the fair value option has been exercised.

Silent partnership contributions participate in the net accumulated losses of IKB AG (HGB) in proportion to the silent partnership contributions at the total carrying amount value of the Bank's liable equity participating in the loss.

The silent participation certificates issued by IKB S.A. participate in the losses of IKB S.A. on a pro rata basis if these losses exceed the distributable reserves.

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

## **(23) Equity**

### ***Issued capital***

This item includes IKB AG's share capital less the nominal amount of any treasury shares held for price management purposes.

### ***Capital reserve***

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

***Retained earnings***

Retained earnings are composed of legal reserves and other reserves. In accordance with IAS 19, the retained earnings reserve also includes actuarial gains or losses resulting from changes in calculation parameters and variations with regard to risk factors (i.e. disability or mortality figures) observable as of the balance sheet date compared to expectations. The item also includes the cumulative consolidated net retained profits/net accumulated losses from previous years.

***Currency translation reserve***

The currency translation reserve includes foreign exchange gains, or losses resulting from the translation of subsidiaries' equity denominated in a foreign currency.

***Revaluation surplus***

The revaluation surplus contains the net gains or losses from remeasurement of financial assets available for sale; the measurement effects of cash flow hedges are also shown here. Deferred taxes are calculated for each of the items listed and also included in the revaluation surplus.

***Minority interests***

Minority interests in the equity of subsidiaries are reported in a separate item within equity.

## Notes on the consolidated income statement

### (24) Net interest income

Net interest income includes interest income and interest expenses, dividends from securities, current income from shares in unconsolidated affiliated companies and investments as well as income and expenses from finance leases. Interest income and interest expenses are recognised on an accrual basis using the effective interest method. Interest income from finance leases is allocated over the basic lease term based on a pattern reflecting a constant periodic rate of return on the net investment.

| In € million  | 2009/10        | 2008/09        |
|---|----------------|----------------|
| Interest income from derivatives  | 590.3          | 257.8          |
| Interest income from fair value option financial instruments  | 117.0          | 195.7          |
| Interest income from securities held for trading  | 21.5           | 31.2           |
| <b>Total interest income from financial assets measured at fair value through profit or loss</b>        | <b>728.8</b>   | <b>484.7</b>   |
| Interest income from lending and money market transactions  | 1,097.2        | 1,713.6        |
| Interest income from fixed and floating-rate securities   | 171.6          | 311.0          |
| Amortisation from discontinued hedges IFRS 1 IG 60B   | -              | 37.4           |
| Income from equity investments  | 3.9            | 13.6           |
| Dividends   | 1.0            | 0.4            |
| <b>Total interest income from other categories</b>  | <b>1,273.7</b> | <b>2,076.0</b> |
| <b>Total interest income</b>  | <b>2,002.5</b> | <b>2,560.7</b> |
| Interest expenses for derivatives   | 654.1          | 280.9          |
| Amortisation from discontinued hedges IFRS 1 IG 60A   | 65.0           | 86.0           |
| Interest expenses for fair value option financial liabilities   | 313.8          | 237.9          |
| <b>Total interest expenses from financial liabilities measured at fair value through profit or loss</b> | <b>1,032.9</b> | <b>604.8</b>   |
| Interest expenses for securitised liabilities   | 122.3          | 548.3          |
| Interest expenses for other liabilities   | 563.4          | 973.2          |
| Interest expenses for subordinated capital  | 44.5           | 56.5           |
| Similar expenses to interest expenses including interest expenses for pension obligations               | 60.9           | 75.3           |
| <b>Total interest expenses from other categories</b>  | <b>791.1</b>   | <b>1,653.3</b> |
| <b>Total interest expenses</b>  | <b>1,824.0</b> | <b>2,258.1</b> |
| <b>Net interest income</b>  | <b>178.5</b>   | <b>302.6</b>   |

No current interest income is recognised for impaired loans and advances. Instead, the increase in the present value of future payments as a result of the passage of time is recognised as interest income (unwinding). The interest income resulting from the unwinding effect amounts to € 39.0 million (previous year: € 40.7 million).

The adjustment from fair value hedges as part of initial recognition under IFRS and the amounts from the cash flow hedges are amortised according to the residual term of the underlying, taking into account early repayments through net interest income.

**(25) Provision for possible loan losses**

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

|  | Amortised cost              |                                 |                       | Fair value in equity  | Receivables from finance leases | Provisions for off-balance sheet transactions | Total        |
|--|-----------------------------|---------------------------------|-----------------------|-----------------------|---------------------------------|---|--------------|
|  | Loans and advances to banks | Loans and advances to customers | Investment securities | Investment securities | Loans and advances to customers |   |              |
| 2008/09 in € million   |                             |                                 |                       |                       |                                 |   |              |
| Additions to specific valuation allowances/provisions  | -                           | 493.3                           | -                     | -                     | 8.0                             | 47.7  | 549.0        |
| Direct write-downs   | -                           | 11.9                            | -                     | -                     | -                               | -   | 11.9         |
| Recoveries on loans previously written off   | -                           | 7.9                             | -                     | -                     | -                               | -   | 7.9          |
| Additions to (+)/reversals of (-) portfolio allowances   | -                           | 97.8                            | -                     | -                     | 2.0                             | -   | 99.8         |
| Reversal of specific valuation allowances/provisions   | -                           | 49.8                            | -                     | -                     | 2.7                             | 10.7  | 63.2         |
| <b>Provision for possible loan losses</b>  | -                           | <b>545.3</b>                    | -                     | -                     | <b>7.3</b>                      | <b>37.0</b>                                   | <b>589.6</b> |
| Additions to (+)/reversal of (-) impairment on investment securities (net income from investment securities) | -                           | -                               | 294.0                 | 32.6                  | -                               | -   | 326.6        |
| <b>Total</b>   | -                           | <b>545.3</b>                    | <b>294.0</b>          | <b>32.6</b>           | <b>7.3</b>                      | <b>37.0</b>                                   | <b>916.2</b> |

**(26) Net fee and commission income**

| in € million  | 2009/10      | 2008/09     |
|---|--------------|-------------|
| Net fee and commission income from lending business | 24.8         | 38.2        |
| Net fee and commission income from securitisation   | 1.8          | -0.2        |
| Commission for liquidity generation                 | -76.7        | -5.2        |
| Other   | -1.4         | 0.4         |
| <b>Total</b>  | <b>-51.5</b> | <b>33.2</b> |

The item “commission for liquidity generation” was reported in “net fee and commission income from lending business” in the previous year. It contains the guarantee and commitment fees paid to SoFFin in conjunction with the guaranteed bonds.

**(27) Net income from financial instruments at fair value**

| in € million                      | 2009/10       | 2008/09       |
|-----------------------------------|---------------|---------------|
| Net trading result                | 61.6          | -291.0        |
| Net result from fair value option | -648.4        | 123.1         |
| Result from Rhinebridge           | -             | 12.5          |
| Hedging result                    | -12.1         | -6.7          |
| <b>Total</b>                      | <b>-598.9</b> | <b>-162.1</b> |

The positive effects in net trading income primarily relate to the derivative result of € 16.9 million (previous year: € -209.8 million), the securities trading result of € 18.8 million (previous year: € -30.9 million) and the currency result of € 23.9 million (previous year: € -44.0 million).

The use of the fair value option relates to some of the investments in international credit portfolios and financial instruments containing separable embedded derivatives. IKB also uses this category in risk-mitigating hedging strategies in accordance with IAS 39. The changes in the fair value of hedging swaps are recognised in this item, as are the changes in the fair value of the hedged items.

The result of the adoption of the fair value option is due to gains in the fair value of the above financial instruments. Of this figure, around € 84 million (previous year: € -380 million) relates to gains in the fair value of non-current assets, on balance € 137 million (previous year: € 19 million) to portfolio investments and € -10 million (previous year: € -23 million) to impairment losses on direct investments of the IKB Private Equity Group. A total of € 32.8 million (previous year: € -76.1 million) relates to changes in the fair value of hedging swaps reported together with changes in the value of the hedged items.

Liabilities for which the fair value option was exercised resulted in rating-driven expenses of € 858.9 million within net income from financial instruments at fair value (previous year: income of € 583.5 million) in the year under review due to the narrowing of the IKB credit spread. Until the planned repayment of these financial instruments, net income from financial instruments at fair value will continue to be affected by potential changes in credit spreads in future periods. The rating-driven changes in the fair value of own issues are broken down among the following balance sheet items:

| in € million             | <b>Cumulative change</b><br>in fair values<br>due to changes<br>in default risks |                | Change in fair values in the<br>period due to changes in<br>default risks |                             |
|--------------------------|--|----------------|---|-----------------------------|
|                          | 31 Mar 2010  | 31 Mar 2009    | 1 Apr 2009 -<br>31 Mar 2010   | 1 Apr 2008 -<br>31 Mar 2009 |
| Liabilities to banks     | 24.1   | 63.5           | -22.3   | 32.3                        |
| Liabilities to customers | 379.6  | 846.6          | -534.3  | 170.2                       |
| Securitised liabilities  | 17.4   | 130.9          | -140.4  | 75.9                        |
| Subordinated capital     | 486.8  | 1,093.5        | -161.9  | 305.1                       |
| <b>Total</b>             | <b>907.9</b>   | <b>2,134.5</b> | <b>-858.9</b>   | <b>583.5</b>                |

The Group's credit risk is not taken into account in the case of financial obligations issued by special purpose entities whose credit risk is dependent on collateral provided to the legally independent special purpose entity. The change in the fair value of the credit risk of the special purpose entity is therefore independent on the credit risk of IKB.

The result from fair value hedges is composed of the result from hedged items of € 89.5 million (previous year: € 259.0 million) and from hedging derivatives of € -101.6 million (previous year: € -265.7 million). Cash flow hedges did not make a contribution to earnings.

**(28) Net income from investment securities**

| in € million  | 2009/10      | 2008/09       |
|---|--------------|---------------|
| Net income/loss from securities                                 | 161.7        | -280.6        |
| Net loss from investments and shares in<br>affiliated companies | -2.5         | -1.5          |
| <b>Total</b>  | <b>159.2</b> | <b>-282.1</b> |

Net income from investment securities includes net reversals of impairment losses in the amount of € 128.2 million (previous year: losses of € 294.0 million) on securities in the IAS 39 loans and receivables category and € 0.0 million (previous year: € 32.6 million) on securities in the IAS 39 available for sale category. The sale of investment securities resulted in net income of € 33.6 million (previous year: € 46.1 million).

Impairment of € 2.5 million (previous year: € 1.5 million) was recognised in profit and loss for investments.

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

| in € million                            | 2009/10     | 2008/09     |
|---|-------------|-------------|
| Linde Leasing GmbH                      | 1.2         | -1.8        |
| MD Capital Beteiligungsgesellschaft mbH | -1.0        | 0.0         |
| Movesta Lease and Finance GmbH          | -0.9        | -6.6        |
| <b>Total</b>                            | <b>-0.7</b> | <b>-8.4</b> |

**(30) Administrative expenses**

| in € million   | 2009/10      | 2008/09      |
|--|--------------|--------------|
| Personnel expenses   | 164.2        | 179.4        |
| Other administrative expenses  | 121.4        | 174.9        |
| Write-downs on operating and office equipment, real estate and intangible assets | 15.9         | 21.0         |
| <b>Total</b>   | <b>301.5</b> | <b>375.3</b> |

The individual expense categories break down as follows:

**Personnel expenses**

| in € million                             | 2009/10      | 2008/09      |
|--|--------------|--------------|
| Wages and salaries                       | 132.4        | 156.2        |
| Social security contributions            | 18.2         | 19.2         |
| Expenses for pensions and other benefits | 13.6         | 4.0          |
| <b>Total</b>                             | <b>164.2</b> | <b>179.4</b> |

The decline is primarily attributable to the lower number of employees as a result of the implementation of the headcount reduction scheme.

Statutory pension premiums amounted to € 10.4 million (previous year: € 10.8 million).

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

**Other administrative expenses**

| in € million  | 2009/10      | 2008/09      |
|---|--------------|--------------|
| IT costs  | 22.5         | 31.5         |
| Advisory fees   | 25.4         | 45.3         |
| Mandatory contributions, miscellaneous administrative expenses and company law expenses | 16.9         | 17.6         |
| Occupancy expenses  | 19.7         | 20.2         |
| Travel expenses and vehicle costs   | 7.6          | 9.6          |
| Workstation costs   | 12.3         | 16.1         |
| Advertising, marketing and representation costs   | 2.2          | 3.7          |
| Other administrative expenses (incl. audit expenses)                                    | 14.8         | 30.9         |
| <b>Total other administrative expenses</b>  | <b>121.4</b> | <b>174.9</b> |

Other administrative expenses include expenses for consulting and other services for managing the crisis totalling € 12.8 million (previous year: € 57.3 million).

Mandatory contributions, miscellaneous administrative expenses and company law expenses primarily contain expenses for contributions to the Deposit Protection Fund in the amount of € 13.7 million (previous year: € 13.2 million).

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

| in € million                          | 2009/10    | 2008/09    |
|---------------------------------------|------------|------------|
| Audit of financial statements         | 3.3        | 5.6        |
| Other assurance or valuation services | 1.3        | 2.6        |
| Tax advisory services                 | -          | 0.1        |
| Other services                        | 0.5        | 0.4        |
| <b>Total</b>                          | <b>5.1</b> | <b>8.7</b> |

The level of prior-period audit costs is essentially due to additional charges for previous years (around € 1.7 million).

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

| in € million                         | 2009/10     | 2008/09     |
|--------------------------------------|-------------|-------------|
| Operating and office equipment       | 7.0         | 8.4         |
| Real estate used for bank operations | 0.5         | 1.3         |
| Intangible assets                    | 8.4         | 11.3        |
| <b>Total</b>                         | <b>15.9</b> | <b>21.0</b> |

**(31) Other operating result**

| in € million   | 2009/10      | 2008/09      |
|--|--------------|--------------|
| <b>Other operating income</b>  | <b>329.2</b> | <b>491.3</b> |
| Income from the remeasurement of compensation from future profits and hybrid financial instruments | 127.0        | 254.6        |
| Income from operating leases   | 120.1        | 121.2        |
| Repurchase of own issues   | 25.5         | 72.0         |
| Cost allocations   | 6.1          | 8.3          |
| Reversals of provisions/write-downs on other receivables   | 14.3         | 12.5         |
| Income for buildings not used for banking purposes   | 3.4          | 2.8          |
| Income from the sale of non-financial assets   | 13.4         | 3.6          |
| Remaining other operating income   | 19.4         | 16.3         |
| <b>Other operating expenses</b>  | <b>165.3</b> | <b>360.0</b> |
| Expenses for operating leases  | 117.3        | 112.1        |
| Write-down of goodwill   | -            | 186.2        |
| Expenses for buildings not used for banking purposes (including depreciation)                      | 4.7          | 5.7          |
| Additions to provisions/write-downs on other receivables   | 26.5         | 19.4         |
| Voluntary social benefits (including donations)  | 1.8          | 1.9          |
| Expenses from the sale of non-financial assets   | 0.4          | 0.4          |
| Remaining other operating expenses   | 14.6         | 34.3         |
| <b>Total</b>   | <b>163.9</b> | <b>131.3</b> |

Income from the remeasurement of compensation from future profits and hybrid financial instruments (IAS 39.AG8) is explained in note 48 "Liabilities to customers" and note 57 "Subordinated capital".

There was no amortisation of goodwill in the 2009/10 financial year (previous year: € 186.2 million).

**(32) Restructuring expenses**

| in € million                                     | 2009/10    | 2008/09     |
|--|------------|-------------|
| Restructuring expense for job changes            | 3.9        | 41.5        |
| Restructuring expense for continuing obligations | 1.1        | 9.0         |
| Other restructuring expenses                     | 1.4        | 1.3         |
| <b>Total</b>                                     | <b>6.4</b> | <b>51.8</b> |

**(33) Taxes on income**

| in € million         | 2009/10     | 2008/09       |
|----------------------|-------------|---------------|
| Current income taxes | 38.4        | -375.8        |
| for the current year | 42.3        | -5.8          |
| from prior years     | -3.9        | -370.0        |
| Deferred taxes       | -19.6       | -50.7         |
| <b>Total</b>         | <b>18.8</b> | <b>-426.5</b> |

Current income taxes primarily relate to taxes outside Germany. Based on the Group's operating result for 2009/10 and taking trade tax into account, tax income of € 299.3 million (previous year: € 315.4 million) would have been expected applying the rate of corporation tax in Germany including the solidarity surcharge. The following table shows a reconciliation of the expected tax expense to the reported tax expense:



| in € million  | 2009/10     | 2008/09       |
|---|-------------|---------------|
| Profit/loss before taxes                                  | -955.3      | -1,006.8      |
| <b>Applicable tax rate (%)</b>                            | <b>31.3</b> | <b>31.3</b>   |
| Expected income taxes                                     | -299.3      | -315.4        |
| Tax effects   | -           | -             |
| from prior years  | -4.0        | -330.0        |
| from tax rate changes                                     | -           | 0.7           |
| from differences between tax rates in Germany and abroad  | -20.4       | -54.2         |
| from tax-free income                                      | -2.3        | -555.8        |
| from non-deductible expenses                              | 16.1        | 413.8         |
| from unrecognised deferred taxes                          | 340.9       | -81.2         |
| from changes in permanent effects of an accounting nature | -18.4       | 520.4         |
| from other differences                                    | 6.2         | -24.8         |
| <b>Income taxes</b>                                       | <b>18.8</b> | <b>-426.5</b> |

The income tax rate used as the basis for the reconciliation is composed of the corporate income tax rate of 15.0% applicable in Germany as of 2008 (previous year: 15.0%), plus a solidarity surcharge of 5.5% (previous year: 5.5%) on corporate income tax and an average trade tax rate of 15.5% (previous year: 15.5%). In total, this is equivalent to an income tax rate of 31.3% (previous year: 31.3%).

Income tax effects due to differences in tax rates result from differences between domestic income tax rates and foreign income tax rates applicable to foreign Group companies and entities, which still range from 12.5% to 46.2%, and different trade tax assessment rates in Germany.

To the extent permitted under IAS 12, deferred taxes have been recognised for temporary differences resulting from investments in subsidiaries, foreign branches and associates as well as interests in joint ventures.

The tax effect of € 340.9 million (previous year: € -81.2 million) for unrecognised deferred taxes primarily relates to unrecognised deferred income tax assets for temporary differences in the German tax group and a reduction in deferred income tax assets for the Luxembourg tax group.

## Notes on the consolidated balance sheet (assets)

### (34) Cash reserve

| in € million                | 31 Mar 2010 | 31 Mar 2009 |
|-----------------------------|-------------|-------------|
| Cash in hand                | 0.1         | 0.0         |
| Balances with central banks | 14.7        | 4.0         |
| Other                       | 0.1         | 0.2         |
| <b>Total</b>                | <b>14.9</b> | <b>4.2</b>  |

As of the balance sheet date, € 14.4 million (previous year: € 3.6 million) of balances at central banks related to balances at Deutsche Bundesbank.

### (35) Loans and advances to banks

| in € million  | Total          |                | Germany      |              | Outside Germany |                |
|---|----------------|----------------|--------------|--------------|-----------------|----------------|
|   | 31 Mar 2010    | 31 Mar 2009    | 31 Mar 2010  | 31 Mar 2009  | 31 Mar 2010     | 31 Mar 2009    |
| Loans and advances to banks payable on demand               | 2,207.4        | 2,186.5        | 817.9        | 585.3        | 1,389.5         | 1,601.2        |
| Loans and advances to banks (initial maturity < four years) | 231.2          | 698.6          | 52.3         | 50.0         | 178.9           | 648.6          |
| Loans and advances to banks (initial maturity ≥ four years) | 79.7           | 94.4           | 11.8         | 0.0          | 67.9            | 94.4           |
| <b>Total</b>  | <b>2,518.3</b> | <b>2,979.5</b> | <b>882.0</b> | <b>635.3</b> | <b>1,636.3</b>  | <b>2,344.2</b> |

The decrease in loans and advances to banks is primarily attributable to the deconsolidation of the Havenrock companies in the amount of € 0.7 billion. See also note 38 and note 50.

### (36) Loans and advances to customers

| in € million  | Total           |                 | Germany         |                 | Outside Germany |                |
|---|-----------------|-----------------|-----------------|-----------------|-----------------|----------------|
|   | 31 Mar 2010     | 31 Mar 2009     | 31 Mar 2010     | 31 Mar 2009     | 31 Mar 2010     | 31 Mar 2009    |
| Loans and advances to customers (initial maturity < four years) | 3,348.0         | 3,684.2         | 2,542.4         | 2,695.1         | 805.6           | 989.1          |
| Loans and advances to customers (initial maturity ≥ four years) | 18,499.7        | 22,292.5        | 14,027.7        | 16,259.2        | 4,472.0         | 6,033.3        |
| Finance lease receivables                                       | 1,817.4         | 1,951.2         | 1,357.2         | 1,477.6         | 460.2           | 473.6          |
| <b>Total</b>  | <b>23,665.1</b> | <b>27,927.9</b> | <b>17,927.3</b> | <b>20,431.9</b> | <b>5,737.8</b>  | <b>7,496.0</b> |

The decrease in loans and advances to customers is primarily attributable to the reduction in loans in certain areas (e.g. Real Estate Finance) due to the EU requirements.

Loans and advances to customers include unamortised hedge adjustments for the transition to IFRS in accordance with IFRS 1.IG 60A in the amount of € 46.0 million (previous year: € 111.0 million).

Loans and advances to customers include hedged items in the amount of € 177.5 million (previous year: € 187.6 million).

**(37) Provision for possible loan losses**

Special provisions for possible loan losses are recognised in order to hedge against identifiable risks in the Bank's lending business.

| in € million  | Impairment                  |                                 |                                 | Portfolio allowances | Provisions for off-balance-sheet transactions | Total          |
|---|-----------------------------|---------------------------------|---------------------------------|----------------------|---|----------------|
|   | Amortised cost              |                                 | Receivables from finance leases |                      |   |                |
|   | Loans and advances to banks | Loans and advances to customers | Loans and advances to customers |                      |   |                |
| Opening balance (1 April 2009)  |                             | 806.4                           | 6.7                             | 184.6                | 58.2  | 1,055.9        |
| Utilisation   |                             | 334.0                           | 0.0                             | 0.0                  | 15.4  | 349.4          |
| Reversal  |                             | 84.0                            | 11.1                            | 21.6                 | 10.8  | 127.5          |
| Unwinding   |                             | 24.4                            | 0.0                             | 0.0                  | 0.4   | 24.8           |
| Addition  |                             | 517.9                           | 14.4                            | 23.1                 | 22.3  | 577.7          |
| Reclassification  |                             | 0.0                             | 0.0                             | 0.0                  | 0.0   | 0.0            |
| Effects of exchange rate changes  |                             | -4.9                            | 0.1                             | -1.0                 | 0.0   | -5.8           |
| <b>Closing balance (31 March 2010)</b>  |                             | <b>877.0</b>                    | <b>10.1</b>                     | <b>185.1</b>         | <b>53.9</b>                                   | <b>1,126.1</b> |
| less provisions   |                             | -                               | -                               | -                    | 53.9  | 53.9           |
| <b>Provision for possible loan losses reported in the balance sheet as of 31 March 2010</b> |                             | <b>877.0</b>                    | <b>10.1</b>                     | <b>185.1</b>         | <b>-</b>                                      | <b>1,072.2</b> |

| in € million  | Impairment                  |                                 |                                 | Portfolio allowances | Provisions for off-balance-sheet transactions | Total          |
|---|-----------------------------|---------------------------------|---------------------------------|----------------------|---|----------------|
|   | Amortised cost              |                                 | Receivables from finance leases |                      |   |                |
|   | Loans and advances to banks | Loans and advances to customers | Loans and advances to customers |                      |   |                |
| Opening balance (1 April 2008)  | -                           | 775.9                           | 2.3                             | 83.0                 | 23.3  | 884.5          |
| Utilisation   | -                           | 397.9                           | 0.0                             | 0.0                  | 2.0   | 399.9          |
| Reversal  | -                           | 49.8                            | 2.7                             | 0.4                  | 10.7  | 63.6           |
| Unwinding   | -                           | 21.0                            | 0.0                             | 0.0                  | 0.1   | 21.1           |
| Addition  | -                           | 493.3                           | 8.0                             | 100.2                | 47.7  | 649.2          |
| Reclassification  | -                           | 0.0                             | -0.8                            | 0.0                  | 0.0   | -0.8           |
| Effects of exchange rate changes  | -                           | 5.9                             | -0.1                            | 1.8                  | 0.0   | 7.6            |
| <b>Closing balance (31 March 2009)</b>  |                             | <b>806.4</b>                    | <b>6.7</b>                      | <b>184.6</b>         | <b>58.2</b>                                   | <b>1,055.9</b> |
| less provisions   | -                           | -                               | -                               | -                    | 58.2  | 58.2           |
| <b>Provision for possible loan losses reported in the balance sheet as of 31 March 2009</b> |                             | <b>806.4</b>                    | <b>6.7</b>                      | <b>184.6</b>         | <b>-</b>                                      | <b>997.7</b>   |

Provisions for possible loan losses in the form of individual impairments and provisions amounted to € 941.0 million (previous year: € 871.3 million).

In addition, any further risks which have occurred but not yet been identified and which are not covered by individual write-downs are accounted for by way of portfolio impairments. Portfolio impairments amounted to € 185.1 million as of 31 March 2010 (previous year: € 184.6 million).

Risk provisions for credit risks by customer group are as follows:

| in € million                         | Impairment, Provisions (loans and receivables) and portfolio impairment |                | Utilisation of impairment and provisions |              | Provision for possible loan losses (income statement) |              |
|--------------------------------------|---|----------------|--|--------------|---|--------------|
|                                      | 31 Mar 2010   | 31 Mar 2009    | 31 Mar 2010                              | 31 Mar 2009  | 31 Mar 2010   | 31 Mar 2009  |
| <b>German customers</b>              | <b>743.5</b>  | <b>622.0</b>   | <b>190.7</b>                             | <b>376.9</b> | <b>346.3</b>  | <b>267.4</b> |
| Production                           | 297.9   | 231.1          | 77.3                                     | 109.7        | 150.3   | 153.8        |
| Trade                                | 36.9  | 22.2           | 6.4                                      | 18.0         | 21.8  | 9.8          |
| Services                             | 381.9   | 346.1          | 97.6                                     | 224.0        | 160.4   | 93.2         |
| Transport                            | 5.0   | 13.5           | 8.4                                      | 13.3         | 0.1   | 2.4          |
| Other                                | 21.8  | 9.1            | 1.0                                      | 11.9         | 13.7  | 8.2          |
| <b>Foreign customers</b>             | <b>192.8</b>  | <b>249.3</b>   | <b>158.7</b>                             | <b>23.0</b>  | <b>141.5</b>  | <b>222.4</b> |
| Production                           | 96.3  | 167.6          | 110.4                                    | 12.5         | 66.0  | 150.0        |
| Trade                                | 18.5  | 15.4           | 7.3                                      | 2.3          | 11.7  | 11.4         |
| Services                             | 31.8  | 50.1           | 36.8                                     | 7.4          | 32.2  | 48.5         |
| Transport                            | 15.8  | 5.7            | 4.0                                      | 0.7          | 16.2  | 1.7          |
| Other                                | 30.4  | 10.6           | 0.2                                      | 0.1          | 15.4  | 10.8         |
| <b>Portfolio Investments segment</b> | <b>4.7</b>  | <b>0.0</b>     |  |              | <b>4.6</b>  | <b>0.0</b>   |
| <b>Portfolio impairment</b>          | <b>185.1</b>  | <b>184.6</b>   |  |              | <b>1.5</b>  | <b>99.8</b>  |
| <b>Total</b>                         | <b>1,126.1</b>  | <b>1,055.9</b> | <b>349.4</b>                             | <b>399.9</b> | <b>493.9</b>  | <b>589.6</b> |

Key figures for the provision for possible loan losses:

| in %           | 31 Mar 2010 | 31 Mar 2009 |
|----------------|-------------|-------------|
| Addition ratio | 1.7         | 1.8         |
| Default ratio  | 1.4         | 1.2         |
| Risk ratio     | 3.9         | 3.2         |

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

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

Default ratio = defaults (utilisation of impairment losses and provisions for commercial loans and country loans plus the balance of direct write-downs and recoveries on loans previously written off) in relation to total credit volume.

Risk ratio = valuation allowances and provisions (balance of valuation allowances and provisions for counterparty risks from commercial loans, country risks and global valuation allowances) in relation to total credit volume.

### **(38) Assets held for trading**

| in € million   | 31 Mar 2010    | 31 Mar 2009    |
|--|----------------|----------------|
| Bonds and other fixed-income securities  | 94.8           | 5.6            |
| Promissory notes carried as trading assets                                       | 38.1           | 54.1           |
| Derivatives with positive fair values  | 941.3          | 3,511.4        |
| Derivatives with positive fair values on fair value option financial instruments | 237.5          | 134.7          |
| Hedging derivatives with positive fair values                                    | 29.6           | 27.0           |
| <b>Total</b>   | <b>1,341.3</b> | <b>3,732.8</b> |

The securities carried under assets held for trading are fully marketable and listed.

The new item “derivatives with positive fair values on fair value option financial instruments” contains all derivatives which are in a financial hedge with a financial instrument classified as at fair value through profit or loss. These derivatives were reported in “derivatives with positive fair values” in the previous year.

The decrease of € 2.4 billion is primarily attributable to the deconsolidation of the Havenrock companies (€ 2.1 billion). See also notes 35 and 50.

**(39) Investment securities**

Investment securities include the following items:

| in € million                                   | 31 Mar 2010    | 31 Mar 2009     |
|--|----------------|-----------------|
| Bonds and other fixed-income securities        | 8,207.2        | 10,063.6        |
| Equities and other non-fixed-income securities | -              | 0.3             |
| Investments                                    | 133.3          | 172.2           |
| of which in banks                              | 0.3            | 5.6             |
| Shares in affiliated companies                 | 0.2            | 0.2             |
| <b>Total</b>                                   | <b>8,340.7</b> | <b>10,236.3</b> |

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

Investment securities can be broken down into the following holding categories defined in IAS 39:

| in € million                                   | 31 Mar 2010    | 31 Mar 2009     |
|--|----------------|-----------------|
| <b>Fair value option investment securities</b> | <b>2,758.7</b> | <b>3,137.8</b>  |
| Bonds and other fixed-income securities        | 2,643.0        | 3,002.6         |
| Investments                                    | 115.7          | 135.2           |
| <b>Financial assets available for sale</b>     | <b>1,594.9</b> | <b>1,901.1</b>  |
| Bonds and other fixed-income securities        | 1,577.1        | 1,863.6         |
| Equities and other non-fixed-income securities | -              | 0.3             |
| Shares in affiliated companies                 | 0.2            | 0.2             |
| Investments                                    | 17.6           | 37.0            |
| of which carried at amortised cost             | 17.3           | 31.4            |
| <b>Loans and receivables</b>                   | <b>3,987.1</b> | <b>5,197.4</b>  |
| Bonds and other fixed-income securities        | 3,987.1        | 5,197.4         |
| <b>Total</b>                                   | <b>8,340.7</b> | <b>10,236.3</b> |

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

| 31 March 2010<br>in € million           | Total<br>negotiable | listed  | unlisted |
|---|---------------------|---------|----------|
| Bonds and other fixed-income securities | 7,832.3             | 7,793.2 | 39.1     |
| Investments                             | 54.8                | 11.2    | 43.6     |

As of 31 March 2010, the Company did not hold any marketable shares in unconsolidated subsidiaries.

**(40) Companies accounted for using the equity method**

| in € million                            | 31 Mar 2010 | 31 Mar 2009 |
|---|-------------|-------------|
| Linde Leasing GmbH                      | 8.5         | 7.5         |
| MD Capital Beteiligungsgesellschaft mbH | 1.0         | 0.0         |
| <b>Total</b>                            | <b>9.5</b>  | <b>7.5</b>  |

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

Impairment testing on investments accounted for using the equity method identified the need for an impairment loss of € 1 million, which is reported in net income from investments accounted for using the equity method.

**(41) Intangible assets**

Intangible assets do not include any goodwill.

Intangible assets include internally generated software in the amount of € 3.9 million (previous year: € 5.0 million).

**(42) Property, plant and equipment**

| in € million  | 31 Mar 2010  | 31 Mar 2009  |
|---|--------------|--------------|
| Operating lease assets  | 141.7        | 149.6        |
| Land and buildings including advance payments and assets under construction | 20.6         | 86.3         |
| Operating and office equipment  | 17.2         | 20.2         |
| <b>Total</b>  | <b>179.5</b> | <b>256.1</b> |

The change in land and buildings is primarily attributable to the sale of the branch office buildings of IKB AG, IKB Grundstücks GmbH & Co. Objekt Hamburg KG, Düsseldorf, and IKB S.A.

**(43) Current tax assets**

| in € million    | 31 Mar 2010 | 31 Mar 2009 |
|-----------------|-------------|-------------|
| Germany         | 34.3        | 48.8        |
| Outside Germany | 8.4         | 8.9         |
| <b>Total</b>    | <b>42.7</b> | <b>57.7</b> |

**(44) Deferred tax assets**

Deferred tax assets relate to the following items:

| in € million   | 31 Mar 2010    | 31 Mar 2009    |
|--|----------------|----------------|
| Loans and advances to customers/provision for possible loan losses | 159.5          | 119.5          |
| Assets held for trading  | 6.3            | 9.8            |
| Investment securities  | 304.5          | 345.2          |
| Property, plant and equipment                                      | 3.2            | 4.2            |
| Loss carryforwards   | 26.2           | 129.0          |
| Liabilities to banks   | 45.0           | 34.6           |
| Liabilities held for trading                                       | 375.0          | 889.4          |
| Pension provisions   | 22.8           | 13.8           |
| Subordinated capital   | 9.1            | 12.3           |
| Other balance sheet items  | 86.4           | 56.6           |
| <b>Sub-total</b>   | <b>1,038.0</b> | <b>1,614.4</b> |
| Netting against deferred tax liabilities                           | -804.8         | -1,358.2       |
| <b>Total</b>   | <b>233.2</b>   | <b>256.2</b>   |

Deferred tax assets and liabilities were offset in accordance with IAS 12 within tax groups and companies on the basis of maturities.

The sharp decrease in deferred tax assets in liabilities held for trading essentially results from the lower negative fair values of derivative financial instruments in Germany.

Deferred tax assets recognised on the basis of planning amount to € 107.7 million in Germany (previous year: € 67.8 million) and € 21.9 million outside Germany (previous year: € 92.6 million). These are expected to be utilisable in future based on planning and the restructuring measures implemented.

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No deferred tax assets were recognised for temporary differences of € 1,069.1 million (previous year: € 77.2 million).

In total, € 841.1 million (previous year: € 669.5 million) in corporation tax loss carryforwards and € 769.1 million (previous year: € 540.6 million) of trade tax loss carryforwards were not recognised. Details can be found in the following table:

| in € million   | 31 Mar 2010  | 31 Mar 2009  |
|--|--------------|--------------|
| <b>Corporate income tax – loss carryforwards unrecognised as of the reporting date</b> | <b>841.1</b> | <b>669.5</b> |
| of which expired in 2009/10  | -            | -            |
| of which expiring in 2010/11   | -            | -            |
| of which expiring in 2011/12   | -            | -            |
| of which expiring in 2012/13   | 0.2          | -            |
| of which expiring in 2013/14   | 0.7          | -            |
| of which expiring in 2014/15   | -            | -            |
| of which expiring after 2014/15  | -            | 5.0          |
| of which may be carried forward for an unlimited period                                | 840.2        | 664.5        |
| <b>Trade tax – loss carryforwards unrecognised as of the reporting date</b>            | <b>769.1</b> | <b>540.6</b> |
| of which may be carried forward for an unlimited period                                | 769.1        | 540.6        |

### (45) Other assets

| in € million                          | 31 Mar 2010  | 31 Mar 2009  |
|---------------------------------------|--------------|--------------|
| Receivables from leasing transactions | 104.6        | 115.0        |
| Trade receivables                     | 54.5         | 41.5         |
| Deferred items                        | 36.0         | 41.0         |
| Other receivables                     | 63.4         | 30.7         |
| <b>Total</b>                          | <b>258.5</b> | <b>228.2</b> |

### (46) Non-current assets held for sale

Non-current assets held for sale amount to € 190.7 million (previous year: € 3.1 million) and contain assets from the recognition of a subsidiary that is scheduled to be sold in the next financial year in the amount of € 136.0 million. In this context, liabilities of € 2.6 million are reported in liabilities in connection with assets held for sale.

This item also contains loans and receivables to customers held for sale in the amount of € 54.7 million for which expenses of € 1.4 million are recognised in provisions for possible loan losses.

The prior-period amount of € 3.1 million contains the shares in Movesta that were sold in the financial year under review.

The current financial statements include a net loss of € -0.9 from Movesta (previous year: € -6.6 million) that is reported in net income from investments accounted for using the equity method.

The earnings contributions from non-current assets held for sale are included in the following income statement items:

| in € million  | 2009/10     | 2008/09     |
|---|-------------|-------------|
| Net interest income                                 | 13.5        | -           |
| Provision for possible loan losses                  | 23.2        | -           |
| Net fee and commission income                       | 0.7         | -           |
| Net income from financial instruments at fair value | -0.3        | -           |
| Result on investment securities                     | 8.8         | -           |
| Result on investments accounted for at equity       | -0.9        | -6.6        |
| Administrative expenses                             | 3.4         | -           |
| Restructuring expense                               | 2.4         | -           |
| <b>Operating result</b>                             | <b>-7.2</b> | <b>-6.6</b> |
| Taxes   | -7.2        | -           |
| <b>Net profit/loss</b>                              | <b>0.0</b>  | <b>-6.6</b> |



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

### (47) Liabilities to banks

| in € million  | Total           |                 | Germany         |                 | Outside Germany |              |
|---|-----------------|-----------------|-----------------|-----------------|-----------------|--------------|
|   | 31 Mar 2010     | 31 Mar 2009     | 31 Mar 2010     | 31 Mar 2009     | 31 Mar 2010     | 31 Mar 2009  |
| Liabilities to banks payable on demand                | 81.9            | 88.7            | 37.1            | 32.7            | 44.8            | 56.0         |
| Liabilities to banks (initial maturity < four years)  | 2,345.0         | 5,626.7         | 2,151.0         | 4,833.1         | 194.0           | 793.6        |
| Liabilities to banks (initial maturity >= four years) | 9,571.1         | 9,603.3         | 9,518.6         | 9,485.6         | 52.5            | 117.7        |
| <b>Total</b>  | <b>11,998.0</b> | <b>15,318.7</b> | <b>11,706.7</b> | <b>14,351.4</b> | <b>291.3</b>    | <b>967.3</b> |

Fixed-rate liabilities are hedged against interest rate risks partly by using derivatives (interest rate swaps). In order to achieve appropriate recognition in the balance sheet and the income statement, corresponding fixed-rate liabilities are accounted for under the fair value option on initial recognition.

The decrease in this item is primarily attributable to the lower level of borrowings from the European Central Bank.

### (48) Liabilities to customers

| in € million  | Total          |                | Germany        |                | Outside Germany |              |
|---|----------------|----------------|----------------|----------------|-----------------|--------------|
|   | 31 Mar 2010    | 31 Mar 2009    | 31 Mar 2010    | 31 Mar 2009    | 31 Mar 2010     | 31 Mar 2009  |
| Liabilities to customers payable on demand                | 14.7           | 605.4          | 14.7           | 605.4          | 0.0             | 0.0          |
| Liabilities to customers (initial maturity < four years)  | 3,508.6        | 1,651.9        | 3,447.5        | 1,595.7        | 61.1            | 56.2         |
| Liabilities to customers (initial maturity >= four years) | 3,994.6        | 3,561.5        | 3,378.9        | 2,984.8        | 615.7           | 576.7        |
| <b>Total</b>  | <b>7,517.9</b> | <b>5,818.8</b> | <b>6,841.1</b> | <b>5,185.9</b> | <b>676.8</b>    | <b>632.9</b> |

The loans with debt waivers and compensation from future profits measured in accordance with IAS 39.AG8 and reported in this item are measured at their present value at each reporting date. This is calculated using an estimate of the expected interest and principal cash flow discounted using the original yield. The carrying amount was € 548.0 million (previous year: € 548.8 million). This decrease is attributable to unwinding expenses (increase in carrying amount) of € 49.1 million (previous year: € 48.9 million) and a remeasurement gain (decrease in carrying amount) of € 49.9 million (previous year: € 187.4 million).

The increase in liabilities to customers is primarily attributable to the increase in customer deposits and the higher carrying amount of liabilities carried at fair value due to the narrowing of the IKB credit spread.

### (49) Securitised liabilities

| in € million                                  | 31 Mar 2010     | 31 Mar 2009     |
|---|-----------------|-----------------|
| Bonds issued (initial maturity < four years)  | 7,958.1         | 9,996.5         |
| Bonds issued (initial maturity >= four years) | 2,830.5         | 4,029.4         |
| <b>Total</b>                                  | <b>10,788.6</b> | <b>14,025.9</b> |

The change in securitised liabilities is primarily due to repayments of € 6.4 billion (previous year: € 8.6 billion), issues of SoFFin-guaranteed bonds of € 6.0 billion (previous year: € 4.0 billion) – of which € 3.0 billion were transferred to IKB's own portfolio and hence deducted – and remeasurement effects of € -0.2 billion (previous year: € 0.5 billion).

Securitised liabilities include changes in value of € 10.6 million (previous year: € 18.1 million) from hedged items.

**(50) Liabilities held for trading**

| in € million   | 31 Mar 2010    | 31 Mar 2009    |
|--|----------------|----------------|
| Derivatives with negative fair values  | 1,971.6        | 4,934.6        |
| Derivatives with negative fair values on fair value option financial instruments | 320.0          | 307.4          |
| Hedging derivatives with negative fair values                                    | 190.3          | 238.0          |
| <b>Total</b>   | <b>2,481.9</b> | <b>5,480.0</b> |

The € 3.0 billion decrease in derivatives with a negative fair value is primarily attributable to the deconsolidation of the Havenrock companies (€ 2.8 billion). See also notes 35 and 38.

The item “derivatives with negative fair values on fair value option financial instruments” contains all derivatives which are in a financial hedge with a financial instrument classified as at fair value through profit or loss. These derivatives were reported in “derivatives with negative fair values” in the previous year.

**(51) Provisions for pensions and similar obligations**

The type and the amount of pension payments to eligible employees are governed by the applicable pension rules (see also note 20).

The value of pension obligations is calculated annually by an independent actuary using the projected unit credit method. The difference in the items recognised in the balance sheet (pension provisions and capitalised excess assets) results from the fair value of the plan assets. Pension obligations and the plan assets for defined benefit pension plans developed as follows in previous years:

| in € million                                     | 31 Mar 2010 | 31 Mar 2009 | 31 Mar 2008 | 31 Mar 2007 | 31 Mar 2006 |
|--|-------------|-------------|-------------|-------------|-------------|
| Pension obligations (defined benefit obligation) | 260.5       | 223.4       | 204.9       | 218.6       | 227.4       |
| - fair value of plan assets                      | 237.3       | 206.8       | 206.5       | 215.9       |             |
| = Excess (+)/deficit (-)                         | -23.2       | -16.6       | 1.6         | -2.7        | -227.4      |
| recognised as an asset                           | 1.0         | 0.1         | 5.1         | 0.0         |             |
| recognised as a liability                        | 24.2        | 16.7        | 3.5         | 2.7         | 227.4       |

The defined benefit obligation for pension obligations amounted to € 260.5 million as of 31 March 2010 (previous year: € 223.4 million). Of this figure, € 258.6 million (previous year: € 221.8 million) related to obligations covered by funds and € 1.9 million (previous year: € 1.6 million) to obligations not covered by funds.

As of the balance sheet date, the covered obligations are currently no longer covered in full by the assets in the CTAs. This shortfall is due among other things to the change in the discount rate. In line with IAS 19, the amount reported for pension provisions is reduced to the amount of pension obligations not covered by corresponding assets; these amounted to € 24.2 million as of 31 March 2010.

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

| in € million   | 2009/10      | 2008/09      |
|--|--------------|--------------|
| <b>Opening balance of pension obligations as of 1 April</b>  | <b>223.4</b> | <b>204.9</b> |
| Pension payments   | 11.1         | 9.9          |
| Employee contributions                                       | 0.4          | 0.7          |
| Additions  | 19.8         | 17.3         |
| of which current service cost                                | 6.7          | 5.8          |
| of which interest cost                                       | 13.1         | 11.5         |
| -/+ actuarial gains and losses                               | 28.0         | 14.4         |
| Cost of restructuring measures (curtailment)                 | 0.0          | 4.0          |
| <b>Closing balance of pension obligations as of 31 March</b> | <b>260.5</b> | <b>223.4</b> |
| Plan assets under IAS 19                                     | 237.3        | 206.8        |
| <b>Net balance sheet position as of 31 March</b>             | <b>-23.2</b> | <b>-16.6</b> |

The total pension expense consists of the following components:

| in € million                                | 2009/10    | 2008/09    |
|---|------------|------------|
| Current service cost                        | 6.7        | 5.8        |
| Interest expense                            | 13.1       | 11.5       |
| Plan income                                 | -10.9      | -10.9      |
| Curtailement due to restructuring programme | 0.0        | -4.0       |
| <b>Pension expenses</b>                     | <b>8.9</b> | <b>2.4</b> |

As of 31 March 2010, pension obligations have a total value of € 260.5 million (previous year: € 223.4 million). The rise in pension obligations as against the previous year is essentially due to actuarial losses of € 28.0 million (previous year: € 14.4 million), € 2.4 million of which (previous year: € 5.3 million) relate to changes in holdings. The main factor causing the actuarial losses in obligations was the reduction in the discount rate.

As of the balance sheet date, the total actuarial losses arising in the financial year (offset against gains on plan assets) amounted to € 9.5 million (previous year: € 27.2 million).

The development of actuarial gains/losses taken directly to equity in the past financial year is as follows:

| in € million   | Pension obligation | Plan assets | Total       |
|--|--------------------|-------------|-------------|
| <b>Cumulative gains/losses recognised in the condensed statement of comprehensive income as of 31 March 2005</b> | <b>16.6</b>        | <b>0.0</b>  | <b>16.6</b> |
| -/+ actuarial gains and losses   | 19.0               | 0.0         | 19.0        |
| of which changes to actuarial parameters and calculation bases   | 14.0               | 0.0         | 14.0        |
| of which adjustments due to inventory changes  | 5.0                | 0.0         | 5.0         |
| <b>Cumulative gains/losses recognised in the condensed statement of comprehensive income as of 31 March 2006</b> | <b>35.6</b>        | <b>0.0</b>  | <b>35.6</b> |
| -/+ actuarial gains and losses   | -20.3              | 0.0         | -20.3       |
| of which changes to actuarial parameters and calculation bases   | -21.9              | 0.0         | -21.9       |
| of which adjustments due to inventory changes  | 1.6                | 0.0         | 1.6         |
| <b>Cumulative gains/losses recognised in the condensed statement of comprehensive income as of 31 March 2007</b> | <b>15.3</b>        | <b>0.0</b>  | <b>15.3</b> |
| -/+ actuarial gains and losses   | -24.2              | 21.5        | -2.7        |
| of which changes to actuarial parameters and calculation bases   | -31.6              | 0.0         | -31.6       |
| of which adjustments due to inventory changes  | 7.4                | 0.0         | 7.4         |
| <b>Cumulative gains/losses recognised in the condensed statement of comprehensive income as of 31 March 2008</b> | <b>-8.9</b>        | <b>21.5</b> | <b>12.6</b> |
| -/+ actuarial gains and losses   | 14.4               | 12.8        | 27.2        |
| of which changes to actuarial parameters and calculation bases   | 9.1                | 0.0         | 9.1         |
| of which adjustments due to inventory changes  | 5.3                | 0.0         | 5.3         |
| <b>Cumulative gains/losses recognised in the condensed statement of comprehensive income as of 31 March 2009</b> | <b>5.5</b>         | <b>34.3</b> | <b>39.8</b> |
| -/+ actuarial gains and losses   | 28.0               | -18.5       | 9.5         |
| of which changes to actuarial parameters and calculation bases   | 25.6               | 0.0         | 25.6        |
| of which adjustments due to inventory changes  | 2.4                | 0.0         | 2.4         |
| <b>Cumulative gains/losses recognised in the condensed statement of comprehensive income as of 31 March 2010</b> | <b>33.5</b>        | <b>15.8</b> | <b>49.3</b> |

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

| in € million   | 2009/10      | 2008/09      |
|--|--------------|--------------|
| <b>Opening balance of plan assets as of 1 April</b>  | <b>206.8</b> | <b>206.5</b> |
| Expected return on plan assets                       | 10.9         | 10.9         |
| -/+ actuarial gains and losses                       | 18.5         | -12.8        |
| IKB contribution additions                           | 0.7          | 1.5          |
| Employee contributions                               | 0.4          | 0.7          |
| Pension payments                                     | 0.0          | 0.0          |
| <b>Closing balance of plan assets as of 31 March</b> | <b>237.3</b> | <b>206.8</b> |

The plan assets generated a gain of € 29.4 million in the 2009/10 financial year (previous year: loss of € 1.9 million). This relates to reversals of impairment losses and reinvestments of CTA distributions, which were higher than forecast.

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

| in %                      | 31 Mar 2010 | 31 Mar 2009 |
|---------------------------|-------------|-------------|
| Cash and cash equivalents | 6.0         | 19.5        |
| Equities                  | 22.5        | 7.1         |
| Fixed-income securities   | 67.3        | 68.5        |
| Real estate               | 4.1         | 4.8         |
| Other                     | 0.1         | 0.1         |

Calculations were based on the following actuarial assumptions:

|  | 31 Mar 2010 | 31 Mar 2009 |
|--|-------------|-------------|
| Discount rate  | 5.25        | 6.00        |
| Forecast increase in pensionable remuneration  | 3.00        | 3.00        |
| Forecast rate of pension increases (including inflation)                                   | 2.25        | 2.25        |
| Employee turnover (by age groups)  | 1.00-6.50   | 1.00-6.50   |
| Expected return on plan assets for 79+94 plans, deferred compensation and early retirement | 5.25        | 5.25        |
| Expected return on plan assets for 2006 plan and deferred income accounts scheme           | 5.00        | 5.00        |

The expected return on plan assets for the coming financial year is based on the target allocation and the long-term expected return on assets per asset class. The performance assumptions are not a historical analysis; rather, they are a forecast based on a capital market model in which a number of asset classes are extrapolated in the future using simulation models.

The expected contributions to plan assets are based on the future change in the defined benefit obligation of pension obligations. The Company is (still) aiming to cover its obligations in full with the plan assets.

No appropriations to plan assets are forecast for the 2010/11 financial year. The expected pension payments amount to € 12.0 million (previous year: € 9.7 million).

With all other assumptions remaining unchanged, a change of 25 basis points in the discount rate would have led to a change in pension obligations of € 10.0 million.

## **(52) Other provisions**

| in € million                            | Opening balance as of 1 April 2009 | Utilisation | Reversal    | Addition    | Unwinding  | Reclassification | Effects of exchange rate changes | Closing balance as of 31 March 2010 |
|---|------------------------------------|-------------|-------------|-------------|------------|------------------|----------------------------------|-------------------------------------|
| Risks for possible loan losses          | 58.2                               | 15.4        | 10.8        | 22.3        | 0.4        | -                | -                                | 53.9                                |
| Provisions for interest on taxes        | 9.8                                | 0.7         | -           | 4.6         | -          | -                | -                                | 13.7                                |
| Provisions for anniversary bonuses      | 4.5                                | 0.7         | 0.1         | 0.1         | -          | -                | -                                | 3.8                                 |
| Tax provisions not including income tax | 1.7                                | 0.3         | -           | 2.2         | -          | -                | -                                | 3.6                                 |
| Litigation and recourse claims          | 15.9                               | 1.5         | 0.9         | 0.4         | -          | -                | -                                | 13.9                                |
| Restructuring                           | 48.7                               | 22.9        | 3.2         | 6.3         | -          | -2.6             | -                                | 26.3                                |
| Other                                   | 16.8                               | 2.3         | 1.0         | 3.1         | -          | -                | 0.8                              | 17.4                                |
| <b>Total</b>                            | <b>155.6</b>                       | <b>43.8</b> | <b>16.0</b> | <b>39.0</b> | <b>0.4</b> | <b>-2.6</b>      | <b>0.8</b>                       | <b>132.6</b>                        |

Provisions for anniversary bonuses were calculated in the same way as pension obligations using actuarial opinions from independent actuaries and the interest rate stated in note 20.

Risks for possible loan losses include the provision for risks relating to off-balance sheet items such as guarantees.

In light of a market environment that remains uncertain and the restructuring situation at IKB, the Bank is exposed to legal risks that it seeks to counteract by recognising provisions for litigation and recourse claims as well as restructuring provisions.

The decrease in restructuring provisions was primarily due to the implementation of the head-count reduction measures.

At the time of the preparation of the financial statements, there was no information indicating an accumulation of utilisation over time.

**(53) Current tax liabilities**

Current tax liabilities break down as follows:

| in € million    | 31 Mar 2010  | 31 Mar 2009 |
|-----------------|--------------|-------------|
| Germany         | 109.3        | 93.3        |
| Outside Germany | 0.5          | 1.5         |
| <b>Total</b>    | <b>109.8</b> | <b>94.8</b> |

**(54) Deferred tax liabilities**

Deferred tax liabilities relate to the following:

| in € million   | 31 Mar 2010  | 31 Mar 2009    |
|--|--------------|----------------|
| Loans and advances to customers/provision for possible loan losses | 176.6        | 455.3          |
| Assets held for trading  | 332.8        | 326.9          |
| Investment securities  | 26.0         | 65.3           |
| Property, plant and equipment                                      | 6.7          | 9.9            |
| Liabilities  | 99.8         | 313.3          |
| Liabilities held for trading                                       | 5.4          | 5.5            |
| Pension provisions   | 0.3          | 0.1            |
| Other liabilities  | 43.1         | 79.1           |
| Subordinated capital   | 133.1        | 208.7          |
| Other balance sheet items  | 84.3         | 33.7           |
| <b>Sub-total</b>   | <b>908.1</b> | <b>1,497.8</b> |
| Netting against deferred tax assets                                | -804.8       | -1,358.2       |
| <b>Total</b>   | <b>103.3</b> | <b>139.6</b>   |

Deferred tax assets and liabilities were offset in accordance with IAS 12 within tax groups and companies on the basis of maturities.

The sharp decrease in deferred tax liabilities is primarily attributable to loans and advances to customers/provision for possible loan losses and liabilities. In the latter case, this relates in particular to the increase in the fair values of liabilities in the consolidated financial statements, which led to a reduction in the valuation differences with the tax accounts.

**(55) Other liabilities**

| in € million              | 31 Mar 2010  | 31 Mar 2009 * |
|---------------------------|--------------|---------------|
| Trade payables            | 93.4         | 139.0         |
| Deferred items            | 16.0         | 18.8          |
| Restructuring liabilities | 1.5          | 2.2           |
| Other liabilities         | 321.2        | 387.9         |
| <b>Total</b>              | <b>432.1</b> | <b>547.9</b>  |

\* Figures adjusted

Other liabilities include an ABS transaction under which lease receivables were sold to an unconsolidated special purpose entity. However, the ABS transaction did not result in derecognition, meaning that IKB still reports lease receivables of € 276.8 million (previous year: € 255.1 million) as well as a liability to the buyer under other liabilities.

**(56) Liabilities in connection with non-current assets held for sale**

Liabilities in connection with non-current assets held for sale include obligations of € 2.6 million (previous year: € 0.0 million). The corresponding item is discussed in note 46 "Non-current assets held for sale".

**(57) Subordinated capital**

| in € million                                      | 31 Mar 2010    | 31 Mar 2009 *  |
|---|----------------|----------------|
| Subordinated liabilities                          | 908.4          | 1,171.8        |
| Profit participation certificates                 | 76.5           | 79.3           |
| Silent partnership contributions/preferred shares | 229.3          | 106.8          |
| <b>Total</b>                                      | <b>1,214.2</b> | <b>1,357.9</b> |

\* Figures adjusted

Subordinated capital includes subordinated liabilities, profit participation rights, silent partnerships and preferred shares classified as other financial liabilities and measured in accordance with IAS 39.AG8 at amortised cost at each balance sheet date. In the event of changes in expectations with regard to payments, a new present value is calculated using the original effective interest rate to reflect the change in expectations and the valuation effect is recognised immediately in profit or loss. This procedure led to a change in present value in both the year under review and the previous year. The effects are summarised in the following table:

| in € million                                      | Unwinding (interest expense) | Changes in present value (other operating income) | Unwinding (interest expense) | Changes in present value (other operating income) |
|---|------------------------------|---|------------------------------|---|
|   | 2009/10                      |   | 2008/09                      |   |
| Subordinated liabilities                          | -0.3                         | 74.6  | -2.1                         | -   |
| Profit participation certificates                 | -2.2                         | 2.5   | -5.2                         | 35.2  |
| Silent partnership contributions/preferred shares | -3.4                         | 0.0   | -4.6                         | 32.0  |
| <b>Total</b>                                      | <b>-5.9</b>                  | <b>77.1</b>                                       | <b>-11.9</b>                 | <b>67.2</b>                                       |

Expenses are shown with a minus sign.

As well as the effects of the application of IAS 39.AG8, the changes in the carrying amounts are primarily due to rating- and interest-driven changes in the fair values of the holdings measured using the fair value option and the partial derecognition of the mandatory convertible bond due to its conversion into equity (see note 58 "Issued capital").

**Subordinated liabilities**

€ 3.2 million (previous year: € 8.4 million) of subordinated liabilities mature in less than two years. There was no Tier III capital as defined in section 10 KWG in the year under review (previous year: € 35.0 million).

As of 31 March 2010, there were the following significant subordinated liabilities in excess of € 100.0 million:

| Start of term | Original nominal amount in € million | Currency | Interest rate in % | Maturity   |
|---------------|--------------------------------------|----------|--------------------|------------|
| 2003/2004     | 310.0                                | EUR      | 4.50               | 09.07.2013 |
| 2006/2007     | 128.6                                | EUR      | 2.56               | 23.01.2017 |
| 2008/2009     | 101.5                                | EUR      | 12.00              | 27.11.2018 |

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In the 2009/10 financial year, interest expenses for subordinated liabilities amounted to € 48.6 million (previous year: € 68.5 million), including unwinding expenses of € 0.3 million (previous year: € 2.1 million).

### Profit participation certificates

| in € million                          | 31 Mar 2010 | 31 Mar 2009 * |
|---------------------------------------|-------------|---------------|
| <b>Total</b>                          | <b>76.5</b> | <b>79.3</b>   |
| of which: section 10 KWG requirements | 45.4        | 73.9          |
| of which: within two years            | 31.1        | 5.4           |

\* Figures adjusted

The profit participation capital breaks down as follows:

| Year of issue | Original nominal amount in € million | Currency | Interest rate in % | Maturity   |
|---------------|--------------------------------------|----------|--------------------|------------|
| 2001/2002     | 100.0                                | EUR      | 6.50               | 31.03.2012 |
| 2001/2002     | 74.5                                 | EUR      | 6.55               | 31.03.2012 |
| 2004/2005     | 30.0                                 | EUR      | 4.50               | 31.03.2015 |
| 2005/2006     | 150.0                                | EUR      | 3.86               | 31.03.2015 |
| 2006/2007     | 50.0                                 | EUR      | 4.70               | 31.03.2017 |
| 2007/2008     | 70.0                                 | EUR      | 5.63               | 31.03.2017 |

Unwinding expenses amounted to € 2.2 million (previous year: € 5.2 million).

Revaluation (IAS 39.AG8) resulted in income of € 2.5 million (previous year: € 35.2 million), which is reported under other operating income (note 31).

### Silent partnership contributions/preferred shares

The carrying amount of silent partnership contributions/preferred shares was € 229.3 million as of 31 March 2010 (previous year: € 106.8 million). This includes preferred shares with a carrying amount of € 141.8 million (previous year: € 47.7 million) that were issued by two US subsidiaries formed for this purpose, and silent partnership contributions with a carrying amount after loss participation of € 87.5 million (previous year: € 59.1 million).

In line with section 10 KWG, silent partnership contributions are allocated to regulatory capital. IFRS classifies them as financial liabilities.

The interest expense for silent partnership contributions/preferred shares results from unwinding and amounted to € 3.4 million for the Group (previous year: € 4.6 million). See note 6 b (Financial liabilities) for information on the loss participation.

Revaluation (IAS 39.AG8) did not have an impact on earnings in the year under review (previous year: € 32.0 million).

### (58) Equity

| in € million                 | 31 Mar 2010  | 31 Mar 2009    |
|------------------------------|--------------|----------------|
| Issued capital               | 1,621.3      | 1,497.8        |
| Capital reserve              | 597.8        | 597.8          |
| Retained earnings            | -291.2       | -206.8         |
| Currency translation reserve | -17.2        | -20.5          |
| Revaluation surplus          | -6.9         | -35.9          |
| Minority interests           | 0.0          | 0.1            |
| Consolidated cumulative loss | -973.9       | -77.5          |
| <b>Total</b>                 | <b>929.9</b> | <b>1,755.0</b> |



***Issued capital/contingent capital/authorised capital***

By a resolution of the Annual General Meeting on 28 August 2008, the Board of Managing Directors was authorised to issue convertible and/or option bonds with a total nominal value of € 900,000,000.00 and a maximum term of 20 years until 27 August 2013 and to grant the bearers of these bonds conversion or option rights to a total of up to 48,339,843 no-par value bearer shares in the Company with an interest in the share capital of up to € 123,749,998.08 according to the relevant bond conditions. Utilising this authorisation, the Board of Managing Directors of the Company resolved on 19 November 2008 to issue subordinated bonds with a total nominal amount of up to € 123,671,070.72 with a contingent conversion obligation and contingent conversion right to up to 48,309,012 shares of the Company from contingent capital with the subscription rights of shareholders applied. The conditions for the existence of a conversion obligation and conversion right were that the recessionary action against the authorisation granted on 28 August 2008 was settled and the contingent capital associated with the authorisation was entered as final in the commercial register. The convertible bonds were offered to the shareholders of the Company in a public subscription offering in the period from 24 November 2008 to 8 December 2008. A subsidiary of the Lone Star Group, LSF6 Rio S.à.r.l., Luxembourg, 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., Luxembourg). A bond with a nominal value of € 23.04 entitles the bearer to subscribe to nine new shares from contingent capital at a conversion price of € 2.56 per share. Since 1 July 2009, the conditions for the existence of a conversion obligation and a conversion right have been met. As a result, a conversion right has existed since this time. A conversion obligation shall exist not later than on 11 April 2012, or earlier if the Company falls below certain regulatory financial ratios. LSF6 Rio S.à.r.l. exercised its conversion right in full on 2 July 2009. As a result, the share capital increased by € 123,520,896.00 to € 1,621,315,228.16. Issued capital is divided into 633,326,261 (previously 585,075,911) no-par value bearer shares. The issue of the subscribed shares was entered in the commercial register on 4 May 2010.

The resolution of the Annual General Meeting on 28 August 2008 authorised the Company to acquire and sell treasury shares for the purpose of securities trading up to 27 February 2010. The amount of shares acquired for this purpose cannot exceed 5% of the share capital at the end of any one day. Together with the treasury shares acquired for other reasons held by the Company or assigned to it in accordance with sections 71a ff. AktG, the treasury shares acquired on the basis of this authorisation cannot exceed 10% of the share capital at any time. This authorisation was not utilised in the 2009/10 financial year.

The Annual General Meeting on 28 August 2008 authorised the Company to acquire treasury shares of up to 10% of the share capital for purposes other than securities trading until 27 February 2010. They can be acquired on the stock exchange or by way of a public bid to all shareholders, including the limited use of put or call options. Together with the treasury shares acquired for trading purposes and other reasons held by the Company or assigned to it in accordance with section 71a ff. AktG, the treasury shares acquired on the basis of this authorisation cannot exceed 10% of the share capital of the Company at any time. In line with a decision by the Board of Managing Directors, the acquired shares can be sold on the stock exchange or in some other way or called in, either in full or in part. This authorisation was not utilised in the 2009/10 financial year.

The resolution of the Annual General Meeting on 27 August 2009 authorised the Board of Managing Directors to acquire and sell treasury shares for the purpose of securities trading up to 26 February 2011. The amount of shares acquired for this purpose cannot exceed 5% of the share capital at the end of any one day. Together with the treasury shares acquired for other reasons held by the Company or assigned to it in accordance with section 71a ff. AktG, the treasury shares acquired on the basis of this authorisation cannot exceed 10% of the share capital at any time. This authorisation was not utilised in the 2009/10 financial year. The authorisation to acquire treasury shares for trading purposes granted by the Annual General Meeting on 28 August 2008 for the period until 27 February 2010 was revoked by resolution of the Annual General Meeting on 27 August 2009 for the period after the new authorisation came into force.

The Annual General Meeting on 27 August 2009 authorised the Company to acquire treasury shares of up to 10% of the share capital for purposes other than securities trading until 26 February 2011. They can be acquired on the stock exchange or by way of a public bid to all shareholders, including the limited use of put or call options. Together with the treasury shares acquired for trading purposes and other reasons held by the Company or assigned to it in accordance with section 71a ff. AktG, the treasury shares acquired on the basis of this authorisation cannot exceed 10% of the share capital of the Company at any time. In line with a decision by the Board of Managing Directors, the acquired shares can be sold on the stock exchange or in some other way or called in, either in full or in part. This authorisation was not utilised in the 2009/10 financial year. The authorisation to acquire and utilise treasury shares in accordance with section 71 (1) no. 8 AktG granted by the Annual General Meeting on 28 August 2008 for the period until 27 February 2010 was lifted by resolution of the Annual General Meeting on 27 August 2009 for the period after the new authorisation came into force.

By way of resolution of the Annual General Meeting on 28 August 2008, the Board of Managing Directors was authorised, with the approval of the Supervisory Board, to increase the share capital of the Company by total of up to € 500,000,000.00 against cash or non-cash contributions by issuing up to 195,312,500 new 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 2009/10 financial year. The authorised capital was entered in the commercial register on 3 November 2008.

By way of resolution of the Extraordinary General Meeting on 25 March 2009, the Board of Managing Directors was authorised, with the approval of the Supervisory Board, to increase the share capital of the Company by total of up to € 247,499,996.16 against cash or non-cash contributions by issuing up to 96,679,686 new no-par value bearer shares until 24 March 2014. With the approval of the Supervisory Board, the statutory subscription rights of shareholders can be disapplied under this authorisation. Recessionary and revocation claims have been brought against this resolution on which a verdict has not yet been reached. The resolution has not yet been entered in the commercial register.

By way of a further resolution by the Extraordinary General Meeting on 25 March 2009, the Board of Managing Directors was authorised to issue convertible and option certificates and convertible and option bonds with a total nominal amount of up to € 900,000,000.00 and to grant the bearers of profit participation certificates or bonds conversion or option rights to shares of the Company with a share of capital of up to € 618,749,990.40 in line with the respective terms and conditions of the bonds until 24 March 2014. The residual authorisation to issue convertible and option bonds of up to € 776,328,929.28 in line with the resolution of 28 August 2008 was revoked by way of resolution of the Extraordinary General Meeting on 25 March 2009. Recessionary and revocation claims 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.

No treasury shares were held in the 2009/10 financial year, nor were there any additions or disposals of the same.

No employee shares were issued in the year under review.

**Retained earnings**

See statement of changes in equity

**Revaluation surplus**

| in € million  | 2009/10     | 2008/09      |
|---|-------------|--------------|
| Opening balance as of 1 April   | -35.9       | 2.8          |
| Unrealised gains/losses from investment securities available for sale   | 37.4        | -59.5        |
| Reclassifications to the income statement due to investment securities available for sale   | 3.2         | 46.1         |
| Changes in value of discontinued hedges recognised in profit or loss in line with IFRS 1  | -           | -37.4        |
| Unrealised gains/losses on derivatives hedging fluctuations in future cash flows: Unrealised gains/losses for the period before taxes | 0.8         | -12.1        |
| Deferred taxes  | -12.4       | 24.2         |
| <b>Closing balance as of 31 March</b>   | <b>-6.9</b> | <b>-35.9</b> |

As of 31 March 2010, the revaluation surplus included carrying amounts of € -11.4 million from effective cash flow hedges (previous year: € -12.1 million).

The corresponding tax effects are discussed in note 66.

**Regulatory indicators**

IKB's investment management approach is based on the regulations applicable to German banks and bank groups under sections 10 and 10a KWG. These state that sufficient regulatory equity must be held within the group. Specifically, risk-weighted assets must be backed with at least 8% equity (solvency ratio). Risk-weighted assets that are backed with Tier I capital are subject to a minimum ratio of 4% (Tier I capital ratio). The SoFFin agreement dated 18 August 2009 stipulates that a Tier I capital ratio of 8% must be maintained at Group level.

A summary of the equity components of IKB Group can be found in the following table:

| in € million   | 31 Mar 2010     | 31 Mar 2009     |
|--|-----------------|-----------------|
| Capital charge for credit risk   | 19,265.0        | 24,718.0        |
| Capital charge for market risk   | 313.0           | 613.0           |
| Capital charge for operational risk                                    | 1,100.0         | 1,324.0         |
| <b>Total of positions for which capital charges are required</b>       | <b>20,678.0</b> | <b>26,655.0</b> |
| <b>Tier I capital</b>  | <b>2,257.0</b>  | <b>2,276.0</b>  |
| Issued capital   | 2,835.0         | 2,807.0         |
| Other reserves   | 3,096.0         | 2,719.0         |
| Minority interests   | 0.0             | 0.0             |
| Other  | 912.0           | 968.0           |
| Deductible items   | -4,586.0        | -4,218.0        |
| <b>Tier II capital</b>   | <b>1,030.0</b>  | <b>1,245.0</b>  |
| Unrealised reserves in investment securities and real estate           | 0.0             | 0.0             |
| Profit participation certificates                                      | 51.0            | 142.0           |
| Other long-term subordinated liabilities, if eligible according to BIZ | 993.0           | 1,274.0         |
| Other  | -14.0           | -171.0          |
| Deductible items   | -216.0          | -236.0          |
| <b>Total liable equity</b>   | <b>3,071.0</b>  | <b>3,285.0</b>  |
| Tier III capital   | 0.0             | 35.0            |
| <b>Eligible own funds</b>  | <b>3,071.0</b>  | <b>3,320.0</b>  |
| <b>Tier I capital ratio</b>  | <b>10.4%</b>    | <b>8.1%</b>     |
| <b>Total capital ratio</b>   | <b>14.9%</b>    | <b>12.5%</b>    |

Equity consists of liable capital, which in turns comprises Tier I and Tier II capital, and Tier III capital. The core capital (Tier I) mainly consists of issued capital and reserves (Core or True Tier I) and hybrid funds that are allowable as core capital (Hybrid Tier I). Additional capital (Tier II) includes profit participation rights (Upper Tier II) and long-term subordinated liabilities (Lower Tier II). Tier III capital includes short-term subordinated liabilities and subordinated liabilities that have been capped at 50% of the core capital based on the standard limit imposed.

Since 1 January 2008 and the introduction of Basel II, new regulations apply under the SolvV. Risk-weighted assets are now determined according to the credit risk approach. The Bank has exercised its option under section 64h KWG in conjunction with section 10a (6) and (7) so that, for the purposes of calculating regulatory equity, the aggregation method will continue to apply on the basis of HGB calculation bases. IKB AG is a trading book institution and applies the basic indicator approach for operational risks.

## **Notes on the consolidated cash flow statement**

### **(59) Cash flow statement**

In accordance with IAS 7, the cash flow statement analyses the changes in cash and cash equivalents classified by operating, investing and financing activities.

#### ***Cash flow from operating activities***

This item includes payments related to loans and advances to banks and customers, as well as payments arising from securities of the trading portfolio and other assets attributable to operating activities. This item also includes changes in liabilities to banks and customers, securitised liabilities, and other liabilities attributable to operating activities as well as interest and dividend payments resulting from operating activities.

In addition, the cash flow from operating activities reflects all other cash inflows and outflows which are not reported under cash flows from investing activities or cash flows from financing activities.

#### ***Cash flow from investing activities***

The cash flow from investing activities includes cash payments or receipts for acquisitions and disposals of investments or securities as well as property, plant and equipment. In addition, this item includes cash flows due to changes in the scope of consolidation.

#### ***Cash flow from financing activities***

The cash flow from financing activities includes cash inflows and outflows from capital increases, dividend distributions and subordinated liabilities, as well as cash-related changes in reserves and minority interests.

Cash and cash equivalents in the reporting period are mainly composed of balances at central banks.

## Notes on segment reporting

### (60) Segment reporting

Segment reporting is based on the internal divisional accounting system, which is focused on financial control and forms part of IKB's management information system. The presentation is based on the internal organisational structure and management reporting that is used by the full Board of Managing Directors as the chief operating decision-maker (CODM) to assess the performance of the segments and to allocate resources. Segment reporting is prepared in accordance with IFRS 8. There are no significant adjustments at IKB compared with the previous procedure in accordance with IAS 14.

In the structure applied to date, segment reporting is geared towards the Bank's divisions. Segment information is presented to show the divisions as independent enterprises responsible for their own earnings and costs, and with their own capital resources.

Segment reporting at IKB reflects the operating segments of Corporate Clients, Real Estate Clients, Structured Finance and Portfolio Investments. Due to changes in the Bank's organisational structure and business policy, these segments will be fully discontinued with effect from the 2010/11 financial year. In line with the management approach prescribed by IFRS 8, IKB's new segment reporting will also reflect the Group structure based on internal management reporting starting from this reporting period. In future, segments will be identified using a product-oriented approach with the three business segments of Credit Products, Advisory and Capital Markets, and Treasury and Investments.

IKB's segment reporting for the past financial year is based on the Group structure applied to date. For information, the segment structure to be applied by the Group from the 2010/11 financial year onwards is also presented.

#### *Segment reporting based on the previous Group structure*

In the **Corporate Clients** segment, IKB reports income and expenses resulting from its activities with corporate customers. In addition to the traditional lending business with domestic corporate customers, this segment includes the activities in the areas of leasing moveable assets, private equity and capital market products for customers (ABS securitisation, promissory note loans and corporate bonds).

The **Real Estate Clients** segment comprises all components of the financing and service portfolio in the field of real estate, including all traditional real estate financing plus the activities of the IKB subsidiaries IKB IMG and IKB Projektentwicklung GmbH & Co. KG.

Activities in the area of acquisition and project finance for domestic and foreign counterparties are bundled in the **Structured Finance** segment. This includes the subsidiary IKB CC, which discontinued its operations during the period under review and is currently in the process of being liquidated.

The **Portfolio Investments** segment focuses on investments in securitisation products (including consolidated special purpose entities). This includes the earnings and volume components of the special purpose entities Rio Debt Holdings (Ireland) Limited, Dublin and, in the previous year, Rhinebridge Plc, Dublin.

#### *Segment reporting based on the new Group structure*

The **Credit Products** segment contains the earnings components and asset items from the Bank's lending business. This includes loans from own funds and development funds as well as the Bank's leasing activities. Gains and losses from collateralised loan obligations are also allocated to this segment.

The **Advisory and Capital Markets segment** contains the Bank's advisory activities in the areas of M&A, restructuring, structure/yield optimisation and private equity. This sub-segment is a new product offering that IKB intends to further expand in future. The Capital Markets sub-segment offers capital market solutions for equity and debt capital, risk management solutions in the area of customer derivatives, the management of deposits from institutional and private investors and the structuring of own securitisation transactions, as well as advisory services and structuring for third-party securitisation transactions. The Capital Markets sub-segment also includes all trading activities.

The **Treasury and Investments segment** contains the earnings components resulting from Treasury's investment decisions within the scope of asset-liability management. The segment also includes structured investments such as bonds and promissory note loans as well as the Bank's portfolio investments, which represent the Bank's investments in securitisation products including first loss pieces. Credit exposures no longer forming part of the Bank's strategic holdings and the Bank's non-customer-related assets that are managed as investments are also allocated to this segment. These portfolios are intended to be reduced while protecting equity by way of active portfolio management.

### *Segment results and key figures*

Income and costs are allocated to the divisions in accordance with their respective profit responsibility. Net interest income from lending business is calculated using the market interest method and is allocated to the divisions on a theoretical basis. In accordance with IFRS 8.23, this is presented as a net amount rather than as separate items for interest income and interest expense. The segments are regarded as independent entities with their own capital resources. Capital is allocated to the divisions based on risk-weighted assets (in accordance with the standard Basel II approach) with an equity ratio that is now 8%, taking into account existing hybrid funds. In addition to the investment income from this economic capital, net interest income also comprises expenditure for hybrid and subordinated capital. The interest rate for equity investments corresponds to a risk-free interest rate on the long-term capital market. The figures for the previous year have been adjusted accordingly.

The reported carrying amount of the provision for possible loan losses in the segments and the head office corresponds to the difference between additions to and reversals of valuation allowances for credit defaults and the recoveries on loans and advances previously written off.

To the extent that such costs can be properly allocated, head office staff and operating expenses are allocated to the divisions. Project costs are allocated to the divisions if the projects were directly attributable to them. Administrative expenses for projects and corporate functions incurred for regulatory reasons are allocated to the Head Office/Consolidation segment.

Each segment's earnings are represented by the operating result of the individual divisions. The results for the segments are also measured on the basis of their return on equity and cost/income ratio. The return on equity is the ratio of the operating result to the average allocated equity, while the cost/income ratio is calculated as the ratio of administrative expenses (including restructuring expenses) to income.

Segment reporting

|   | Corporate Clients        |                          | Real Estate Clients      |                          | Structured Finance       |                          | Portfolio Investments    |                          | Head Office/Consolidation |                          | Total                    |                          |
|---|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|---------------------------|--------------------------|--------------------------|--------------------------|
|   | 1 Apr 2009 - 31 Mar 2010 | 1 Apr 2008 - 31 Mar 2009 | 1 Apr 2009 - 31 Mar 2010 | 1 Apr 2008 - 31 Mar 2009 | 1 Apr 2009 - 31 Mar 2010 | 1 Apr 2008 - 31 Mar 2009 | 1 Apr 2009 - 31 Mar 2010 | 1 Apr 2008 - 31 Mar 2009 | 1 Apr 2009 - 31 Mar 2010  | 1 Apr 2008 - 31 Mar 2009 | 1 Apr 2009 - 31 Mar 2010 | 1 Apr 2008 - 31 Mar 2009 |
| in € million  |                          |                          |                          |                          |                          |                          |                          |                          |                           |                          |                          |                          |
| Net interest income   | 212.8                    | 206.4                    | 49.7                     | 61.1                     | 102.0                    | 121.2                    | 20.5                     | -2.0                     | -206.5                    | -84.1                    | 178.5                    | 302.6                    |
| Provision for possible loan losses                                  | 165.5                    | 128.3                    | 71.4                     | 68.0                     | 193.5                    | 324.1                    | 4.6                      | --                       | 59.5                      | 71.2                     | 439.9                    | 559.6                    |
| <b>Net interest income after provision for possible loan losses</b> | <b>47.3</b>              | <b>80.1</b>              | <b>-21.7</b>             | <b>-6.9</b>              | <b>-91.6</b>             | <b>-202.9</b>            | <b>15.9</b>              | <b>-2.0</b>              | <b>-265.3</b>             | <b>-155.3</b>            | <b>-315.4</b>            | <b>-287.0</b>            |
| Net fee and commission income                                       | 22.5                     | 6.5                      | 3.1                      | 8.2                      | 20.6                     | 33.7                     | -4.2                     | -3.5                     | -93.5                     | -11.7                    | -51.5                    | 33.2                     |
| Net income from financial instruments at fair value                 | -2.5                     | -9.6                     | 1.8                      | 3.9                      | 1.4                      | -7.0                     | 136.9                    | 64.0                     | -736.5                    | -213.4                   | -598.9                   | -162.1                   |
| Result on investment securities                                     | -8.4                     | -30.5                    | -2.1                     | -0.9                     | -21.8                    | -18.0                    | 182.9                    | -188.0                   | 8.6                       | -44.7                    | 159.2                    | -282.1                   |
| Result on investments accounted for at equity                       | 1.2                      | -1.9                     | --                       | --                       | --                       | --                       | --                       | --                       | -1.9                      | -6.5                     | -0.7                     | -8.4                     |
| Administrative expenses   | 136.9                    | 151.8                    | 26.6                     | 39.9                     | 55.1                     | 70.3                     | 22.4                     | 25.2                     | 60.5                      | 88.1                     | 301.5                    | 375.3                    |
| Other operating income  | -9.4                     | 16.0                     | -1.2                     | -                        | -                        | -                        | -7.0                     | -24.5                    | 181.5                     | 139.8                    | 163.9                    | 131.3                    |
| Restructuring expense   | -86.2                    | 11.5                     | 1.0                      | 11.7                     | 3.3                      | 1.9                      | -                        | -                        | 2.1                       | 26.7                     | 6.4                      | 51.8                     |
| <b>Operating result</b>   | <b>-86.2</b>             | <b>-102.7</b>            | <b>-47.7</b>             | <b>-47.3</b>             | <b>-149.8</b>            | <b>-266.4</b>            | <b>302.1</b>             | <b>-179.2</b>            | <b>-969.7</b>             | <b>-406.6</b>            | <b>-951.3</b>            | <b>-1,002.2</b>          |
| Cost-income ratio in %  | 63.3                     | 67.4                     | 53.8                     | 71.4                     | 67.1                     | 55.6                     | 6.8                      | <0                       | -                         | -                        | <0                       | >100                     |
| Return on equity in %   | -10.5                    | -10.6                    | -21.4                    | -17.1                    | -37.0                    | -52.8                    | 247.6                    | -148.1                   | -                         | -                        | -54.2                    | -84.6                    |
| Average allocated equity  | 818                      | 970                      | 223                      | 277                      | 405                      | 505                      | 122                      | 121                      | 187                       | 689                      | 1,795                    | 1,184                    |
| Credit volume   | 14,551                   | 15,982                   | 3,583                    | 4,355                    | 5,951                    | 8,022                    | 1,313                    | 1,329                    | 3,412                     | 3,598                    | 28,810                   | 33,286                   |
| Volume of new business  | 2,451                    | 3,515                    | 132                      | 586                      | 420                      | 1,821                    | -                        | -                        | -                         | -                        | 3,003                    | 5,922                    |

Head Office/Consolidation reconciliation

Within the reconciliation, the earnings and assets allocated to the segments on the basis of the internal reporting systems are reconciled to the consolidated financial statements. IKB's earnings are influenced by extraordinary factors that cannot be controlled by the operating units and for which they cannot be held responsible. In particular, these extraordinary factors include accounting effects from the rating-driven measurement of liabilities, the measurement of liabilities in accordance with IAS 39.AG8 and the amortisation of adjustments for realised hedged items in accordance with IFRS 1.IG 60A and IG 60B. The earnings components resulting from Treasury's investment decisions within the scope of asset-liability management are also disclosed. This includes investments in bonds and promissory note loans not falling within the responsibility of IKB's operating business units as well as ELAN transactions sold during the period under review. Earnings from credit exposures no longer forming part of the Bank's strategic holdings and from the securitisation and transfer of credit risks are also allocated to Head Office.

The "Consolidation" column is used to present the effects of methodological differences between management reporting and the consolidated financial statements as well as intra-Group consolidation matters separately for each item.

|   | Head Office              |                          | Consolidation            |                          | Head Office/Consolidation |                          |
|---|--------------------------|--------------------------|--------------------------|--------------------------|---------------------------|--------------------------|
|   | 1 Apr 2009 - 31 Mar 2010 | 1 Apr 2008 - 31 Mar 2009 | 1 Apr 2009 - 31 Mar 2010 | 1 Apr 2008 - 31 Mar 2009 | 1 Apr 2009 - 31 Mar 2010  | 1 Apr 2008 - 31 Mar 2009 |
| in € million  |                          |                          |                          |                          |                           |                          |
| Net interest income   | -202.8                   | -80.7                    | -3.7                     | -3.4                     | -206.5                    | -84.1                    |
| Provision for possible loan losses                                  | 58.8                     | 71.2                     | -                        | -                        | 58.8                      | 71.2                     |
| <b>Net interest income after provision for possible loan losses</b> | <b>-261.6</b>            | <b>-151.9</b>            | <b>-3.7</b>              | <b>-3.4</b>              | <b>-265.3</b>             | <b>-155.3</b>            |
| Net fee and commission income                                       | -94.5                    | -10.3                    | 1.0                      | -1.4                     | -93.5                     | -11.7                    |
| Net income from financial instruments at fair value                 | -725.7                   | -194.6                   | -10.8                    | -18.8                    | -736.5                    | -213.4                   |
| Result on investment securities                                     | 8.6                      | -44.7                    | -                        | -                        | 8.6                       | -44.7                    |
| Result on investments accounted for at equity                       | -1.9                     | -6.5                     | -                        | -                        | -1.9                      | -6.5                     |
| Administrative expenses   | 60.5                     | 88.1                     | -                        | -                        | 60.5                      | 88.1                     |
| Other operating income  | 181.2                    | 140.9                    | 0.3                      | -1.1                     | 181.5                     | 139.8                    |
| Restructuring expense   | 2.1                      | 26.7                     | -                        | -                        | 2.1                       | 26.7                     |
| <b>Operating result</b>   | <b>-956.5</b>            | <b>-381.9</b>            | <b>-13.2</b>             | <b>-24.7</b>             | <b>-969.7</b>             | <b>-406.6</b>            |
| Credit volume   | 3,191                    | 3,342                    | 221                      | 256                      | 3,412                     | 3,598                    |

Results by geographical market

The allocation of income, expenditure and credit volumes is based on the domicile of the respective facility or Group company. In accordance with IFRS 8, which was applied for the first time in the year under review, the Head Office/Consolidation column shown in the 2008/09 Annual Report – which also contained the results of the consolidated special purpose entities – has been broken down into the key regions of Germany, Rest of Europe and Americas.



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| in € million  | Germany                     |                             | Rest of Europe              |                             | America                     |                             | Total                       |                             |
|---|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
|   | 1 Apr 2009 -<br>31 Mar 2010 | 1 Apr 2008 -<br>31 Mar 2009 | 1 Apr 2009 -<br>31 Mar 2010 | 1 Apr 2008 -<br>31 Mar 2009 | 1 Apr 2009 -<br>31 Mar 2010 | 1 Apr 2008 -<br>31 Mar 2009 | 1 Apr 2009 -<br>31 Mar 2010 | 1 Apr 2008 -<br>31 Mar 2009 |
| Net interest income   | 64.3                        | 139.0                       | 110.4                       | 147.1                       | 3.8                         | 16.5                        | 178.5                       | 302.6                       |
| Provision for possible loan losses                                  | 360.3                       | 372.6                       | 111.8                       | 126.2                       | 21.8                        | 90.8                        | 493.9                       | 589.6                       |
| <b>Net interest income after provision for possible loan losses</b> | <b>-296.0</b>               | <b>-233.6</b>               | <b>-1.4</b>                 | <b>20.9</b>                 | <b>-18.0</b>                | <b>-74.3</b>                | <b>-315.4</b>               | <b>-287.0</b>               |
| Net fee and commission income                                       | -56.0                       | 45.7                        | 4.3                         | -14.5                       | 0.2                         | 2.0                         | -51.5                       | 33.2                        |
| Net income from financial instruments at fair value                 | -619.2                      | -116.4                      | 113.0                       | -186.4                      | -92.7                       | 140.7                       | -598.9                      | -162.1                      |
| Result on investment securities                                     | -6.0                        | 27.3                        | 156.4                       | -292.3                      | 8.8                         | -17.1                       | 159.2                       | -282.1                      |
| Result on investments accounted for at equity                       | -0.7                        | -8.4                        | -                           | -                           | -                           | -                           | -0.7                        | -8.4                        |
| Administrative expenses   | 254.1                       | 317.9                       | 44.0                        | 51.6                        | 3.4                         | 5.8                         | 301.5                       | 375.3                       |
| Other operating income  | 165.2                       | 149.4                       | -1.3                        | -21.1                       | -                           | 3.0                         | 163.9                       | 131.3                       |
| Restructuring expense   | 2.3                         | 36.5                        | 1.7                         | 15.3                        | 2.4                         | -                           | 6.4                         | 51.8                        |
| <b>Operating result</b>   | <b>-1,069.1</b>             | <b>-490.4</b>               | <b>225.3</b>                | <b>-560.3</b>               | <b>-107.5</b>               | <b>48.5</b>                 | <b>-951.3</b>               | <b>-1,002.2</b>             |
| Credit volume   | 21,470                      | 24,030                      | 7,339                       | 8,325                       | 1                           | 931                         | 28,810                      | 33,286                      |

### For information: segment reporting based on the new structure

| 1 April 2009 - 31 March 2010  | Credit Products | Advisory and Capital Markets | Treasury and Investments | Head Office/Consolidation | Total         |
|---|-----------------|------------------------------|--------------------------|---------------------------|---------------|
| in € million  |                 |                              |                          |                           |               |
| Net interest income   | 216.6           | -0.7                         | 123.9                    | -161.3                    | 178.5         |
| Provision for possible loan losses                                  | 248.2           | 0.0                          | 245.7                    | 0.0                       | 493.9         |
| <b>Net interest income after provision for possible loan losses</b> | <b>-31.6</b>    | <b>-0.7</b>                  | <b>-121.8</b>            | <b>-161.3</b>             | <b>-315.4</b> |
| Net fee and commission income                                       | 19.0            | 3.7                          | -75.2                    | 1.0                       | -51.5         |
| Net income from financial instruments at fair value                 | -3.0            | 11.0                         | 262.8                    | -869.7                    | -598.9        |
| Result on investment securities                                     | 0.0             | 0.0                          | 161.1                    | -1.9                      | 159.2         |
| Result on investments accounted for at equity                       | 1.2             | 0.0                          | 0.0                      | -1.9                      | -0.7          |
| Administrative expenses   | 159.2           | 11.0                         | 71.8                     | 59.5                      | 301.5         |
| Other operating income  | -10.9           | 2.8                          | 15.6                     | 156.4                     | 163.9         |
| Restructuring expense   | 0.9             | 0.0                          | 3.4                      | 2.1                       | 6.4           |
| <b>Operating result</b>   | <b>-185.4</b>   | <b>5.8</b>                   | <b>167.3</b>             | <b>-939.0</b>             | <b>-951.3</b> |
| Cost/income ratio in %  | 71.8            | 65.5                         | 15.4                     | -                         | < 0           |
| Return on equity in %   | -31.2           | 23.2                         | 23.0                     | -                         | -54.2         |
| Average allocated equity  | 594             | 25                           | 727                      | 409                       | 1,755         |
| Credit volume   | 16,903          | 0                            | 11,686                   | 221                       | 28,810        |
| Volume of new business  | 2,865           | 0                            | 138                      | 0                         | 3,003         |

## Notes on financial instruments

## (61) Income according to holding category and reconciliation to the income statement

| 31 March 2010  | IAS 39 category          |                       |                     |                      |                                   | Receivables from<br>finance leases | Off-balance sheet<br>trans-actions | Result from<br>financial<br>instruments in<br>line with IFRS 7<br>Total | Result from other<br>financial<br>instruments not<br>covered<br>by IFRS 7 | Total         |
|--|--------------------------|-----------------------|---------------------|----------------------|-----------------------------------|------------------------------------|------------------------------------|---|---|---------------|
|  | Loans and<br>receivables | Available for<br>sale | Held for<br>trading | Fair value<br>option | Other<br>financial<br>liabilities |                                    |                                    |   |   |               |
| in € million   |                          |                       |                     |                      |                                   |                                    |                                    |   |   |               |
| Net interest income                                    | 1,055.8                  | 43.2                  | -52.2               | -272.5               | -725.8                            | 129.8                              | -                                  | 178.3   | 0.2   | 178.5         |
| Interest income  | 1,055.8                  | 43.2                  | 560.0               | 128.1                | -                                 | 147.5                              | -                                  | 1,954.6   | 47.9  | 2,002.5       |
| Interest expenses                                      | -                        | -                     | 632.2               | 400.6                | 725.8                             | 17.7                               | -                                  | 1,776.3   | 47.7  | 1,824.0       |
| Net fee and commission income                          | 8.8                      | -                     | 0.2                 | -0.5                 | 0.0                               | -0.1                               | -                                  | 8.4   | -59.9   | -51.5         |
| Fee and commission income                              | 12.3                     | -                     | 0.2                 | 0.0                  | 0.0                               | 0.0                                | -                                  | 12.5  | 32.5  | 45.0          |
| Fee and commission expenses                            | 3.5                      | -                     | 0.0                 | 0.5                  | 0.0                               | 0.1                                | -                                  | 4.1   | 92.4  | 96.5          |
| Net gains/losses                                       | -323.0                   | 4.2                   | 135.2               | -734.1               | 144.8                             | -4.4                               | -                                  | -770.6  | 0.9   | -769.7        |
| Net income from financial<br>instruments at fair value | -                        | -                     | 135.2               | -734.1               | -                                 | -                                  | -                                  | -598.9  | -   | -598.9        |
| Result on investment securities                        | 155.0                    | 4.2                   | -                   | -                    | -                                 | -                                  | -                                  | 159.2   | -   | 159.2         |
| Provision for possible loan losses                     | 478.0                    | -                     | -                   | -                    | -                                 | 4.4                                | -                                  | 482.4   | 11.5  | 493.9         |
| Other operating income                                 | -                        | -                     | -                   | 6.7                  | 144.8                             | -                                  | -                                  | 151.5   | 12.4  | 163.9         |
| <b>Total</b>   | <b>741.6</b>             | <b>47.4</b>           | <b>83.2</b>         | <b>-1,007.1</b>      | <b>-581.0</b>                     | <b>125.3</b>                       | <b>-</b>                           | <b>-583.9</b>   | <b>-58.8</b>  | <b>-642.7</b> |

| 31 March 2009  | IAS 39 category          |                       |                     |                      |                                   | Receivables from<br>finance leases | Off-balance sheet<br>trans-actions | Result from<br>financial<br>instruments in<br>line with IFRS 7<br>Total | Result from other<br>financial<br>instruments not<br>covered<br>by IFRS 7 | Total         |
|--|--------------------------|-----------------------|---------------------|----------------------|-----------------------------------|------------------------------------|------------------------------------|---|---|---------------|
|  | Loans and<br>receivables | Available for<br>sale | Held for<br>trading | Fair value<br>option | Other<br>financial<br>liabilities |                                    |                                    |   |   |               |
| in € million   |                          |                       |                     |                      |                                   |                                    |                                    |   |   |               |
| Net interest income                                    | 1,775.0                  | 90.3                  | -72.2               | -85.1                | -1,538.6                          | 136.9                              | -                                  | 306.3   | -3.7  | 302.6         |
| Interest income  | 1,775.0                  | 90.3                  | 243.7               | 249.7                | -                                 | 140.7                              | -                                  | 2,499.4   | 61.3  | 2,560.7       |
| Interest expenses                                      | -                        | -                     | 315.9               | 334.8                | 1,538.6                           | 3.8                                | -                                  | 2,193.1   | 65.0  | 2,258.1       |
| Net fee and commission income                          | 28.5                     | -                     | -                   | -0.5                 | -0.9                              | -2.1                               | -                                  | 25.0  | 8.2   | 33.2          |
| Fee and commission income                              | 29.7                     | -                     | -                   | -                    | 0.0                               | 0.0                                | -                                  | 29.7  | 24.0  | 53.7          |
| Fee and commission expenses                            | 1.2                      | -                     | -                   | 0.5                  | 0.9                               | 2.1                                | -                                  | 4.7   | 15.8  | 20.5          |
| Net gains/losses                                       | -956.2                   | 128.8                 | -333.5              | 171.4                | 333.6                             | -7.3                               | -                                  | -663.5  | -239.0  | -902.5        |
| Net income from financial<br>instruments at fair value | -                        | -                     | -333.5              | 171.4                | -                                 | -                                  | -                                  | -162.1  | -   | -162.1        |
| Result on investment securities                        | -410.9                   | 128.8                 | -                   | -                    | -                                 | -                                  | -                                  | -282.1  | -   | -282.1        |
| Provision for possible loan losses                     | 545.3                    | -                     | -                   | -                    | -                                 | 7.3                                | -                                  | 552.6   | 37.0  | 589.6         |
| Other operating income                                 | 0.0                      | 0.0                   | 0.0                 | -0.3                 | 333.6                             | -                                  | -                                  | 333.3   | -202.0  | 131.3         |
| <b>Total</b>   | <b>847.3</b>             | <b>219.1</b>          | <b>-405.7</b>       | <b>85.8</b>          | <b>-1,205.9</b>                   | <b>127.5</b>                       | <b>0.0</b>                         | <b>-332.2</b>   | <b>-234.5</b>   | <b>-566.7</b> |

The reconciliation to the income statement includes income and expenditure that is not covered by the scope of IFRS 7.

The income from investment securities reported in net profit and/or loss includes gains and losses from the disposal and valuation of investment securities. In addition to disposal and re-measurement gains, net income from financial instruments at fair value also includes interest income from hedged items and hedging transactions in the amount of € -2.7 million (previous year: € -18.6 million). Other operating income includes income and expenditure generated from the repurchase of own issues. With the exception of hedge accounting interest income, the interest and dividend income is not included in net profit and/or loss, but instead is disclosed in interest income for all IAS 39 holding categories.

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

The following table contains the carrying amounts of the Bank's financial instruments (before deduction of risk provisions) in accordance with the IFRS 7 reporting classes:

The cash reserve is presented in the balance sheet and is not included in the IFRS 7 presentation below.

| IFRS 7 reporting categories for financial instruments<br>in € million |  | 31 Mar 2010     | 31 Mar 2009 *   |
|---|--|-----------------|-----------------|
| <b>Assets</b>   |  |                 |                 |
| Fair value through profit or loss                                     | Held for trading   | 1,311.7         | 3,705.8         |
|   | Assets held for trading  | 1,074.2         | 3,571.1         |
|   | Derivative financial instruments recognised at fair value through profit or loss | 237.5           | 134.7           |
|   | Fair value option  | 2,758.7         | 3,137.8         |
| Hedging derivatives   | Investment securities  | 2,758.7         | 3,137.8         |
|   | Assets held for trading  | 29.6            | 27.0            |
| Fair value in equity  | Available for sale   | 1,594.9         | 1,901.1         |
|   | Investment securities  | 1,594.9         | 1,901.1         |
| Carried at amortised cost   | Loans and receivables  | 28,407.8        | 34,153.6        |
|   | Loans and advances to banks  | 2,518.3         | 2,979.5         |
|   | Loans and advances to customers (including hedge fair value adjustments)         | 21,847.7        | 25,976.7        |
|   | Investment securities  | 3,987.1         | 5,197.4         |
|   | Non-current assets held for sale   | 54.7            |                 |
| Receivables from finance leases                                       | Loans and advances to customers  | 1,817.4         | 1,951.2         |
|   | Loans and advances to customers  | 1,817.4         | 1,951.2         |
| Other financial instruments not covered by IFRS 7                     | Companies accounted for using the equity method                                  | 9.5             | 10.6            |
|   | Companies accounted for using the equity method                                  | 9.5             | 7.5             |
|   | Non-current assets held for sale   | 0.0             | 3.1             |
| <b>Total</b>  |  | <b>35,929.6</b> | <b>44,887.1</b> |
| <b>Equity and liabilities</b>   |  |                 |                 |
| Fair value through profit or loss                                     | Held for trading   | 2,291.6         | 5,242.0         |
|   | Liabilities held for trading   | 1,971.6         | 4,934.6         |
|   | Derivative financial instruments recognised at fair value through profit or loss | 320.0           | 307.4           |
|   | Fair value option  | 10,914.8        | 7,773.3         |
|   | Liabilities to banks   | 946.6           | 1,120.9         |
|   | Liabilities to customers   | 1,885.7         | 1,303.0         |
| Carried at amortised cost   | Securitised liabilities  | 7,739.1         | 5,162.3         |
|   | Subordinated capital   | 343.4           | 187.1           |
|   | Liabilities held for trading   | 190.3           | 238.0           |
|   | Other financial liabilities  | 20,603.9        | 28,748.0        |
| Total   | Liabilities to banks   | 11,051.4        | 14,197.8        |
|   | Liabilities to customers   | 5,632.2         | 4,515.8         |
|   | Securitised liabilities  | 3,049.5         | 8,863.6         |
|   | Subordinated capital   | 870.8           | 1,170.8         |
| <b>Total</b>  |  | <b>34,000.6</b> | <b>42,001.3</b> |
| Off-balance sheet transactions  | Contingent liabilities   | 628.4           | 876.1           |
|   | Other obligations  | 2,265.7         | 2,932.3         |
| <b>Total</b>  |  | <b>2,894.1</b>  | <b>3,808.4</b>  |

\* Figures adjusted

**(63) Fair value of financial assets and liabilities**

**Comparison of fair values and the corresponding carrying amounts:**

| in € million   | Fair value      |                 | Carrying amount |                 | Difference    |                 |
|--|-----------------|-----------------|-----------------|-----------------|---------------|-----------------|
|  | 31 Mar 2010     | 31 Mar 2009*    | 31 Mar 2010     | 31 Mar 2009*    | 31 Mar 2010   | 31 Mar 2009*    |
| <b>Assets</b>  |                 |                 |                 |                 |               |                 |
| Loans and receivables  | 26,769.7        | 31,842.6        | 27,530.8        | 33,347.2        | -761.1        | -1,504.6        |
| <i>Loans and advances to banks</i>   | 2,518.2         | 2,978.2         | 2,518.3         | 2,979.5         | -0.1          | -1.3            |
| <i>Loans and advances to customers (including hedge fair value adjustments) **</i> | 20,236.2        | 23,886.3        | 20,970.7        | 25,170.3        | -734.5        | -1,284.0        |
| <i>Investment securities</i>   | 3,960.6         | 4,978.1         | 3,987.1         | 5,197.4         | -26.5         | -219.3          |
| <i>Non-current assets held for sale</i>  | 54.7            | -               | 54.7            | -               | 0.0           | -               |
| Finance lease receivables  | 1,807.3         | 1,944.3         | 1,807.3         | 1,944.5         | 0.0           | -0.2            |
| <i>Loans and advances to customers **</i>  | 1,807.3         | 1,944.3         | 1,807.3         | 1,944.5         | 0.0           | -0.2            |
| <b>Assets after provision for possible loan losses</b>                             | <b>28,577.0</b> | <b>33,786.9</b> | <b>29,338.1</b> | <b>35,291.7</b> | <b>-761.1</b> | <b>-1,504.8</b> |
| <b>Equity and liabilities</b>  |                 |                 |                 |                 |               |                 |
| Other financial liabilities  | 20,409.3        | 27,410.7        | 20,603.9        | 28,748.0        | -194.6        | -1,337.3        |
| <i>Liabilities to banks</i>  | 11,031.8        | 14,291.1        | 11,051.4        | 14,197.8        | -19.6         | 93.3            |
| <i>Liabilities to customers</i>  | 5,780.3         | 4,334.1         | 5,632.2         | 4,515.8         | 148.1         | -181.7          |
| <i>Securitized liabilities (including hedge fair value adjustments)</i>            | 2,964.2         | 8,149.2         | 3,049.5         | 8,863.6         | -85.3         | -714.4          |
| <i>Subordinated capital</i>  | 633.0           | 636.3           | 870.8           | 1,170.8         | -237.8        | -534.5          |
| <b>Equity and liabilities</b>  | <b>20,409.3</b> | <b>27,410.7</b> | <b>20,603.9</b> | <b>28,748.0</b> | <b>-194.6</b> | <b>-1,337.3</b> |

\* Figures adjusted

\*\* The carrying amount of loans and advances to customers is shown net of impairment in the amount of € 887.1 million (31 March 2009: € 813.1 million).

**Level classification**

Following the revision of IFRS 7 “Enhanced Disclosures on Financial Instruments”, a new three-tier hierarchy (Level 1 to 3) was introduced. The following section discusses the fundamental criteria for distinguishing between the individual level hierarchies to which financial instruments at fair value are allocated:

**Level 1.** Level 1 includes unadjusted quoted prices on active markets that can be applied by an entity for identical assets and liabilities at the measurement date.

A financial instrument is regarded as quoted on an active market if quoted prices are easily and regularly available from an exchange, dealer, broker, industry group, pricing service or a regulatory agency and these prices reflect current and regularly occurring market transactions at arm’s length conditions.

An entity must also have access to the market on the respective measurement date. An active market is one on which transactions occur with sufficient frequency and in a sufficient volume to allow permanent price information to be available.

At IKB, the Level 1 hierarchy is primarily used to report corporate and government bonds. The assessment as to whether securities are traded on an active market is performed on a daily basis using a statistical analysis of prices obtained from various market participants. Instruments whose price information is provided by selected pricing services are also allocated to Level 1.

**Level 2.** Level 2 includes all financial instruments whose prices can be derived from similar financial instruments on active markets, either directly or indirectly, or which are measured using valuation models whose input parameters are taken from active markets. Fair values calculated using DCF procedures or option models whose input parameters are derived from active markets are also reported in Level 2. At IKB, Level 2 includes all instruments that cannot be allocated to Level 1 or Level 3.

**Level 3.** If there are no significant observable input parameters for financial instruments and there is no active market for the instrument itself, model parameters not observable on the market are used to determine the fair value. These instruments are allocated to Level 3. However, the primary objective of fair value measurement remains in place. The fair value must be determined from the perspective of a knowledgeable, willing and independent market participant, meaning that significant unobservable input parameters must reflect the assumptions made by market participants in pricing, including risk assumptions.

For all instruments for which unobservable market data is applied in measurement, the significance of the influence of the unobservable market data in relation to observable market data is examined (IFRS 7.27A (c)). The key decision-making criterion with respect to significance is the sensitivity of the fair value to changes in unobservable input parameters in relation to its sensitivity to changes in observable input parameters. This procedure serves to fulfil the requirement that instruments are only classified as Level 3 when unobservable parameters have a significant influence on measurement.

The following table shows the allocation of financial instruments at fair value to the three different level hierarchies:

| 31 March 2010<br>in € million     |                                     | Level 1        | Level 2        | Level 3      | Total           |
|-----------------------------------|-------------------------------------|----------------|----------------|--------------|-----------------|
| <b>Assets</b>                     |                                     |                |                |              |                 |
|                                   | Held for trading                    | 75.0           | 1,236.7        | -            | 1,311.7         |
|                                   | <i>Assets held for trading</i>      | 75.0           | 1,236.7        | -            | 1,311.7         |
| Fair value through profit or loss | Fair value option                   | 1,630.1        | 868.2          | 260.4        | 2,758.7         |
|                                   | <i>Investment securities</i>        | 1,630.1        | 868.2          | 260.4        | 2,758.7         |
| Hedging derivatives               | <i>Assets held for trading</i>      | -              | 29.6           | -            | 29.6            |
| Fair value in equity              | Available for sale                  | 1,496.9        | 80.2           | -            | 1,577.1         |
|                                   | <i>Investment securities</i>        | 1,496.9        | 80.2           | -            | 1,577.1         |
| <b>Total</b>                      |                                     | <b>3,202.0</b> | <b>2,214.7</b> | <b>260.4</b> | <b>5,677.1</b>  |
| <b>Equity and liabilities</b>     |                                     |                |                |              |                 |
|                                   | Held for trading                    | 7.1            | 2,284.5        | -            | 2,291.6         |
|                                   | <i>Liabilities held for trading</i> | 7.1            | 2,284.5        | -            | 2,291.6         |
| Fair value through profit or loss | Fair value option                   | 7,285.4        | 3,333.3        | 296.1        | 10,914.8        |
|                                   | <i>Liabilities to banks</i>         | -              | 823.8          | 122.8        | 946.6           |
|                                   | <i>Liabilities to customers</i>     | -              | 1,712.4        | 173.3        | 1,885.7         |
|                                   | <i>Securitised liabilities</i>      | 7,210.6        | 528.5          | -            | 7,739.1         |
|                                   | <i>Subordinated capital</i>         | 74.8           | 268.6          | -            | 343.4           |
| Hedging derivatives               | <i>Liabilities held for trading</i> | -              | 190.3          | -            | 190.3           |
| <b>Total</b>                      |                                     | <b>7,292.5</b> | <b>5,808.1</b> | <b>296.1</b> | <b>13,396.7</b> |

Investments in equity instruments with no quoted market price on an active market are deducted from investment securities reported at fair value directly in equity.

#### **Information on level transfers within the fair value hierarchy**

A quarterly comparison of all transactions carried at fair value at the start and the end of the respective quarter is performed in order to identify those transactions for which level transfers have taken place. In the case of level transfers during the quarter, the values at the end of the period are applied as the addition and disposal amounts.

Transfers between the individual levels during the financial year are shown in the following table:

| 31 March 2010<br>in € million            | Addition Level 1 |                  | Addition Level 2 |                  | Addition Level 3 |                  |
|--|------------------|------------------|------------------|------------------|------------------|------------------|
|  | Disposal Level 2 | Disposal Level 3 | Disposal Level 1 | Disposal Level 3 | Disposal Level 1 | Disposal Level 2 |
| <b>Assets</b>                            |                  |                  |                  |                  |                  |                  |
| <b>Fair value through profit or loss</b> |                  |                  |                  |                  |                  |                  |
| Fair value option                        | 5.4              | -                | -                | -                | -                | -                |
| Investment securities                    | 5.4              | -                | -                | -                | -                | -                |
| <b>Fair value in equity</b>              |                  |                  |                  |                  |                  |                  |
| Available for sale                       | 47.5             | -                | -                | -                | -                | -                |
| Investment securities                    | 47.5             | -                | -                | -                | -                | -                |
| <b>Total</b>                             | <b>52.9</b>      | <b>-</b>         | <b>-</b>         | <b>-</b>         | <b>-</b>         | <b>-</b>         |
| <b>Equity and liabilities</b>            |                  |                  |                  |                  |                  |                  |
| <b>Fair value through profit or loss</b> |                  |                  |                  |                  |                  |                  |
| Fair value option                        | -                | -                | 21.5             | -                | -                | -                |
| Subordinated capital                     | -                | -                | 21.5             | -                | -                | -                |
| <b>Total</b>                             | <b>-</b>         | <b>-</b>         | <b>21.5</b>      | <b>-</b>         | <b>-</b>         | <b>-</b>         |

**Reconciliation of Level 3 transactions**

The following table shows all changes in Level 3 financial instruments during the year under review.

|  | Opening balance             |                   | Total                        | Excluding deferred interest |           |            |              |             |                      |                        | Closing balance             |                   |                             | Gains/losses on financial instruments held at the balance sheet date |              |
|--|-----------------------------|-------------------|------------------------------|-----------------------------|-----------|------------|--------------|-------------|----------------------|------------------------|-----------------------------|-------------------|-----------------------------|--|--------------|
|  | including deferred interest | Deferred interest |                              | including deferred interest | Purchases | Sales      | Issues       | Settlements | Transfers to Level 3 | Transfers from Level 3 | excluding deferred interest | Deferred interest | including deferred interest |  |              |
| in € million                             | 1 April 2009                |                   | 1 April 2009 - 31 March 2010 |                             |           |            |              |             |                      |                        |                             |                   |                             | 1 April 2009 - 31 March 2010   |              |
| <b>Assets</b>                            |                             |                   |                              |                             |           |            |              |             |                      |                        |                             |                   |                             |  |              |
| <b>Fair value through profit or loss</b> |                             |                   |                              |                             |           |            |              |             |                      |                        |                             |                   |                             |  |              |
| Fair value option                        | 254.5                       | 1.0               | 253.5                        | 17.0                        | -         | 5.6        | -16.1        | -           | -                    | -                      | -                           | 260.0             | 0.4                         | 260.4  | -29.4        |
| Investment securities                    | 254.5                       | 1.0               | 253.5                        | 17.0                        | -         | 5.6        | -16.1        | -           | -                    | -                      | -                           | 260.0             | 0.4                         | 260.4  | -29.4        |
| <b>Total</b>                             | <b>254.5</b>                | <b>1.0</b>        | <b>253.5</b>                 | <b>17.0</b>                 | <b>-</b>  | <b>5.6</b> | <b>-16.1</b> | <b>-</b>    | <b>-</b>             | <b>-</b>               | <b>-</b>                    | <b>260.0</b>      | <b>0.4</b>                  | <b>260.4</b>   | <b>-29.4</b> |
| <b>Equity and liabilities</b>            |                             |                   |                              |                             |           |            |              |             |                      |                        |                             |                   |                             |  |              |
| <b>Fair value through profit or loss</b> |                             |                   |                              |                             |           |            |              |             |                      |                        |                             |                   |                             |  |              |
| Fair value option                        | 478.3                       | 9.2               | 469.1                        | 154.0                       | -         | -          | -            | -           | -342.6               | -                      | -                           | 280.5             | 15.6                        | 296.1  | 96.3         |
| Liabilities to banks                     | 392.6                       | 6.5               | 386.1                        | 78.7                        | -         | -          | -            | -           | -342.6               | -                      | -                           | 122.2             | 0.6                         | 122.8  | 23.7         |
| Liabilities to customers                 | 85.7                        | 2.7               | 83.0                         | 75.3                        | -         | -          | -            | -           | -                    | -                      | -                           | 158.3             | 15.0                        | 173.3  | 72.6         |
| <b>Total</b>                             | <b>478.3</b>                | <b>9.2</b>        | <b>469.1</b>                 | <b>154.0</b>                | <b>-</b>  | <b>-</b>   | <b>-</b>     | <b>-</b>    | <b>-342.6</b>        | <b>-</b>               | <b>-</b>                    | <b>280.5</b>      | <b>15.6</b>                 | <b>296.1</b>   | <b>96.3</b>  |

The income statement column is used solely for remeasurement gains and gains on disposal as well as the amortisation of debt instruments allocated to the “financial assets available for sale” category. By contrast, accrued and deferred interest is not included.

**Sensitivity analysis for Level 3 transactions**

Due to the degree of uncertainty to which valuation models are subject, the parameters not observable on the market were varied for Level 3 transactions. The variation analysis of input parameters not observable on the market was performed on the basis of potential alternative assumptions at the balance sheet date and resulted in a range of fair values calculated using these positive and negative variations in input parameters.

The fair values of some of IKB’s credit derivatives are determined to a large extent by parameters that are not observable on the market. In accordance with IFRS 7.27B (e), model input parameters should be changed to reflect suitable potential alternatives. IKB only performs stress testing for those parameters that are not directly observable on the market. Stress testing is not performed for those parameters that are directly observable on the market, as a change in the yield curve, for example, would directly contradict the available market information at the measurement date and hence would not constitute a suitable potential alternative.

The parameters not observable on the market are correlations and liquidity spreads. All in all, increasing or decreasing the respective unobservable parameter by 10% (or the maximum/minimum possible value) as of 31 March 2010 would have increased the fair value by € 14.5 million or decreased the fair value by € 11.3 million respectively.

The following table provides an overview of the changes in the fair value of Level 3 transactions in response to the aforementioned parameter variations, with the transactions shown at product level.

| in € million                                  | Positive change<br>31 Mar 2010 | Negative change<br>31 Mar 2010 |
|---|--------------------------------|--------------------------------|
| Private equity transactions                   | 5.7                            | -5.8                           |
| Instruments with credit derivative components | 8.8                            | -5.5                           |
| First-to-default bonds                        | 4.4                            | -3.7                           |
| Portfolio investments                         | 4.4                            | -1.8                           |
| <b>Total</b>                                  | <b>14.5</b>                    | <b>-11.3</b>                   |

There were no transactions resulting in a difference between the transaction price and the fair value calculated on a model basis in the year under review.

The difference between the carrying amount of financial liabilities at fair value and the redemption amount was € -1,072.7 million (previous year: € -2,301.5 million) and resulted from the following balance sheet items:

| in € million             | Carrying amount |                | Difference between carrying amount and<br>repayment amount on maturity |                 |
|--------------------------|-----------------|----------------|--|-----------------|
|                          | 31 Mar 2010     | 31 Mar 2009    | 31 Mar 2010  | 31 Mar 2009     |
| Liabilities to banks     | 946.6           | 1,120.9        | 34.3   | -125.4          |
| Liabilities to customers | 1,885.7         | 1,303.0        | -239.2   | -868.8          |
| Securitised liabilities  | 7,739.1         | 5,162.3        | 197.5  | -80.1           |
| Subordinated capital     | 343.4           | 187.1          | -1,065.3   | -1,227.2        |
| <b>Total</b>             | <b>10,914.8</b> | <b>7,773.3</b> | <b>-1,072.7</b>  | <b>-2,301.5</b> |

#### (64) Derivatives

IKB enters into forward transactions, which are mainly used to control and limit interest rate, credit and currency risks. Derivative instrument trading is only conducted to a limited extent.

The nominal amount indicates the volume traded by the Bank and serves as a reference point for calculating the mutually agreed payments such as interest assets and or liabilities for interest rate swaps. In addition, the following table shows the positive and negative fair values of the derivatives concluded, which show the expenses the Bank or the counterparty would incur in replacing the originally concluded contracts with contracts of equal economic value. The positive fair value shows the Bank's maximum risk of counterparty default on the balance sheet date.

The measurement of investment securities is shown in note 6.

The following table shows a breakdown of derivatives:

| in € million                              | Nominal amount  |                 | Fair value     |                |                |                |                 |                 |
|---|-----------------|-----------------|----------------|----------------|----------------|----------------|-----------------|-----------------|
|   | 31 Mar 2010     | 31 Mar 2009     | Positive       |                | Negative       |                | Total           |                 |
|   |                 |                 | 31 Mar 2010    | 31 Mar 2009    | 31 Mar 2010    | 31 Mar 2009    | 31 Mar 2010     | 31 Mar 2009     |
| <b>Interest rate derivatives</b>          | <b>48,237.6</b> | <b>53,151.9</b> | <b>1,114.6</b> | <b>1,225.1</b> | <b>2,350.2</b> | <b>2,450.2</b> | <b>-1,235.6</b> | <b>-1,225.1</b> |
| Remaining term up to one year             |                 |                 | 289.1          | 175.5          | 320.9          | 259.5          | -31.8           | -84.0           |
| Remaining term between one and five years |                 |                 | 322.0          | 261.1          | 465.4          | 374.1          | -143.4          | -113.0          |
| Remaining term more than five years       |                 |                 | 503.5          | 788.5          | 1,563.9        | 1,816.6        | -1,060.4        | -1,028.1        |
| <b>Credit derivatives</b>                 | <b>602.1</b>    | <b>6,711.6</b>  | <b>15.5</b>    | <b>2,314.4</b> | <b>13.6</b>    | <b>2,952.1</b> | <b>1.9</b>      | <b>-637.7</b>   |
| Remaining term up to one year             |                 |                 | 2.1            | 71.5           | 2.1            | 74.9           | -               | -3.4            |
| Remaining term between one and five years |                 |                 | 12.9           | 144.5          | 11.3           | 120.2          | 1.6             | 24.3            |
| Remaining term more than five years       |                 |                 | 0.5            | 2,098.4        | 0.2            | 2,757.0        | 0.3             | -658.6          |
| <b>Currency derivatives</b>               | <b>3,041.9</b>  | <b>3,503.0</b>  | <b>78.3</b>    | <b>133.5</b>   | <b>118.1</b>   | <b>77.7</b>    | <b>-39.8</b>    | <b>55.8</b>     |
| Remaining term up to one year             |                 |                 | 36.8           | 50.0           | 58.1           | 59.9           | -21.3           | -9.9            |
| Remaining term between one and five years |                 |                 | 17.5           | 64.5           | 50.3           | 13.8           | -32.8           | 50.7            |
| Remaining term more than five years       |                 |                 | 24.0           | 19.0           | 9.7            | 4.0            | 14.3            | 15.0            |
| <b>Total</b>                              | <b>51,881.6</b> | <b>63,366.5</b> | <b>1,208.4</b> | <b>3,673.0</b> | <b>2,481.9</b> | <b>5,480.0</b> | <b>-1,273.5</b> | <b>-1,807.0</b> |

The following table shows a breakdown of derivatives by counterparties.

| in € million                                  | Fair values as of 31 March 2010 |                | Fair values as of 31 March 2009 |                |
|---|---------------------------------|----------------|---------------------------------|----------------|
|   | Positive                        | Negative       | Positive                        | Negative       |
| OECD banks                                    | 876.9                           | 2,457.1        | 1,287.4                         | 5,254.0        |
| Other OECD companies and OECD private persons | 331.5                           | 13.6           | 2,385.6                         | 214.8          |
| Non-OECD                                      | -                               | 11.2           | -                               | 11.2           |
| <b>Total</b>                                  | <b>1,208.4</b>                  | <b>2,481.9</b> | <b>3,673.0</b>                  | <b>5,480.0</b> |

#### (65) Credit risk disclosures

The following table shows the maximum credit risk amount in accordance with IFRS 7.36 (a). The maximum credit risk encompasses both balance sheet and off-balance sheet financial instruments. Financial instruments reported on the balance sheet are recognised at their carrying amount less risk provisions for possible loan losses; off-balance sheet transactions are included in the amount of maximum utilisation after deduction of provisions for possible loan losses. Guarantees and other credit enhancements are not taken into account. The maximum credit risk amount includes to a lesser extent equities and similar equity instruments for which there is no credit risk.



As of 31 March 2010, the maximum credit risk compared to the previous year was as follows:

| in € million                      |  | Maximum credit risk exposure |                 | Credit risk exposure neither past due nor impaired |                 | Renegotiated credit risk exposure |              | Credit risk exposure past due but not impaired |                | Impaired credit risk exposure |                |
|-----------------------------------|--|------------------------------|-----------------|--|-----------------|-----------------------------------|--------------|--|----------------|-------------------------------|----------------|
|                                   |  | 31 Mar 2010                  | 31 Mar 2009     | 31 Mar 2010  | 31 Mar 2009     | 31 Mar 2010                       | 31 Mar 2009  | 31 Mar 2010                                    | 31 Mar 2009    | 31 Mar 2010                   | 31 Mar 2009    |
| Fair value through profit or loss | <b>Held for trading</b>  | <b>1,311.7</b>               | <b>3,705.8</b>  | <b>1,311.7</b>                                     | <b>3,705.8</b>  | -                                 | -            | -  | -              | -                             | -              |
|                                   | Assets held for trading  | 1,311.7                      | 3,705.8         | 1,311.7  | 3,705.8         | -                                 | -            | -  | -              | -                             | -              |
|                                   | <b>Fair value option</b>   | <b>2,758.7</b>               | <b>3,137.8</b>  | <b>2,758.7</b>                                     | <b>3,137.8</b>  | -                                 | -            | -  | -              | -                             | -              |
|                                   | Investment securities  | 2,758.7                      | 3,137.8         | 2,758.7  | 3,137.8         | -                                 | -            | -  | -              | -                             | -              |
| Hedging derivatives               | <b>Held for trading</b>  | <b>29.6</b>                  | <b>27.0</b>     | <b>29.6</b>  | <b>27.0</b>     | -                                 | -            | -  | -              | -                             | -              |
|                                   | Assets held for trading  | 29.6                         | 27.0            | 29.6   | 27.0            | -                                 | -            | -  | -              | -                             | -              |
| Fair value in equity              | <b>Available for sale</b>  | <b>1,594.9</b>               | <b>1,901.1</b>  | <b>1,594.9</b>                                     | <b>1,901.1</b>  | -                                 | -            | -  | -              | -                             | -              |
|                                   | Investment securities  | 1,594.9                      | 1,901.1         | 1,594.9  | 1,901.1         | -                                 | -            | -  | -              | -                             | -              |
| Amortised cost                    | <b>Loans and receivables</b>   | <b>27,530.8</b>              | <b>33,347.2</b> | <b>25,040.2</b>                                    | <b>30,084.3</b> | <b>496.5</b>                      | <b>483.5</b> | <b>748.3</b>                                   | <b>1,076.9</b> | <b>1,245.7</b>                | <b>1,702.5</b> |
|                                   | Loans and advances to banks  | 2,518.3                      | 2,979.5         | 2,518.3  | 2,979.5         | -                                 | -            | -  | -              | -                             | -              |
|                                   | Loans and advances to customers (including hedge fair value adjustments) | 20,970.7                     | 25,170.3        | 18,863.1   | 22,300.7        | 496.5                             | 483.5        | 748.3  | 1,076.9        | 862.7                         | 1,309.2        |
|                                   | Investment securities  | 3,987.1                      | 5,197.4         | 3,604.1  | 4,804.1         | -                                 | -            | -  | -              | 383.0                         | 393.3          |
|                                   | Non-current assets held for sale   | 54.7                         | -               | 54.7   | -               | -                                 | -            | -  | -              | -                             | -              |
|                                   | Receivables from finance leases  | 1,807.3                      | 1,944.5         | 1,594.8  | 1,720.0         | -                                 | -            | 128.1  | 159.1          | 84.4                          | 65.4           |
| Less portfolio impairment         | 185.1  | 184.6                        | -               | -  | -               | -                                 | -            | -  | -              | -                             | -              |
| Off-balance sheet transactions    | Contingent liabilities   | 628.4                        | 876.1           | -  | -               | -                                 | -            | -  | -              | -                             | -              |
|                                   | Other obligations  | 2,265.7                      | 2,932.3         | -  | -               | -                                 | -            | -  | -              | -                             | -              |
| <b>Total</b>                      |  | <b>37,742.0</b>              | <b>47,687.2</b> | -  | -               | -                                 | -            | -  | -              | -                             | -              |

IKB hedges against credit risks by obtaining collateral from borrowers that can be utilised or realised in the event of default. Collateral is generally accepted in the form of mortgages, transfers of ownership and other collateral such as assignment of receivables, participation rights or subordination after corresponding checks have been performed. In addition to these forms of collateral, risk transfers through Hermes guarantees, indemnifications and synthetic risk transfers serve to reduce credit risk. Broken down by type, 37.5% of collateral currently relates to risk transfers (previous year: 36.7%), 27.7% to mortgages (previous year: 26.9%), 10.7% to transfers of ownership (previous year: 9.6%) and 24.1% to other collateral (previous year: 26.8%).

In addition to these forms of collateral, credit derivatives and similar instruments also contribute to reducing credit risk. Information on credit derivatives and similar instruments that are related to liabilities for which the fair value option has been exercised was not available in the year under review or the previous year.

The risk relief provided by collateral is dependent on the collateral type. At IKB, individual parameters and standardised processes are used to measure the collateral accepted. In addition to the value on recognition, the sustainable value of collateral plays a crucial role. Long-term risk mitigation can only be ensured by collateral, depending on its type, if the collateral is monitored constantly, including periodic valuations and updates.

The following table shows the credit quality of financial instruments that are neither overdue nor impaired:

| in € million                      | Credit quality of credit risk exposure neither past due nor impaired     |                |                     |                |                      |                |                       |                |                           |                |                | Total        |              |                 |                 |   |
|-----------------------------------|--|----------------|---------------------|----------------|----------------------|----------------|-----------------------|----------------|---------------------------|----------------|----------------|--------------|--------------|-----------------|-----------------|---|
|                                   | Rating class 1 to 4  |                | Rating class 5 to 7 |                | Rating class 8 to 10 |                | Rating class 11 to 13 |                | Rating class 14 and worse |                | No rating      |              | 31 Mar 2010  | 31 Mar 2009     |                 |   |
|                                   | 31 Mar 2010  | 31 Mar 2009    | 31 Mar 2010         | 31 Mar 2009    | 31 Mar 2010          | 31 Mar 2009    | 31 Mar 2010           | 31 Mar 2009    | 31 Mar 2010               | 31 Mar 2009    | 31 Mar 2010    | 31 Mar 2009  | 31 Mar 2010  | 31 Mar 2009     |                 |   |
| Fair value through profit or loss | <b>Held for trading</b>  | <b>960.7</b>   | <b>3,370.5</b>      | <b>53.2</b>    | <b>48.1</b>          | <b>128.7</b>   | <b>153.7</b>          | <b>116.7</b>   | <b>97.7</b>               | <b>52.4</b>    | <b>35.7</b>    | <b>0.0</b>   | <b>0.1</b>   | <b>1,311.7</b>  | <b>3,705.8</b>  |   |
|                                   | Assets held for trading  | 960.7          | 3,370.5             | 53.2           | 48.1                 | 128.7          | 153.7                 | 116.7          | 97.7                      | 52.4           | 35.7           | 0.0          | 0.1          | 1,311.7         | 3,705.8         |   |
|                                   | <b>Fair value option</b>   | <b>679.8</b>   | <b>871.0</b>        | <b>1,099.4</b> | <b>1,081.1</b>       | <b>359.8</b>   | <b>377.0</b>          | <b>192.1</b>   | <b>27.4</b>               | <b>427.6</b>   | <b>781.3</b>   | <b>0.0</b>   | <b>0.0</b>   | <b>2,758.7</b>  | <b>3,137.8</b>  |   |
|                                   | Investment securities  | 679.8          | 871.0               | 1,099.4        | 1,081.1              | 359.8          | 377.0                 | 192.1          | 27.4                      | 427.6          | 781.3          | 0.0          | 0.0          | 2,758.7         | 3,137.8         |   |
| Hedging derivatives               | <b>Held for trading</b>  | -              | -                   | -              | -                    | -              | -                     | -              | -                         | -              | -              | -            | -            | <b>29.6</b>     | <b>27.0</b>     |   |
|                                   | Assets held for trading  | -              | -                   | -              | -                    | -              | -                     | -              | -                         | -              | -              | -            | -            | 29.6            | 27.0            |   |
| Fair value in equity              | <b>Available for sale</b>  | <b>1,324.4</b> | <b>1,447.3</b>      | <b>181.5</b>   | <b>316.6</b>         | <b>67.2</b>    | <b>46.9</b>           | <b>9.7</b>     | <b>29.4</b>               | <b>10.6</b>    | <b>0.0</b>     | <b>1.5</b>   | <b>61.0</b>  | <b>1,594.9</b>  | <b>1,901.1</b>  |   |
|                                   | Investment securities  | 1,324.4        | 1,447.3             | 181.5          | 316.6                | 67.2           | 46.9                  | 9.7            | 29.4                      | 10.6           | 0.0            | 1.5          | 61.0         | 1,594.9         | 1,901.1         |   |
| Amortised cost                    | <b>Loans and receivables</b>   | <b>6,397.8</b> | <b>8,320.9</b>      | <b>4,195.6</b> | <b>4,927.7</b>       | <b>7,025.7</b> | <b>8,685.1</b>        | <b>5,768.5</b> | <b>6,423.5</b>            | <b>1,405.7</b> | <b>1,327.9</b> | <b>246.8</b> | <b>399.2</b> | <b>25,040.2</b> | <b>30,084.3</b> |   |
|                                   | Loans and advances to banks  | 2,465.3        | 2,877.7             | 219            | 15.8                 | -              | -                     | -              | 14.7                      | 16.4           | 230.4          | 16.4         | 86.0         | 2,518.3         | 2,979.5         |   |
|                                   | Loans and advances to customers (including hedge fair value adjustments) | 936.3          | 955.6               | 3,783.5        | 4,751.5              | 6,936.6        | 8,593.1               | 5,730.0        | 6,386.6                   | 1,246.3        | 1,310.6        | 230.4        | 303.2        | 18,863.1        | 22,300.7        |   |
|                                   | Investment securities  | 2,996.1        | 4,487.6             | 390.3          | 160.4                | 34.4           | 92.0                  | 36.6           | 144.7                     | 17.3           | 0.0            | -            | 10.0         | 3,604.1         | 4,804.1         |   |
|                                   | Non-current assets held for sale   | -              | -                   | -              | -                    | 54.7           | -                     | -              | -                         | -              | -              | -            | -            | -               | 54.7            | - |
|                                   | Receivables from finance leases  | 1.6            | 0.0                 | 218.3          | 253.4                | 634.0          | 641.3                 | 413.4          | 553.8                     | 305.5          | 246.0          | 21.9         | 25.4         | 1,594.8         | 1,720.0         |   |
| Loans and advances to customers   | 1.6  | 0.0            | 218.3               | 253.4          | 634.0                | 641.3          | 413.4                 | 553.8          | 305.5                     | 246.0          | 21.9           | 25.4         | 1,594.8      | 1,720.0         |                 |   |

The loans with negotiated conditions shown in the table at the maximum credit risk amount are not overdue and are not subject to long-term impairment because of a confirmed debt service ratio or sufficient security. A more detailed review is necessary, however, as the agreements with the borrowers for these loans have subsequently changed. This usually occurs as part of restructuring measures. In general, the interest and redemption structure is

modified to ensure that the borrower is able to meet its obligations. Individual write-downs are not required to be recognised for the renegotiated loans or those in arrears shown below. However, these loans are taken into account in calculating portfolio write-downs. Please see the Group management report for more information on the calculation of portfolio write-downs.

The rating methods and procedures used by IKB are explained in the Group Management Report.

All financial instruments are subject to an ongoing review and reporting process. IKB has defined the so-called credit volume for reporting. The credit volume is based on the IKB business model and is a suitable means of illustrating the credit risk. Financial instruments that are not included in the credit volume primarily consist of current loans and advances to banks and mortgages. These mainly relate to counterparties, such as OECD banks and credit insurers with an investment grade rating. The credit quality is illustrated for the markets segments of IKB, structured securities portfolios and portfolio investments in the Group management report.

As of the balance sheet date 31 March 2010, the following financial assets were in arrears:

| 31 March 2010                   |  | Financial assets past due but not impaired |                       |                        |                         |                          |                    | Total        | Fair value of corresponding collateral |
|---------------------------------|--|--|-----------------------|------------------------|-------------------------|--------------------------|--------------------|--------------|--|
|                                 |  | Between 1 and 5 days                       | Between 5 and 30 days | Between 30 and 90 days | Between 90 and 180 days | Between 180 and 360 days | More than 360 days |              |  |
| in € million                    |  |  |                       |                        |                         |                          |                    |              |  |
|                                 | <b>Loans and receivables</b>   | <b>589.5</b>                               | <b>17.8</b>           | <b>59.7</b>            | <b>50.0</b>             | <b>8.4</b>               | <b>22.8</b>        | <b>748.3</b> | <b>366.5</b>                           |
| Amortised cost                  | Loans and advances to customers (including hedge fair value adjustments) | 589.5                                      | 17.8                  | 59.7                   | 50.0                    | 8.4                      | 22.8               | 748.3        | 366.5                                  |
| Receivables from finance leases | Loans and advances to customers  | 11.8                                       | 31.4                  | 53.2                   | 13.8                    | 11.1                     | 6.6                | 128.1        | 0.0                                    |
| <b>Total</b>                    |  | <b>601.4</b>                               | <b>49.2</b>           | <b>113.0</b>           | <b>63.8</b>             | <b>19.6</b>              | <b>29.5</b>        | <b>876.4</b> | <b>366.5</b>                           |

| 31 March 2009                   |  | Financial assets past due but not impaired |                       |                        |                         |                          |                    | Total          | Fair value of corresponding collateral |
|---------------------------------|--|--|-----------------------|------------------------|-------------------------|--------------------------|--------------------|----------------|--|
|                                 |  | Between 1 and 5 days                       | Between 5 and 30 days | Between 30 and 90 days | Between 90 and 180 days | Between 180 and 360 days | More than 360 days |                |  |
| in € million                    |  |  |                       |                        |                         |                          |                    |                |  |
|                                 | <b>Loans and receivables</b>   | <b>878.5</b>                               | <b>66.7</b>           | <b>32.2</b>            | <b>50.5</b>             | <b>13.8</b>              | <b>35.1</b>        | <b>1,076.8</b> | <b>573.2</b>                           |
| Amortised cost                  | Loans and advances to customers (including hedge fair value adjustments) | 878.5                                      | 66.7                  | 32.2                   | 50.5                    | 13.8                     | 35.1               | 1,076.8        | 573.2                                  |
| Receivables from finance leases | Loans and advances to customers  | 50.8                                       | 51.1                  | 42.6                   | 9.7                     | 4.7                      | 0.2                | 159.1          | 122.5                                  |
| <b>Total</b>                    |  | <b>929.3</b>                               | <b>117.8</b>          | <b>74.8</b>            | <b>60.2</b>             | <b>18.5</b>              | <b>35.3</b>        | <b>1,235.9</b> | <b>695.7</b>                           |

Financial instruments that are in arrears by one or more days are classed as overdue in accordance with IFRS 7. However, the first maturity range (one to five days in arrears) should be regarded as less meaningful due to the possibility of delays in settlement on the part of the borrower. There are no impairment losses for the overdue financial instruments shown in this table.

The following financial assets were subject to individual write-downs as of the balance sheet date:

|                                 |  | Carrying amount of impaired assets before impairment |                | Amount of impairment |                | Carrying amount of impaired assets after impairment |                | Fair value of corresponding collateral |                |
|---------------------------------|--|--|----------------|----------------------|----------------|---|----------------|--|----------------|
|                                 |  | 31 Mar 2010  | 31 Mar 2009    | 31 Mar 2010          | 31 Mar 2009    | 31 Mar 2010   | 31 Mar 2009    | 31 Mar 2010                            | 31 Mar 2009    |
| in € million                    |  |  |                |                      |                |   |                |  |                |
|                                 | <b>Loans and receivables</b>   | <b>3,325.5</b>                                       | <b>3,728.3</b> | <b>2,079.8</b>       | <b>2,023.8</b> | <b>1,245.7</b>                                      | <b>1,702.5</b> | <b>814.9</b>                           | <b>1,143.8</b> |
| Amortised cost                  | Loans and advances to customers (including hedge fair value adjustments) | 1,739.7  | 2,115.6        | 677.0                | 806.4          | 862.7   | 1,309.2        | 814.9                                  | 1,143.8        |
|                                 | Investment securities  | 1,585.8  | 1,610.7        | 1,202.8              | 1,217.4        | 383.0   | 393.3          | -                                      | -              |
| Receivables from finance leases | Loans and advances to customers  | 91.6   | 72.1           | 7.2                  | 6.7            | 84.4  | 65.4           | -                                      | -              |
| <b>Total</b>                    |  | <b>3,417.1</b>                                       | <b>3,798.4</b> | <b>2,087.0</b>       | <b>2,030.5</b> | <b>1,330.1</b>                                      | <b>1,767.9</b> | <b>814.9</b>                           | <b>1,143.8</b> |

The decrease in the carrying amount of assets written down under loans and advances to customers at amortised cost from € 1,309.2 million to € 862.7 million is primarily due to the volume of € 428 million attributable to IKB CC as of 31 March 2009. This volume was written down on the basis of current fair values and disposed of in full with effect from 31 March 2010.

During the financial year, IKB generated collateral revenue in the amount of € 581.1 million (previous year: € 434.7 million).

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

## Other disclosures

### (66) Changes in equity recognised directly in equity

| in € million  | Balance as of 1 April 2009 | Changes recognised directly in equity | Changes recognised in profit or loss | Balance before income tax effects as of 31 March 2010 | Income tax effects on changes recognised directly in equity | Income tax effects on changes recognised in profit or loss | Balance after income tax effects as of 31 March 2010 |
|---|----------------------------|---------------------------------------|--------------------------------------|---|---|--|--|
| Financial assets available for sale                   | -27.6                      | 37.4                                  | 3.2                                  | 13.0  | -11.2   | -0.9   | 0.9  |
| Derivatives hedging fluctuations in future cash flows | -8.3                       | 0.8                                   |                                      | -7.5  | -0.3  | -  | -7.8   |
| Currency translation reserve                          | -20.5                      | 3.3                                   |                                      | -17.2   |   | -  | -17.2  |
| Actuarial gains/losses (IAS 19)                       | -27.1                      | -9.5                                  |                                      | -36.6   | 2.8   | -  | -33.8  |
| <b>Total comprehensive income</b>                     | <b>-83.5</b>               | <b>32.0</b>                           | <b>3.2</b>                           | <b>-48.3</b>  | <b>-8.7</b>   | <b>-0.9</b>  | <b>-57.9</b>   |

| in € million  | Balance as of 1 April 2008 | Changes recognised directly in equity | Changes recognised in profit or loss | Balance before income tax effects as of 31 March 2009 | Income tax effects on changes recognised directly in equity | Income tax effects on changes recognised in profit or loss | Balance after income tax effects as of 31 March 2009 |
|---|----------------------------|---------------------------------------|--------------------------------------|---|---|--|--|
| Financial assets available for sale                   | -22.8                      | -59.5                                 | 46.1                                 | -36.2   | -5.7  | 14.3   | -27.6  |
| Hedges (IFRS 1 ICG6 B)                                | 25.6                       |                                       | -37.4                                | -11.8   |   | 11.8   | -  |
| Derivatives hedging fluctuations in future cash flows | -                          | -12.1                                 |                                      | -12.1   | 3.8   | -  | -8.3   |
| Currency translation reserve                          | 7.0                        | -27.5                                 |                                      | -20.5   |   | -  | -20.5  |
| Actuarial gains/losses (IAS 19)                       | -8.9                       | -27.2                                 |                                      | -36.1   | 9.0   | -  | -27.1  |
| <b>Total comprehensive income</b>                     | <b>0.9</b>                 | <b>-126.3</b>                         | <b>8.7</b>                           | <b>-116.7</b>   | <b>7.1</b>  | <b>26.1</b>  | <b>-83.5</b>   |

### (67) Contingent assets/liabilities and other commitments

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

| in € million                      | 31 Mar 2010    | 31 Mar 2009    |
|-----------------------------------|----------------|----------------|
| <b>Contingent liabilities</b>     | <b>628.4</b>   | <b>876.1</b>   |
| Guarantees, warranties, other     | 505.5          | 554.7          |
| Assumptions of liability          | 122.9          | 321.4          |
| <b>Other obligations</b>          | <b>2,265.7</b> | <b>2,932.3</b> |
| Commitments up to one year        | 1,108.1        | 1,372.4        |
| Commitments of more than one year | 1,157.6        | 1,559.9        |
| <b>Total</b>                      | <b>2,894.1</b> | <b>3,808.4</b> |

Contingent liabilities are offset by contingent assets in the same amount. As part of the sale of 50% of the shares in Movesta, IKB AG and IKB Beteiligungen assumed joint and several guarantees and indemnity obligations including for the transferred GmbH shares and the proper settlement and fulfilment of historical obligations (e.g. submission of tax declarations and tax returns).

The figures presented reflect the amounts that would have to be paid if the respective customers were to use the relevant credit facilities in full, adjusted for provisions.

### (68) Other financial obligations

As of the balance sheet date, the Group's payment obligations from equities not fully paid in, investments in GmbHs, investments in affiliated companies, the interests held by IKB Private Equity GmbH and subordinated loans amounted to € 22.1 million (previous year: € 22.9 million).

Other financial obligations for rental agreements, leases and other agreements totalled € 261.6 million as of 31 March 2010.

There is a proportionate obligation to make additional contributions with respect to Liquiditäts-Konsortialbank GmbH, Frankfurt am Main, in accordance with section 26 of the *Gesetz betreffend die Gesellschaften mit beschränkter Haftung (GmbHG* – German Limited Liability Companies Act). IKB also has a proportionate contingent liability for the fulfilment of the obligation to meet the contributions of other members of the Association of German Banks. In accordance with section 5 (10) of the by-laws of the Deposit Protection Fund, IKB AG is required to indemnify the Association of German Banks from any losses incurred by banks in which it holds a majority interest. For further information, please see the annual financial statements and management report of IKB AG as of 31 March 2010.

**(69) Leases**

**Finance leases**

| <b>Receivables from leasing transactions</b><br>in € million               | 31 Mar 2010    | 31 Mar 2009    |
|--|----------------|----------------|
| Gross investment (maturities)  |                |                |
| up to one year   | 625.0          | 608.6          |
| between one and five years   | 1,331.6        | 1,487.8        |
| more than five years   | 128.7          | 148.7          |
| <b>Total gross investment value</b>  | <b>2,085.3</b> | <b>2,245.1</b> |
| of which:  |                |                |
| Non-guaranteed residual values   | 51.2           | 34.2           |
| Unrealised financial income (maturities)                                   |                |                |
| up to one year   | 102.9          | 104.4          |
| between one and five years   | 152.8          | 177.9          |
| more than five years   | 12.3           | 11.6           |
| <b>Total unrealised financial income</b>                                   | <b>268.0</b>   | <b>293.9</b>   |
| Net investment value (maturities)  |                |                |
| up to one year   | 522.1          | 504.2          |
| between one and five years   | 1,178.8        | 1,309.9        |
| more than five years   | 116.4          | 137.1          |
| <b>Total net investment value</b>  | <b>1,817.3</b> | <b>1,951.2</b> |
| Contingent rent recognised in profit or loss                               | 8.4            | 0.0            |
| Cumulative impairment for irrecoverable outstanding minimum lease payments | 0.6            | 3.3            |

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

| in € million               | 31 Mar 2010    | 31 Mar 2009    |
|----------------------------|----------------|----------------|
| up to one year             | 519.9          | 628.7          |
| between one and five years | 1,111.8        | 1,480.0        |
| more than five years       | 111.9          | 139.7          |
| <b>Total</b>               | <b>1,743.6</b> | <b>2,248.4</b> |

**Operating leases**

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

| in € million               | 31 Mar 2010  | 31 Mar 2009  |
|----------------------------|--------------|--------------|
| up to one year             | 37.6         | 38.9         |
| between one and five years | 71.6         | 104.0        |
| more than five years       | 0.9          | 5.8          |
| <b>Total</b>               | <b>110.1</b> | <b>148.7</b> |

As in the previous year, no contingent rents were recognised in profit or loss in the year under review.

Two administrative buildings in Düsseldorf were leased for a fixed lease term of 20 years under an operating lease. The lease can be renewed on two occasions, in each case for five years, at the market conditions applicable at the time. In addition, IKB was granted a preferential purchase right and a preferential lease right. For the first three years of the lease agreement, a price escalation clause of 1% p.a. was agreed. From the fourth year onwards, a provision applies with regard to contingent rents linking the increase of the rents to changes in the consumer price index.

The minimum lease payments to be made by IKB from non-cancellable operating leases break down as follows:

| in € million               | 31 Mar 2010  | 31 Mar 2009  |
|----------------------------|--------------|--------------|
| up to one year             | 9.9          | 13.1         |
| between one and five years | 54.2         | 53.7         |
| more than five years       | 153.5        | 162.2        |
| <b>Total</b>               | <b>217.7</b> | <b>229.0</b> |

IKB still expects to receive rental payments from subleasing parts of the administrative buildings to third-party tenants of at least € 2.0 million p.a. (previous year: € 2.0 million).

**(70) Disclosures on collateral**

**Disclosures on collateral provided for own liabilities and contingent liabilities**

IKB provides collateral primarily for open market operations with the European Central Bank. Financial assets of € 2.1 billion (previous year: € 7.1 billion) have been pledged as collateral in accordance with the German Commercial Code for the European Central Bank's tender and loan application process (collateral pool). As of the balance sheet date, credit facilities totalling € 1.8 billion had been utilised (previous year: € 2.9 billion).

As of 31 March 2010, IKB reports assigned and pledged collateral separately. With the exception of cash collateral, the secured party does not have a customary right to resell the collateral.

| in € million                             |                                 | Assets provided as collateral |                 |
|--|---------------------------------|-------------------------------|-----------------|
|  |                                 | 31 Mar 2010                   | 31 Mar 2009     |
| <b>Assets</b>                            |                                 |                               |                 |
| <b>Fair value through profit or loss</b> |                                 |                               |                 |
|  | <b>Held for trading</b>         | <b>0.0</b>                    | <b>13.3</b>     |
|  | Assets held for trading         | 0.0                           | 13.3            |
|  | <b>Fair value option</b>        | <b>981.3</b>                  | <b>1,300.6</b>  |
|  | Investment securities           | 981.3                         | 1,300.6         |
| <b>Fair value in equity</b>              |                                 |                               |                 |
|  | <b>Available for sale</b>       | <b>404.0</b>                  | <b>904.2</b>    |
|  | Investment securities           | 404.0                         | 904.2           |
| <b>Carried at amortised cost</b>         |                                 |                               |                 |
|  | <b>Loans and receivables</b>    | <b>9,929.8</b>                | <b>15,571.6</b> |
|  | Loans and advances to customers | 8,783.4                       | 10,780.4        |
|  | Investment securities           | 1,146.4                       | 4,791.2         |
| <b>Total</b>                             |                                 | <b>11,315.1</b>               | <b>17,789.7</b> |

IKB has provided cash collateral totalling € 0.0 million (previous year: € 5.8 million) to various banks in connection with credit derivatives.

Cash collateral in the amount of € 1,590.7 million (previous year: € 1,627 million) was assigned for interest derivatives as part of collateral management.

Securities with a nominal value of € 240.0 million (previous year: € 19.0 million) have been lodged with Clearstream Banking AG, Frankfurt am Main, for compliance with payment obligations in securities transactions; securities with a nominal value of € 7.0 million (previous year: € 7.0 million) have been deposited as collateral at Clearstream Banking S.A., Luxembourg. In futures trading on EUREX Germany, securities for margin obligations have been lodged with BHF-Bank AG, Frankfurt am Main, with a nominal value of € 5.0 million (previous year: € 5.0 million) and with Barclays, London, with a nominal value of € 22.0 million (previous year: € 0.0 million).

Securities in the amount of € 87.4 million (previous year: € 158.0 million) have been pledged to KfW, Frankfurt am Main, to help hedge joint business concepts and cash collateral of € 230.0 million (previous year: € 170.0 million) has been provided. Additional securities totalling € 124.0 million (previous year: € 124.0 million) were pledged as collateral to various banks to secure global loans.

With the exception of cash collateral, assets pledged as collateral do not grant any rights of resale.

#### (71) Securities repurchase agreements

In the 2009/10 financial year, IKB significantly reduced its genuine repurchase agreement business. As a borrower, IKB transferred investment securities with a carrying amount of € 576.9 million (previous year: € 631.4 million) (repo agreements) as of the reporting date. These assets included collateral that can be resold or re-pledged. The repurchase agreements resulted in liabilities to banks of € 540.2 million (previous year: € 585.8 million).

| in € million                             | Repurchase agreements        |              | Corresponding purchase price liabilities (liabilities to banks or customers) |              |              |
|--|------------------------------|--------------|--|--------------|--------------|
|  | 31 Mar 2010                  | 31 Mar 2009  | 31 Mar 2010  | 31 Mar 2009  |              |
| <b>Assets</b>                            |                              |              |  |              |              |
| <b>Fair value through profit or loss</b> |                              |              |  |              |              |
|  | <b>Fair value option</b>     | <b>339.3</b> | <b>0.0</b>   | <b>317.7</b> | <b>0.0</b>   |
|  | Investment securities        | 339.3        | 0.0  | 317.7        | 0.0          |
| <b>Fair value in equity</b>              |                              |              |  |              |              |
|  | <b>Available for sale</b>    | <b>0.5</b>   | <b>0.0</b>   | <b>0.5</b>   | <b>0.0</b>   |
|  | Investment securities        | 0.5          | 0.0  | 0.5          | 0.0          |
| <b>Carried at amortised cost</b>         |                              |              |  |              |              |
|  | <b>Loans and receivables</b> | <b>237.1</b> | <b>631.4</b>   | <b>222.0</b> | <b>585.8</b> |
|  | Investment securities        | 237.1        | 631.4  | 222.0        | 585.8        |
| <b>Total</b>                             |                              | <b>576.9</b> | <b>631.4</b>   | <b>540.2</b> | <b>585.8</b> |

As a borrower, IKB also received government bonds with a fair value of € 132.0 million (previous year: € 0.0 million) (reverse repo transactions) with an option for resale or reassignment. As of the reporting date, this resulted in loans and advances to banks with a carrying amount of € 132.0 million (previous year: € 0.0 million). In line with the usual conditions for repo agreements, there is a return obligation in the same amount for the government bonds received.

## (72) Statement of changes in non-current assets

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

| in € million                                    | Property, plant and equipment      |   |   | Intangible assets | Total        |
|---|------------------------------------|---|---|-------------------|--------------|
|   | Lease assets from operating leases | Land and buildings and buildings under construction not including investment property | Operating and office equipment incl. low-value assets |                   |              |
| <b>Cost</b>                                     |                                    |   |   |                   |              |
| <b>As of 31 March 2009</b>                      | <b>210.5</b>                       | <b>124.0</b>  | <b>70.9</b>   | <b>77.7</b>       | <b>483.1</b> |
| Changes in the scope of consolidation           | -0.1                               | -   | -   | -                 | -0.1         |
| Exchange differences                            | 0.4                                | -   | -   | -                 | 0.4          |
| Additions                                       | 45.5                               | 5.6   | 2.9   | 2.1               | 56.1         |
| Reclassification                                | -3.8                               | -2.0  | 2.1   | -0.1              | -3.8         |
| Disposals                                       | 32.7                               | 88.1  | 6.9   | 0.2               | 127.9        |
| <b>As of 31 March 2010</b>                      | <b>219.8</b>                       | <b>39.5</b>   | <b>69.0</b>   | <b>79.5</b>       | <b>407.8</b> |
| <b>Write-downs and reversals of write-downs</b> |                                    |   |   |                   |              |
| <b>As of 31 March 2009</b>                      | <b>60.9</b>                        | <b>37.7</b>   | <b>50.7</b>   | <b>58.6</b>       | <b>207.9</b> |
| Changes in the scope of consolidation           | -0.1                               | -   | -   | -                 | -0.1         |
| Exchange differences                            | 0.2                                | -   | -   | -                 | 0.2          |
| Scheduled depreciation and amortisation         | 35.2                               | 0.5   | 7.0   | 8.4               | 51.1         |
| Impairment                                      | 0.8                                | 0.8   | -   | -                 | 1.6          |
| Reversals of impairment losses                  | -                                  | -   | -   | -                 | -            |
| Reclassification                                | -                                  | -   | 0.1   | -0.1              | -            |
| Disposals                                       | 18.9                               | 20.1  | 6.0   | 0.3               | 45.3         |
| <b>As of 31 March 2010</b>                      | <b>78.1</b>                        | <b>18.9</b>   | <b>51.8</b>   | <b>66.6</b>       | <b>215.4</b> |
| <b>Carrying amounts</b>                         |                                    |   |   |                   |              |
| As of 31 March 2009                             | 149.6                              | 86.3  | 20.2  | 19.1              | 275.2        |
| As of 31 March 2010                             | 141.7                              | 20.6  | 17.2  | 12.9              | 192.4        |

**(73) Maturity structure**

The remaining term is the period between the balance sheet date and the due date for each portion of an asset or liability. If there is a repricing date before the actual due date, this is shown as the due date.

The following table provides a breakdown of the carrying amounts of assets and liabilities by remaining term:

| 31 March 2010<br>in € million                   | up to<br>3 months | between<br>3 months and<br>1 year | between<br>1 and 5 years | more than<br>5 years | Total           |
|---|-------------------|-----------------------------------|--------------------------|----------------------|-----------------|
| Loans and advances to banks                     | 2,387.1           | 11.9                              | 85.5                     | 33.8                 | <b>2,518.3</b>  |
| Loans and advances to customers                 | 1,917.2           | 3,039.5                           | 12,108.1                 | 6,600.3              | <b>23,665.1</b> |
| Assets held for trading                         | 290.2             | 53.6                              | 425.5                    | 572.0                | <b>1,341.3</b>  |
| Investment securities                           | 1,514.5           | 1,216.6                           | 2,331.1                  | 3,278.5              | <b>8,340.7</b>  |
| Companies accounted for using the equity method | -                 | -                                 | -                        | 9.5                  | <b>9.5</b>      |
| Non-current assets held for sale                | 190.7             | -                                 | -                        | -                    | <b>190.7</b>    |
| <b>Total</b>                                    | <b>6,299.7</b>    | <b>4,321.6</b>                    | <b>14,950.2</b>          | <b>10,494.1</b>      | <b>36,065.6</b> |
| Liabilities to banks                            | 1,929.7           | 1,814.7                           | 5,282.6                  | 2,971.0              | <b>11,998.0</b> |
| Liabilities to customers                        | 1,950.5           | 1,329.4                           | 1,420.7                  | 2,817.3              | <b>7,517.9</b>  |
| Securitised liabilities                         | 937.3             | 1,816.3                           | 7,972.5                  | 62.5                 | <b>10,788.6</b> |
| Liabilities held for trading                    | 335.9             | 45.5                              | 527.0                    | 1,573.5              | <b>2,481.9</b>  |
| Subordinated capital                            | 0.6               | 28.3                              | 510.3                    | 675.0                | <b>1,214.2</b>  |
| <b>Total</b>                                    | <b>5,154.0</b>    | <b>5,034.2</b>                    | <b>15,713.1</b>          | <b>8,099.3</b>       | <b>34,000.6</b> |

| 31 March 2009<br>in € million                   | up to<br>3 months | between<br>3 months and<br>1 year* | between<br>1 and 5 years | more than<br>5 years | Total*          |
|---|-------------------|------------------------------------|--------------------------|----------------------|-----------------|
| Loans and advances to banks                     | 2,243.6           | 631.4                              | 71.0                     | 33.5                 | <b>2,979.5</b>  |
| Loans and advances to customers                 | 2,251.5           | 3,226.0                            | 13,365.5                 | 9,084.9              | <b>27,927.9</b> |
| Assets held for trading                         | 195.8             | 112.6                              | 508.4                    | 2,916.0              | <b>3,732.8</b>  |
| Investment securities                           | 696.8             | 613.8                              | 3,558.6                  | 5,367.1              | <b>10,236.3</b> |
| Companies accounted for using the equity method | -                 | -                                  | -                        | 7.5                  | <b>7.5</b>      |
| Non-current assets held for sale                | 3.1               | -                                  | -                        | -                    | <b>3.1</b>      |
| <b>Total</b>                                    | <b>5,390.8</b>    | <b>4,583.8</b>                     | <b>17,503.5</b>          | <b>17,409.0</b>      | <b>44,887.1</b> |
| Liabilities to banks                            | 4,863.7           | 1,191.4                            | 5,937.8                  | 3,325.8              | <b>15,318.7</b> |
| Liabilities to customers                        | 1,485.2           | 824.9                              | 1,154.4                  | 2,354.3              | <b>5,818.8</b>  |
| Securitised liabilities                         | 1,608.7           | 4,842.5                            | 7,497.9                  | 76.8                 | <b>14,025.9</b> |
| Liabilities held for trading                    | 284.9             | 106.3                              | 508.1                    | 4,580.7              | <b>5,480.0</b>  |
| Subordinated capital                            | 21.3              | 42.6                               | 582.4                    | 711.6                | <b>1,357.9</b>  |
| <b>Total</b>                                    | <b>8,263.8</b>    | <b>7,007.7</b>                     | <b>15,680.6</b>          | <b>11,049.2</b>      | <b>42,001.3</b> |

\* Figures adjusted

**(74) Contractual remaining terms of financial liabilities**

The following table shows the liquidity risk for derivative and non-derivative financial liabilities and off-balance sheet transactions in accordance with the requirements of IFRS 7.39(a). The maturity breakdown is based on the contractual terms of the respective items. Payments due are shown as undiscounted contractual cash flows. The earliest possible termination or utilisation date is applied.

The following table provides an overview of the remaining contractual terms of non-derivative liabilities:

| 31 March 2010<br>in € million  | Remaining contractual terms of financial liabilities |                           |                                   |                          |                      | Total           |
|--------------------------------|--|---------------------------|-----------------------------------|--------------------------|----------------------|-----------------|
|                                | up to 1<br>month                                     | between<br>1 and 3 months | between<br>3 months and<br>1 year | between<br>1 and 5 years | more than<br>5 years |                 |
| Liabilities to banks           | 2,176.6  | 46.4                      | 1,907.3                           | 6,227.2                  | 3,399.6              | <b>13,757.1</b> |
| Liabilities to customers       | 937.2  | 1,093.2                   | 1,942.4                           | 2,363.2                  | 2,804.8              | <b>9,140.8</b>  |
| Securitised liabilities        | 33.9   | 679.2                     | 2,047.9                           | 8,288.0                  | 26.0                 | <b>11,075.0</b> |
| Subordinated capital           | 12.3   | 6.3                       | 253.9                             | 1,632.6                  | 1,151.2              | <b>3,056.3</b>  |
| <b>Total</b>                   | <b>3,160.0</b>                                       | <b>1,825.1</b>            | <b>6,151.5</b>                    | <b>18,511.0</b>          | <b>7,381.6</b>       | <b>37,029.2</b> |
| Off-balance sheet transactions | 2,894.1  | 0.0                       | 0.0                               | 0.0                      | 0.0                  | <b>2,894.1</b>  |



| 31 March 2009                  | Remaining contractual terms of financial liabilities |                        |                              |                       |                   | Total           |
|--------------------------------|--|------------------------|------------------------------|-----------------------|-------------------|-----------------|
|                                | up to 1 month  | between 1 and 3 months | between 3 months and 1 year* | between 1 and 5 years | more than 5 years |                 |
| in € million                   |  |                        |                              |                       |                   |                 |
| Liabilities to banks           | 3,950.9  | 989.5                  | 1,713.6                      | 6,594.6               | 3,854.9           | 17,103.5        |
| Liabilities to customers       | 1,191.8  | 422.6                  | 1,262.4                      | 2,483.0               | 3,082.9           | 8,442.7         |
| Securitised liabilities        | 570.1  | 1,123.8                | 5,157.0                      | 7,861.3               | 65.7              | 14,777.9        |
| Liabilities held for trading   | 3,569.9  | 134.3                  | 332.3                        | 1,385.6               | 2,729.4           | 8,151.5         |
| Subordinated capital           | 9.9  | 7.9                    | 122.9                        | 1,595.7               | 1,541.4           | 3,277.8         |
| <b>Total</b>                   | <b>9,292.6</b>                                       | <b>2,678.1</b>         | <b>8,588.2</b>               | <b>19,920.1</b>       | <b>11,274.3</b>   | <b>51,753.4</b> |
| Off-balance sheet transactions | 3,808.4  | 0.0                    | 0.0                          | 0.0                   | 0.0               | 3,808.4         |

\* Figures adjusted

Subordinated capital includes liabilities with perpetual maturity that grant the issuer an exclusive right of cancellation. The resulting cash flows are allocated to the respective maturity ranges; the last maturity range shows the nominal value of the liabilities.

The maturity breakdown of the contractual cash flows of derivative liabilities only includes liabilities held for trading that are not assigned to the trading book, as the due date of derivatives assigned to the trading book primarily depends on their value development on the market and not on the contractually agreed cash flows.

| 31 March 2010             | Remaining contractual terms of financial liabilities |                        |                             |                       |                   | Total          |
|---------------------------|--|------------------------|-----------------------------|-----------------------|-------------------|----------------|
|                           | up to 1 month  | between 1 and 3 months | between 3 months and 1 year | between 1 and 5 years | more than 5 years |                |
| in € million              |  |                        |                             |                       |                   |                |
| Interest rate derivatives | 36.9   | 139.8                  | 416.7                       | 1,807.2               | 3,887.4           | 6,288.0        |
| Currency derivatives      | 1,153.0  | 336.9                  | 16.3                        | 44.9                  | 4.3               | 1,555.4        |
| <b>Total</b>              | <b>1,189.9</b>                                       | <b>476.7</b>           | <b>433.0</b>                | <b>1,852.1</b>        | <b>3,891.7</b>    | <b>7,843.4</b> |

The cash outflows from swaps are reported in the table for contractual remaining residual terms after netting against the cash inflows per financial instrument for each maturity range. All other derivatives are included according to IDW ERS HFA 24 (Draft IDW Statement on the Issues of Financial Instrument Disclosures, 27 November 2009) at their fair value. IKB assumes that the fair value most closely reflects the cash flow generated from the conclusion of derivative positions. Fair values are classified into various maturity ranges based on agreed maturities. In contrast, the fair value of credit derivatives with IKB as pledgor is allocated to the first maturity range. Where IKB is the borrower, the negative fair value is generally allocated to the contractual maturity range.

## (75) Liquidity risk

IKB defines liquidity risk as the components of insolvency risk, liquidity maturity transformation risk and economic liquidity risk.

**Insolvency risk** or short-term (investment) liquidity risk is the risk of being unable to meet current or future payment obligations in full, on time or in an economical manner. This risk is relevant when the available cash and cash equivalents and cash inflows are insufficient to meet the relevant payment obligations, taking existing liquidity reserves into account. As a bank performing refinancing via the money and capital markets, this risk is particularly relevant for IKB if the money and capital markets and/or the Bank's own ability to act on the capital markets is disturbed on a sustained basis. This risk class is addressed by limiting the minimum daily liquidity balance taking into account various scenarios over a horizon of 90 days (effective for the 2009/10 financial year; currently 180 days).

**Liquidity maturity transformation risk** is defined as the risk that it will only be possible to close future liquidity gaps at a higher cost or that it will not be possible to close such gaps on account of liquidity bottlenecks. Among other things, this risk class is reflected through the regular preparation of a long-term funding matrix (up to ten years). In order to ensure that the degree of the maturity transformation undertaken and the diversification of cash inflows and outflows in the individual maturity ranges in terms of timing can be analysed and included in the controlling process, a detailed evaluation of liquidity is performed on a daily basis taking into account controlling measures over a five-year horizon. As part of the Group planning

process, liquidity and liquidity costs are also analysed in detail over a five-year period and controlling measures are derived on this basis.

**Economic liquidity risk** encompasses the risk that market distortions or a change in conditions could result in a crisis situation for IKB. This risk is analysed using regular stress scenarios. Bank-specific stress scenarios and market-oriented stress tests are developed for this purpose.

Strategic liquidity management objectives are set by the Board of Managing Directors, while operational liquidity management is the responsibility of Treasury, which also plans the corresponding measures as part of daily liquidity risk reporting. The planned measures are reconciled and the liquidity situation discussed by Treasury and Risk Controlling at least once a week, taking the current market situation into account.

The planned measures and models are subjected to regular backtesting by Risk Controlling in order to identify necessary adjustments in a timely manner. Assumptions and methods are reviewed at least once a year and as necessary.

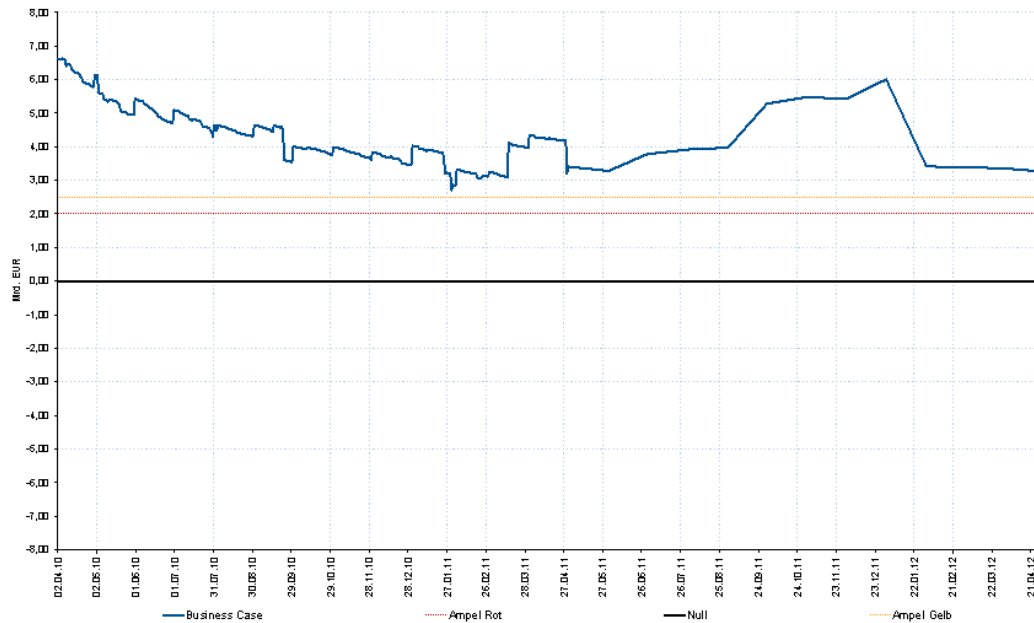
In the past financial year, the strained market environment meant that liquidity controlling activities primarily focused on ensuring short-term liquidity (90-day horizon; now: 180-day horizon) with adherence to regulatory requirements as a strict subsidiary condition. The liquidity ratio prescribed by the German Liquidity Ordinance is calculated on a daily basis by regulatory controlling and a forecast is prepared as part of Treasury controlling. IKB seeks to always maintain a liquidity ratio of at least 1.25 (regulatory requirement: 1.0). This target was met at all times in the 2009/10 financial year.

In addition, Treasury regularly examines access to the capital markets for the purposes of obtaining funds for refinancing (tactical liquidity). In the 2009/10 financial year, IKB implemented issues guaranteed by SoFFin with a volume of € 6 billion (€ 4 billion was already utilised in the 2008/09 financial year) and successively expanded its customer deposits to € 2.7 billion. In addition, promissory note loans with a volume of more than € 100 million were placed on the market, allowing IKB to move towards re-establishing its ability to act on the capital markets. The stabilisation of the liquidity situation is also reflected in the fact that IKB voluntarily applied for its SoFFin guarantee framework to be reduced from the original volume of € 12 billion to € 10 billion (unutilised guarantee framework: € 0 billion, utilised guarantee framework: € 10 billion).

Risk Controlling is responsible for liquidity risk controlling independently of trading. It monitors adherence to limits and weekly liquidity risk reporting (effective for the 2009/10 financial year; currently daily) and calculates stress scenarios. The liquidity risk report includes the development of contracted business and the liquidity reserve (particularly securities and loans eligible as collateral with central banks) as well as models on existing holdings and additional planned measures based on various scenarios. All material Group companies are included in liquidity risk reporting and liquidity controlling.

The following diagram shows a funding matrix for a horizon of two years reflecting the agreed liquidity measures. The red line depicts the limit of € 2 billion, while the yellow line depicts a warning threshold of € 2.5 billion. The limit represents the minimum liquidity that the Bank seeks to maintain over a period of 90 days before liquidity measures. Liquidity measures are taken into account in this long-term outlook.

2-year funding matrix as of 31 March 2010



The components of the funding matrix include:

- Capital and interest cash flows from contracted business and models on existing holdings (e.g. drawdowns on credit facilities)
- Liquidity reserve
- The Bank's planned new business
- Assumed extensions of customer deposits and conclusion of new promissory note loans recognised as liabilities
- Assumed extensions within the loan portfolio
- Measures planned by Treasury (e.g. refinancing and asset sales)

**(76) Average number of employees**

|              | 31 Mar 2010  | 31 Mar 2009  |
|--------------|--------------|--------------|
| Men          | 987          | 1,058        |
| Women        | 626          | 691          |
| <b>Total</b> | <b>1,613</b> | <b>1,749</b> |

**(77) Related party disclosures**

The following table shows the related parties of the executive bodies of the Bank in the customer loans business:

| Group  | Credit volume  |                | Average    |            | Average    |            |
|--|----------------|----------------|------------|------------|------------|------------|
|  | 31.3.2010      | 31.3.2009      | 31.3.2010  | 31.3.2009  | 31.3.2010  | 31.3.2009  |
| Employee representatives in the SB                         | 137            | 104            | 2.0        | 2.3        | 4.3        | 4.0        |
| Companies controlled by shareholder representatives        | 135,529        | 38,344         | 3.7        | 5.7        | 2.7        | 3.0        |
| Companies controlled by former shareholder representatives | -              | 97,426         | -          | 7.1        | -          | 4.4        |
| <b>Total</b>   | <b>135,666</b> | <b>135,874</b> | <b>3.7</b> | <b>6.7</b> | <b>2.7</b> | <b>4.0</b> |

All loans were granted at normal market conditions on the basis of IKB's standard principles of business and were secured with either real property liens or other collateral instruments. These exposures represent 0.5% (previous year: 0.4%) of the total credit extended by the Group. There were no individual write-downs on these loans.

The following table shows the remaining related party transactions that were also conducted at normal market conditions:

| Group   | Type of transaction             | Volume (€ thousand) |           | Average remaining term |           | Average interest rate  |  |
|---|---------------------------------|---------------------|-----------|------------------------|-----------|--|--|
|   |                                 | 31.3.2010           | 31.3.2009 | 31.3.2010              | 31.3.2009 | 31.3.2010  | 31.3.2009  |
| Companies controlled by shareholder representatives | Interest rate swaps             | 37,423              | 39,374    | 4.9                    | 5.8       | IKB pays variable: EURIBOR 3M and EURIBOR 6M receives: 3.60 to 4.57%             | IKB pays variable: EURIBOR 3M and EURIBOR 6M receives: 3.60 to 4.57% |
| Companies controlled by shareholder representatives | Range-based interest rate swaps | 10,501              | -         | 1.2                    | -         | IKB pays variable: EURIBOR 3M receives: 3.85% or EURIBOR 3M (depending on range) | -  |
| Companies controlled by shareholder representatives | Customer deposits               | 4,000               | -         | < 1 mth.               | -         | 0.9  | -  |
| Companies controlled by shareholder representatives | IHS                             | 9,352               | -         | 6.5                    | -         | 4.8  | -  |

IKB AG has prepared a dependent company report in line with section 312 AktG. The dependent company report is not published. The closing statement by the Board of Managing Directors of the Bank in the dependent company report reads as follows: "According to the circumstances known to us at the time at which the transactions and measures stated in the dependent company report were executed, implemented or omitted, our Company received appropriate consideration for every transaction and was not disadvantaged by the implementation or omission of any measures."

**Directors' dealings as defined by section 15a WpHG**

Persons with management responsibilities, including in particular the members of the Board of Managing Directors and the Supervisory Board of IKB and persons closely related to them are legally required in line with section 15a of *Wertpapierhandelsgesetz (WpHG – German Securities Trading Act)* to disclose transactions with IKB shares or financial instruments based on them if the value of the transactions performed by the member and the related person within a calendar year amounts to or exceeds a total of € 5,000.

In the year under review, there were no transactions in the shares of IKB AG or financial instruments based on them by directors or persons closely related to them.

There were no reportable shareholdings as defined by item 6.6 of the German Corporate Governance Code as of 31 March 2010.

**Loans and advances to and liabilities from subsidiaries**

Related party transactions primarily relate to refinancing and capital strengthening measures by the parent of IKB's main shareholder LSF6 Europe Financial Holdings, L.P. and companies assigned to it. Loans and advances from customers primarily relate to loans issued to associated companies and other investees and investors that are not required to be included in consolidation.

The following table shows the related parties in accordance with IAS 24.9:

| in € million                                   | Parent company |              | Companies allocated to the parent company |              | Subsidiaries |             | Associates   |              | Total        |              |
|--|----------------|--------------|---|--------------|--------------|-------------|--------------|--------------|--------------|--------------|
|  | 31 Mar 2010    | 31 Mar 2009  | 31 Mar 2010                               | 31 Mar 2009  | 31 Mar 2010  | 31 Mar 2009 | 31 Mar 2010  | 31 Mar 2009  | 31 Mar 2010  | 31 Mar 2009  |
| <b>Receivables</b>                             |                |              |   |              |              |             |              |              |              |              |
| Loans and advances to banks                    | 0.2            | -            | -   | -            | -            | -           | -            | -            | 0.2          | -            |
| Loans and advances to customers                | -              | -            | -   | -            | 30.3         | 10.9        | 64.9         | 149.5        | 95.2         | 160.4        |
| Assets held for trading                        | 0.1            | -            | -   | 41.2         | -            | -           | 0.4          | 0.8          | 0.5          | 42.0         |
| Equities and other non-fixed-income securities | -              | -            | -   | -            | -            | -           | 45.1         | -            | 45.1         | -            |
| <b>Total</b>                                   | <b>0.3</b>     | <b>-</b>     | <b>-</b>                                  | <b>41.2</b>  | <b>30.3</b>  | <b>10.9</b> | <b>110.4</b> | <b>150.3</b> | <b>141.0</b> | <b>202.4</b> |
| <b>Liabilities</b>                             |                |              |   |              |              |             |              |              |              |              |
| Liabilities to banks                           | -              | -            | -   | -            | -            | -           | -            | -            | -            | -            |
| Liabilities to customers                       | -              | -            | 721.3                                     | 634.5        | 1.4          | 0.6         | 0.5          | 0.4          | 723.2        | 635.5        |
| Subordinated liabilities                       | 29.3           | 105.6        | 13.4                                      | 147.3        | -            | -           | -            | -            | 42.7         | 252.9        |
| <b>Total</b>                                   | <b>29.3</b>    | <b>105.6</b> | <b>734.7</b>                              | <b>781.8</b> | <b>1.4</b>   | <b>0.6</b>  | <b>0.5</b>   | <b>0.4</b>   | <b>765.9</b> | <b>888.4</b> |

As part of the contractual negotiations with SoFFin on the increased guarantee framework, LSF6 Europe Financial Holdings, L.P., Delaware, was required to waive its claims arising from the subordinated bonds dated November and December 2008 in order to strengthen IKB's core capital. With regard to the mandatory convertible bond, it was agreed that LSF6 Rio S.à.r.l. would exercise its conversion option early with effect from 1 July 2009.

The net disclosure of the prior-period amount for subordinated liabilities was adjusted to reflect the separate disclosure of host instruments and separable derivatives. This resulted in the following changes in the "Companies assigned to the parent company" column: increase in assets held for trading of € 41.2 million to € 41.2 million; increase in subordinated liabilities of € 41.2 million, from € 106.1 million to € 147.3 million.

The "Associated companies and other investees and investors" column has also been renamed "Associated companies" and the prior-period amounts have been adjusted to eliminate amounts relating to other investees and investors. These adjustments relate to loans and advances to customers and assets held for trading. As a result, loans and advances to customers decreased by € 11.4 million, from € 160.9 million to € 149.5 million, while assets held for trading decreased by € 2.9 million, from € 3.7 million to € 0.8 million.

The adjustments also resulted in changes to the prior-year totals: loans and advances to customers decreased by € 11.4 million, from € 171.8 million to € 160.4 million; assets held for trading increased by € 38.3 million, from € 3.7 million to € 42.0 million; and subordinated liabilities increased by € 41.2 million, from € 211.7 million to € 252.9 million.

**Letter of comfort**

IKB undertakes to ensure that its subsidiaries indicated in the scope of consolidation (note 82) as protected by the letter of political comfort are able to meet their contractual obligations with the exception of the event of political risk.

IKB Leasing GmbH, Hamburg, has issued letters of comfort to Commerzbank Rt., Budapest, for its subsidiaries IKB Leasing Hungaria Kft., Budapest, and IKB Penzüdyi Lizing Hungaria Rt, Budapest.

IKB Projektentwicklung GmbH & Co. KG has issued a letter of comfort to Zoo & Co. in the amount of € 340 thousand (previous year: € 340 thousand) for ilmenau center GmbH & Co. KG.

**(78) Remuneration and loans to executive bodies**

A detailed description of the principles of the remuneration and the compensation system for the members of the Board of Managing Directors and of the Supervisory Board is included in the remuneration report in the Group management report.

***Remuneration of the Board of Managing Directors***

The total remuneration of the members of the Board of Managing Directors for the 2009/10 financial year amounted to € 2,505 thousand (previous year: € 7,068 thousand). € 2,153 thousand (previous year: € 2,380 thousand) of this figure related to fixed compensation, € 0.0 thousand (previous year: € 3,117 thousand) to variable compensation, € 271 thousand to additions to pension replacement payments (previous year: € 280 thousand) and € 81 thousand (previous year: € 1,291 thousand) to additional benefits (including compensation of € 1,120 thousand in the previous year).

***Former and retired members of the Board of Managing Directors***

The total remuneration for former and retired members of the Board of Managing Directors and their surviving dependents amounted to € 3,314 thousand (previous year: € 3,097 thousand). Provisions of € 50,001 thousand were recognised for pension obligations to former members of the Board of Managing Directors and their surviving dependents (previous year: € 45,959 thousand).

***Remuneration of the Supervisory Board***

The total remuneration of the members of the Supervisory Board for the 2009/10 financial year amounted to € 254 thousand (previous year: € 498 thousand). This includes € 10 thousand (previous year: € 69 thousand) in reimbursed expenses.

***Remuneration of the Advisory Board***

€ 329 thousand (previous year: € 417 thousand) including VAT was paid to the members of the Advisory Board.

***Loans extended to members of executive bodies and the Advisory Board***

As of 31 March 2010, IKB had extended loans of a total amount of € 0.1 million (previous year: € 0.1 million) to members of the Supervisory Board and the Advisory Board.

**(79) German Corporate Governance Code**

On 14 July 2009, the Board of Managing Directors and the Supervisory Board issued their annual declaration of compliance in accordance with section 161 AktG and made it permanently available to shareholders on the Company's website.

**(80) Events after 31 March 2010**

Please see the supplementary report in the Group management report for information on events after 31 March 2010.

**(81) Executive bodies**

The following list of members of the Supervisory Board and Board of Managing Directors shows

- a) *their membership in other statutory supervisory boards and*
- b) *similar offices held in comparable governing bodies of German and foreign companies.*

**Supervisory Board**

**Chairman**

Bruno Scherrer, London  
Senior Managing Director/Head of European Investments, Lone Star Management Europe Ltd.

- a) *COREALCREDIT BANK AG (Chairman)*  
*MHB-Bank Aktiengesellschaft (Chairman)*

**Deputy Chairman**

Dr Karsten von Köller, Frankfurt  
Chairman Lone Star Germany GmbH

- a) *COREALCREDIT BANK AG (Deputy Chairman)*  
*MHB-Bank Aktiengesellschaft (Deputy Chairman)*
- b) *W.P. Carey & Co. LLC*

**Members**

Stefan Baustert, Krefeld  
Consultant

- b) *AptarGroup*

Wolfgang Bouché, Düsseldorf  
Employee representative

Olivier Brahin, London  
Head of European Real Estate Investments, Lone Star Management Europe Ltd.

- a) *COREALCREDIT BANK AG*

Dr Lutz-Christian Funke, Frankfurt  
Director of Corporate Controlling/Head of Office of the Board of Managing Directors, German and European Matters, Corporate Strategy, Strategic Investments, Economy and Communications, KfW Bankengruppe

- a) *Dedalus GmbH & Co. KGaA (Deputy Chairman)*

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

- a) *Praktiker Bau- und Heimwerkmärkte Holding AG*  
*Praktiker Deutschland GmbH*  
*mateco AG*
- b) *HDF Hamborner Dach- und Fassadentechnik GmbH & Co. KG (Chairman)*  
*Grillo Zinkoxid GmbH*  
*RHEINZINK GmbH & Co. KG*  
*Zinacor S.A. (Belgium)*

Arndt G. Kirchhoff, Attendorn  
Managing Partner of KIRCHHOFF Automotive GmbH

- a) *DEKRA AG*  
*KOSTAL Verwaltungsgesellschaft mbH*
- b) *DEG – Deutsche Investitions- und Entwicklungsgesellschaft mbH*  
*LEWA Attendorn GmbH*

Jürgen Metzger, Düsseldorf  
Employee representative

Dr Claus Nolting, Munich  
Chairman of the Board of COREALCREDIT BANK AG

Dr Thomas Rabe, Berlin (since 23 June 2009)  
Member of the Board & CFO of Bertelsmann AG

- a) *BMG RM Germany GmbH (Chairman since 30 September 2009)*  
*Arvato AG (Deputy Chairman)*  
*Druck- und Verlagshaus Gruner + Jahr Aktiengesellschaft*  
*Symrise AG (since 22 April 2009)*
- b) *Ricordi & C. S.p.A. (Chairman)*  
*Bertelsmann Capital Investment (S.A.) SICAR*  
*Bertelsmann Digital Media Investments S.A.*  
*Bertelsmann Inc.*  
*Edmond Israel Foundation*  
*RTL Group S.A.*

Dr-Ing. E.h. Eberhard Reuther, Hamburg (until 27 April 2009)  
Chairman of the Supervisory Board of Körber Aktiengesellschaft

- a) *Körber AG (Chairman)*

Dr Carola Steingräber, Berlin (until 27 August 2009)  
Employee representative

Carmen Teufel, Stuttgart (since 27 August 2009)  
Employee representative



## **IKB (Group) Annual Report 2009/2010**

Dr Andreas Tuczka, London  
Head of European Financial Institutions, Managing Director, Lone Star Management Europe Ltd.

Ulrich Wernecke, Düsseldorf  
Employee representative

Andreas Wittmann, Munich  
Employee representative

### ***Board of Managing Directors***

Hans Jörg Schüttler  
(Chairman)

- b) IKB Autoleasing GmbH*  
*IKB International S.A. (since 26 August 2009)*  
*IKB Leasing Berlin GmbH*  
*IKB Leasing GmbH*  
*IKB Private Equity GmbH*

Dr Dieter Glüder

- b) IKB Data GmbH (Chairman until 9 June 2009)*  
*IKB Immobilien Management GmbH (Chairman since 9 June 2009)*  
*IKB International S.A. (Chairman)*  
*IKB Autoleasing GmbH (until 9 June 2009)*  
*IKB Capital Corporation (until 19 May 2009)*  
*IKB Leasing Berlin GmbH (until 9 June 2009)*  
*IKB Leasing GmbH (until 9 June 2009)*  
*Movesta Lease and Finance GmbH (from 9 June 2009 until 18 December 2009)*

Dr Reinhard Grzesik  
(until 3 July 2009)

- b) IKB Data GmbH (Chairman) (until 9 June 2009)*  
*IKB Immobilien Management GmbH (Chairman) (until 9 June 2009)*  
*IKB International S.A. (until 3 July 2009)*  
*Movesta Lease and Finance GmbH (until 9 June 2009)*

Claus Momburg

- b) MD Capital Beteiligungsgesellschaft mbH (Chairman since 2 February 2010)*  
*IKB Autoleasing GmbH*  
*IKB International S.A.*  
*IKB Leasing Berlin GmbH*  
*IKB Leasing GmbH*  
*IKB Private Equity GmbH*  
*Movesta Development GmbH (from 8 October 2009 until 19 January 2010)*  
*Movesta Lease and Finance GmbH (Deputy Chairman until 18 December 2009)*

Dr Michael H. Wiedmann

- b) *IKB Private Equity GmbH (member since 4 March 2009; Chairman since 2 April 2009)*  
*Argantis GmbH (since 14 April 2009)*  
*IKB Autoleasing GmbH (since 9 June 2009)*  
*IKB Capital Corporation (from 20 May 2009 until 28 April 2010)*  
*IKB Leasing Berlin GmbH (since 9 June 2009)*  
*IKB Leasing GmbH (since 9 June 2009)*

**Offices held by employees**

As of 31 March 2010, the following employees were represented in the statutory supervisory boards of large corporations:

Dr Reiner Dietrich  
Tricor Packaging & Logistics AG

Roland Eschmann (until 29 May 2009)  
Oechsler AG

Frank Kraemer  
ae Group AG

Christian Schaumkell (since 17 December 2009)  
Oechsler AG

Holger Schragmann (from 21 April 2009 until 17 December 2009)  
Oechsler AG

(82) Scope of consolidation as of 31 March 2010

|   | Letter of comfort | Share of capital in % | Financial year   | Equity in € thousand  |
|---|-------------------|-----------------------|------------------|-----------------------|
| <b>A. Consolidated subsidiaries</b>   |                   |                       |                  |                       |
| <b>1 Foreign banks</b>  |                   |                       |                  |                       |
| IKB International S.A., Luxembourg  | x                 | 100                   | 1.4. - 31.3.     | 180,996               |
| <b>2 Other German companies</b>   |                   |                       |                  |                       |
| Erste Equity Suporta GmbH, Düsseldorf   |                   | 100 <sup>1)</sup>     | 1.4. - 31.3.     | 50,183                |
| ICCO Grundstücks-Vermietungsgesellschaft mbH & Co. KG, Düsseldorf <sup>3)</sup>                                     | x                 | 100 <sup>1)</sup>     | 1.4. - 31.3.     | 147                   |
| ICCO Grundstücks-Vermietungsgesellschaft mbH, Düsseldorf  | x                 | 100 <sup>1)</sup>     | 1.4. - 31.3.     | 48                    |
| IKB Autoleasing GmbH, Hamburg   | x                 | 100 <sup>1)</sup>     | 1.4. - 31.3.     | 14,000                |
| IKB Beteiligungen GmbH, Düsseldorf  | x                 | 100                   | 1.4. - 31.3.     | 545,710               |
| IKB Data GmbH, Düsseldorf   | x                 | 100                   | 1.4. - 31.3.     | 15,000                |
| IKB Dritte Equity Suporta GmbH, Düsseldorf <sup>6)</sup>  |                   | 100 <sup>1)</sup>     | 1.1. - 31.12.    | 14                    |
| IKB Equity Capital Fund GmbH, Düsseldorf <sup>8)</sup>  | x                 | 100 <sup>1)</sup>     | 1.4. - 31.3.     | 51,712                |
| IKB Equity Finance GmbH, Düsseldorf <sup>6)</sup>   |                   | 100 <sup>1)</sup>     | 1.1. - 31.12.    | 134                   |
| IKB Grundstücks GmbH & Co. Objekt Degerloch KG, Düsseldorf <sup>3)</sup>  | x                 | 100                   | 1.1. - 31.12.    | 2,389                 |
| IKB Grundstücks GmbH & Co. Objekt Hamburg KG, Düsseldorf <sup>3)</sup>  | x                 | 100                   | 1.1. - 31.12.    | 3,220                 |
| IKB Grundstücks GmbH & Co. Objekt Holzhausen KG, Düsseldorf <sup>3)</sup>   | x                 | 100                   | 1.1. - 31.12.    | 3,557                 |
| IKB Grundstücks GmbH & Co. Objekt Uerdinger Straße KG, Düsseldorf <sup>3)</sup>                                     | x                 | 100                   | 1.1. - 31.12.    | 8,718                 |
| IKB Grundstücks GmbH, Düsseldorf  | x                 | 100                   | 1.1. - 31.12.    | 121                   |
| IKB Immobilien Management GmbH, Düsseldorf  | x                 | 100                   | 1.1. - 31.12.    | 1,195                 |
| IKB Leasing Berlin GmbH, Erkner   | x                 | 100 <sup>1)</sup>     | 1.4. - 31.3.     | 8,000                 |
| IKB Leasing GmbH, Hamburg   | x                 | 100 <sup>1)</sup>     | 1.4. - 31.3.     | 45,000                |
| IKB Private Equity GmbH, Düsseldorf <sup>7)</sup>   | x                 | 100 <sup>1)</sup>     | 1.4. - 31.3.     | 160,000               |
| IKB Projektentwicklung GmbH & Co. KG, Düsseldorf <sup>3)</sup>  | x                 | 100                   | 1.1. - 31.12.    | 42,577                |
| IKB Projektentwicklungsverwaltungsges. mbH, Düsseldorf  | x                 | 100                   | 1.1. - 31.12.    | 29                    |
| IKB Struktur GmbH, Düsseldorf   |                   | 100 <sup>1)</sup>     | 1.12. - 30.11.9) | 200                   |
| IMAS Grundstücks-Vermietungsges. mbH, Düsseldorf  | x                 | 100                   | 1.4. - 31.3.     | 2,460                 |
| ISOS Grundstücks-Vermietungsgesellschaft mbH & Co. KG, Düsseldorf <sup>3)</sup>                                     | x                 | 100 <sup>1)</sup>     | 1.4. - 31.3.     | 238                   |
| ISOS Grundstücks-Vermietungsgesellschaft mbH, Düsseldorf  | x                 | 100 <sup>1)</sup>     | 1.4. - 31.3.     | 48                    |
| ISTOS Beteiligungsverwaltungs- und Grundstücksvermietungsges. mbH, Düsseldorf                                       | x                 | 100                   | 1.1. - 31.12.    | 64                    |
| ISTOS Dritte Beteiligungsverwaltungs- und Grundstücksvermietungsgesellschaft mbH & Co. KG, Düsseldorf <sup>3)</sup> |                   | 100                   | 1.1. - 31.12.    | 288                   |
| ISTOS Erste Beteiligungsverwaltungs- und Grundstücksvermietungsges. mbH & Co. KG, Düsseldorf <sup>3)</sup>          | x                 | 100                   | 1.1. - 31.12.    | 45                    |
| ISTOS Zweite Beteiligungsverwaltungs- und Grundstücksvermietungsgesellschaft mbH & Co. KG, Düsseldorf <sup>3)</sup> |                   | 100                   | 1.1. - 31.12.    | 154                   |
| Tempelhofer Hafen GmbH, Düsseldorf  |                   | 94.9 <sup>1)</sup>    | 1.1. - 31.12.    | -18,197               |
| Zweite Equity Suporta GmbH, Düsseldorf  |                   | 100 <sup>1)</sup>     | 1.4. - 31.3.     | 70,080                |
| <b>3 Other foreign companies</b>  |                   |                       |                  |                       |
| IKB Capital Corporation, New York   |                   | 100                   | 1.4. - 31.3.     | 15,044                |
| IKB Finance B.V., Amsterdam   | x                 | 100                   | 1.4. - 31.3.     | 1,776                 |
| IKB Funding LLC I, Wilmington, Delaware   | x <sup>2)</sup>   | 100                   | 1.4. - 31.3.     | 75,604 <sup>4)</sup>  |
| IKB Funding LLC II, Wilmington, Delaware  | x <sup>2)</sup>   | 100                   | 1.4. - 31.3.     | 402,445 <sup>5)</sup> |
| IKB Leasing Austria GmbH, Vienna  | x                 | 100 <sup>1)</sup>     | 1.1. - 31.12.    | 335                   |
| IKB Leasing ČR s.r.o., Prague   | x                 | 100 <sup>1)</sup>     | 1.1. - 31.12.    | 1,833                 |
| IKB Leasing Finance IFN SA, Bucharest   | x                 | 100 <sup>1)</sup>     | 1.1. - 31.12.    | 1,288                 |
| IKB Leasing France S.A.R.L., Marne  | x                 | 100 <sup>1)</sup>     | 1.1. - 31.12.    | 617                   |
| IKB Leasing Hungária Kft., Budapest   | x                 | 100 <sup>1)</sup>     | 1.1. - 31.12.    | 98                    |
| IKB Leasing Polska Sp. z o.o., Posen  | x                 | 100 <sup>1)</sup>     | 1.1. - 31.12.    | 5,842                 |
| IKB Leasing SR, s.r.o., Bratislava  | x                 | 100 <sup>1)</sup>     | 1.1. - 31.12.    | 1,155                 |
| IKB Leasing srl, Bucharest  | x                 | 100 <sup>1)</sup>     | 1.1. - 31.12.    | 107                   |
| IKB Lux Beteiligungen S.á.r.l., Luxembourg  | x                 | 100                   | 1.4. - 31.3.     | 54,930                |
| IKB Penzüdyi Lizing Hungaria Rt., Budapest  | x                 | 100 <sup>1)</sup>     | 1.1. - 31.12.    | 1,609                 |
| Still Location S.A.R.L., Marne  | x                 | 100 <sup>1)</sup>     | 1.1. - 31.12.    | 9,714                 |
| ZAO IKB Leasing, Moscow   | x                 | 100 <sup>1)</sup>     | 1.1. - 31.12.    | 1,679                 |
| <b>B. Joint ventures/associates</b>   |                   |                       |                  |                       |
| Linde Leasing GmbH, Wiesbaden   |                   | 30 <sup>1)</sup>      | 1.1. - 31.12.    |                       |
| MD Capital Beteiligungsgesellschaft mbH, Düsseldorf   |                   | 50 <sup>1)</sup>      | 1.1. - 31.12.    |                       |
| <b>C. Special purpose entities in accordance with SIC-12</b>  |                   |                       |                  |                       |
| Bacchus 2008-1 Plc, Dublin  |                   |                       |                  |                       |
| Bacchus 2008-2 Plc, Dublin  |                   |                       |                  |                       |
| IKB Partner Fonds, Luxembourg   |                   |                       |                  |                       |
| Rio Debt Holdings Ltd., Dublin  |                   |                       |                  |                       |

## IKB (Group) Annual Report 2009/2010

- 1) Indirect interest
- 2) Subordinated letter of comfort
- 3) Company has not prepared its own notes in line with section 264b HGB.
- 4) Incl. silent partnership contributions/preferred shares
- 5) Company merged with IKB Private Equity GmbH with retrospective effect from 1 January 2010 (entry in commercial register: 20 April 2010)
- 6) Company merged with IKB Equity Capital Fund GmbH with retrospective effect from 1 January 2010 (entry in commercial register: 9 April 2010)
- 7) Company merged with IKB Equity Finance GmbH with retrospective effect from 1 January 2010 (entry in commercial register: 20 April 2010)
- 8) Company merged with IKB Dritte Equity Suporta GmbH with retrospective effect from 1 January 2010 (entry in commercial register: 9 April 2010)
- 9) Company included in consolidation based on financial statements as of 31 March

The following list also shows the assets, liabilities, results and income of companies accounted for using the equity method in line with IFRS:

| Name of company accounted for using the equity method<br>in € million | Assets | Liabilities | Earnings | Income |
|---|--------|-------------|----------|--------|
| Linde Leasing GmbH, Wiesbaden   | 478.4  | 450.1       | 4.5      | 34.8   |
| MD Capital Beteiligungsgesellschaft mbH, Düsseldorf                   | 4.1    | -           | 0.0      | 1.1    |

The full list of shareholdings has been submitted to the electronic Federal Gazette and can be accessed on the website of the Company Register. It can be requested from IKB AG free of charge.

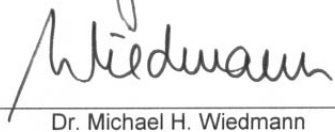
Düsseldorf, 24 June 2010

IKB Deutsche Industriebank AG  
The Board of Managing Directors

  
Hans Jörg Schüttler

  
Dr. Dieter Glüder

  
Claus Momburg

  
Dr. Michael H. Wiedmann

**Annex:**

***Accounting provisions applied***

In accordance with section 315a (1) HGB in conjunction with EU Regulation 1606/2002, a new standard must be endorsed in EU law before it can be applied by the Bank. The date shown (“applicable from”) is the date of first-time adoption. New standards can often be applied earlier than required by the issuer of the standard. However, IKB did not exercise this option in these financial statements.

The abbreviation IFRS stands for the International Financial Reporting Standards passed since November 2003. The abbreviation IAS, International Accounting Standards, refers to all provisions published by 2002. If an IAS standard is revised fully, it is renamed as an IFRS.

The regulations of the German Accounting Standards Committee (DRSC) are only relevant if they apply in accordance with section 315a HGB and cover issues not regulated by the IFRS standards.

The following table shows only those standards relevant to IKB as of the reporting date rather than all of the existing standards:

| International Financial Reporting Standards (IFRS) |                  |  |                  |                              |
|--|------------------|--|------------------|------------------------------|
| International Accounting Standards (IAS)           | Status           | Title  | Applicable since | Endorsed by EU regulation    |
| IAS 1  | rev. 2007        | Presentation of Financial Statements                                   | 1 January 2007   | 1126/2008 of 3 November 2008 |
| IAS 2  | rev. 1993        | Inventories  | 1 January 2005   | 1126/2008 of 3 November 2008 |
| IAS 7  | rev. 1992        | Statement of Cash Flows  | 1 January 1994   | 1126/2008 of 3 November 2008 |
| IAS 8  | rev. 2003        | Accounting Policies, Changes in Accounting Estimates and Errors        | 1 January 2005   | 1126/2008 of 3 November 2008 |
| IAS 10   | rev. 2003        | Events After the Reporting Period                                      | 1 January 2005   | 1126/2008 of 3 November 2008 |
| IAS 11   | rev. 1993        | Construction Contracts   | 1 January 1995   | 1126/2008 of 3 November 2008 |
| IAS 12   | rev. 2000        | Income Taxes   | 1 January 1998   | 1126/2008 of 3 November 2008 |
| IAS 16   | rev. 2003        | Property, Plant and Equipment  | 1 January 2005   | 1126/2008 of 3 November 2008 |
| IAS 17   | rev. 2003        | Leases   | 1 January 2005   | 1126/2008 of 3 November 2008 |
| IAS 18   | rev. 1993        | Revenue  | 1 January 1995   | 1126/2008 of 3 November 2008 |
| IAS 19   | 2004             | Employee Benefits  | 1 November 2005  | 1126/2008 of 3 November 2008 |
| IAS 20   | rev. 2008        | Government Grants  | 1 January 2009   | 1126/2008 of 3 November 2008 |
| IAS 21   | 2005             | The Effects of Changes in Foreign Exchange Rates                       | 1 January 2008   | 1126/2008 of 3 November 2008 |
| IAS 23   | rev. 2007        | Borrowing Costs  | 1 January 2009   | 1126/2008 of 3 November 2008 |
| IAS 24   | rev. 2003        | Related Party Disclosures  | 1 January 2006   | 1126/2008 of 3 November 2008 |
| IAS 27   | rev. 2003        | Consolidated and Separate Financial Statements in Accordance with IFRS | 1 January 2006   | 1126/2008 of 3 November 2008 |
| IAS 28   | rev. 2003        | Investments in Associates  | 1 January 2006   | 1126/2008 of 3 November 2008 |
| IAS 31   | rev. 2003        | Interests in Joint Ventures  | 1 January 2005   | 1126/2008 of 3 November 2008 |
| IAS 32   | rev. 2003 (2008) | Financial Instruments: Disclosure and Presentation                     | 1 January 2005   | 1126/2008 of 3 November 2008 |
| IAS 33   | rev. 2003        | Earnings Per Share   | 1 January 2005   | 1126/2008 of 3 November 2008 |
| IAS 34   | 1998             | Interim Financial Reporting  | 1 January 1999   | 1126/2008 of 3 November 2008 |
| IAS 36   | rev. 2004        | Impairment of Assets   | 31 March 2004    | 1126/2008 of 3 November 2008 |
| IAS 37   | 1998             | Provisions, Contingent Liabilities and Contingent Assets               | 1 July 1999      | 1126/2008 of 3 November 2008 |
| IAS 38   | rev. 2004        | Intangible Assets  | 31 March 2004    | 1126/2008 of 3 November 2008 |
| IAS 39   | 2005 (2009)      | Financial Instruments: Recognition and Measurement                     | 1 January 2006   | 1126/2008 of 3 November 2008 |
| IAS 40   | rev. 2003        | Investment Property  | 1 January 2005   | 1126/2008 of 3 November 2008 |

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| International Financial Reporting Standards (IFRS) | Status      | Title  | Applicable since | Endorsed by EU regulation    |
|--|-------------|--|------------------|------------------------------|
| IFRS 3   | rev. 2004   | Business Combinations  | 31 March 2004    | 1126/2008 of 3 November 2008 |
| IFRS 5   | 2004        | Non-current Assets Held for Sale and Discontinued Operations | 1 January 2005   | 1126/2008 of 3 November 2008 |
| IFRS 7   | 2004 (2009) | Financial Instruments: Disclosures                           | 1 January 2007   | 1126/2008 of 3 November 2008 |
| IFRS 8   | 2007        | Operating Segments   | 1 January 2009   | 1126/2008 of 3 November 2008 |

| Standard Interpretation Committee (SIC) | Status | Title  | Applicable since | Endorsed by EU regulation    |
|---|--------|--|------------------|------------------------------|
| SIC 10                                  | 1998   | Government Assistance - No Specific Relation to Operating Activities | 1 August 1998    | 1126/2008 of 3 November 2008 |
| SIC 12                                  | 2004   | Consolidation - Special Purpose Entities                             | 1 January 2005   | 1126/2008 of 3 November 2008 |

| International Financial Reporting Interpretation Committee (IFRIC) | Status      | Title   | Applicable since | Endorsed by EU regulation    |
|--|-------------|---|------------------|------------------------------|
| IFRIC 4  | 2004        | Determining Whether an Arrangement Contains a Lease | 1 January 2006   | 1126/2008 of 3 November 2008 |
| IFRIC 9  | 2006 (2009) | Reassessment of Embedded Derivatives                | 1 January 2007   | 1126/2008 of 3 November 2008 |
| IFRIC 10   | 2006        | Interim Financial Reporting and Impairment          | 1 January 2007   | 1126/2008 of 3 November 2008 |

| German Accounting Standards (DRS) | Status    | Title   | Applicable since                                     | Endorsed by EU regulation |
|-----------------------------------|-----------|---|--|---------------------------|
| DRS 5-10                          | 2005      | Risk Reporting by Financial Institutions and Financial Service Institutions             | 1 January 2005                                       | not relevant              |
| DRS 15                            | rev. 2005 | Management Reporting  | 1 January 2003/<br>1 January 2004/<br>1 January 2005 | not relevant              |
| DRS 15a                           | 2007      | Group Management Report Disclosures and Narrative Explanations Required by Takeover Law | 31 December 2008                                     | not relevant              |
| DRS 16                            | 2008      | Interim Financial Reporting   | 1 January 2008                                       | not relevant              |
| DRS 17                            | 2007      | Reporting on the Remuneration of Members of Governing Bodies                            | 31 December 2008                                     | not relevant              |

| Capital market-oriented provisions        | Status | Title  | Applicable since | Endorsed by EU regulation |
|---|--------|--|------------------|---------------------------|
| WpHG                                      | 2007   | Wertpapierhandelsgesetz – German Securities Trading Act, particularly section 37v to section 37z | 1 January 2007   | not relevant              |
| DCGC in conjunction with section 161 AktG | 2008   | German Corporate Governance Code   | 31 December 2008 | not relevant              |
| FWBO                                      | 2008   | Frankfurt Securities Exchange Ordinance  | 15 August 2008   | not relevant              |

## Auditor's Report

We have audited the consolidated financial statements prepared by the IKB Deutsche Industriebank Aktiengesellschaft, Düsseldorf, comprising the statement of financial position, the statement of comprehensive income, statement of changes in equity, cash flow statement and the notes to the consolidated financial statements, together with the group management report for the business year from April 1, 2009, to March 31, 2010. The preparation of the consolidated financial statements and the group management report in accordance with the IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to § (Article) 315a Abs. (paragraph) 1 HGB ("Handelsgesetzbuch": German Commercial Code) are the responsibility of the parent Company's Board of Managing Directors. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of the entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the Company's Board of Managing Directors, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion based on the findings of our audit the consolidated financial statements comply with the IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

According to our duties, we refer to the fact that the Company's ability to continue as a going concern is threatened by risks, which are described in the section 'Overall view of the risk situation' of the Group management report. It is stated there that a crucial factor for the continuation of IKB Deutsche Industriebank Aktiengesellschaft as a going concern will especially be the extent to which its new business model – in particular the expansion of business with derivatives, customer-based capital market products and consultancy services with the aim of increasing commission income – leads to success and generates the planned income in the Bank's customer business. IKB Deutsche Industriebank Aktiengesellschaft's ability to continue as a going concern also depends on the compliance with the conditions stipulated by SoFFin for the provision of guarantees, by the European Commission for the approval of the state aid and by the Deposit Protection Fund of the private banks. For this purpose, it is particularly necessary that

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



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- total Group assets are reduced to € 33.5 billion by September 30, 2011,
- the Real Estate Finance segment and activities at the site in Luxembourg are ceased on schedule and
- the risk-bearing capacity is also present in the future in due consideration of the above points and the new business model.

If IKB is unable to sufficiently reduce risk items in the coming business years for the purpose of maintaining a Tier I capital ratio (Kernkapitalquote) of at least 8% and guaranteeing its risk-bearing capacity, further additional equity will be required.

Düsseldorf, June 24, 2010

**PricewaterhouseCoopers**  
**Aktiengesellschaft**  
**Wirtschaftsprüfungsgesellschaft**

Michael Maifarth  
Wirtschaftsprüfer  
(German Public Auditor)

ppa. Marc Lilienthal  
Wirtschaftsprüfer  
(German Public Auditor)

**Responsibility statement in line with section 297 (2) sentence 4 HGB,  
section 315 (1) sentence 6 HGB**

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the management report of the Group includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.


Düsseldorf, 24 June 2010

IKB Deutsche Industriebank AG  
The Board of Managing Directors



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Hans Jörg Schüttler



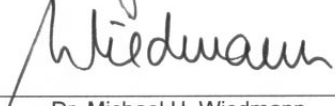
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Dr. Dieter Glüder



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Claus Momburg



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Dr. Michael H. Wiedmann

**Note on forward-looking statements**

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

Forward-looking statements naturally include risks and uncertainty factors. A large number of important factors can contribute towards actual results deviating considerably from forward-looking statements. Such factors include (but are not limited to) the condition and development of the financial markets in Germany, Europe, the US and other places where we generate a substantial portion of our income from securities trading, the possible default of borrowers or counterparties in trades, the implementation of our management agenda, the reliability of our risk management policies, procedures and methods and the liquidity situation.

Only the German version of this report is legally binding.

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