# Annual Report 2013/2014

IKB Deutsche Industriebank

## Content

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

Dear Shareholders,

Dear business partners of IKB,

IKB can look back on a satisfactory financial year. It generated consolidated net income of € 32 million and strengthened its common equity tier 1 capital by € 402 million by making an addition to the fund for general banking risks. We used the positive capital market environment to realise income from our liquidity portfolio while pressing ahead with the reduction in non-strategic assets. As a result, IKB had a common equity tier 1 capital (CET 1) ratio of 10.4% at the end of March. Although the ongoing comprehensive assessment by the European Central Bank (ECB) and the final implementation of the CRR involve a degree of uncertainty for all banks, we consider ourselves to be in a solid position despite the significant operational and financial cost of the ECB’s comprehensive assessment.

IKB’s broad-based financing mix, consisting of facilities provided by government development banks for our customers, deposits from corporate, private and institutional clients and secured financing, means that we enjoy a stable liquidity position. Net interest, fee and commission and trading income all increased year-on-year, while risk provisioning remained largely unchanged. Growing confidence among investors is being reflected in improved refinancing costs and higher prices for our issues. We reduced administrative expenses in the year under review, but the various regulatory measures imposed by the banking authorities mean that a further reduction in the near future is a difficult proposition. We are working continuously to improve the efficiency of all significant processes.

We have now received the report by the court-appointed special auditor on the investigation as to whether members of the Board of Managing Directors or the Supervisory Board committed breaches of duty in connection with certain transactions relating to the crisis at IKB. We have petitioned to have the personal data of employees of the Bank and other organisations redacted in the report due to data protection considerations. Needless to say, this does not involve the names of the members of the Bank’s executive bodies.

The report confirms our view that the former members of the Supervisory Board were not responsible for breaches of duty. Although the special audit report identifies individual breaches of duty for the former members of the Board of Managing Directors, these breaches of duty did not lead to the subsequent crisis at IKB or there is insufficient certainty that this was the case. The Supervisory Board will assert claims for damages against individual former members of the Board of Managing Directors due to a violation of publication requirements at the end of July 2007. We therefore hope to conclude the chapter of the IKB crisis and its resolution at the Annual General Meeting on 4 September with an improved insight into and understanding of its causes among our shareholders.

Irrespective of this, we are looking to the future. Our customers mainly belong to the upper midmarket. These export-oriented, innovative companies have a significant part to play in Germany’s strong global sales performance thanks to their range of high-quality products and services. They provide the all-important impetus for stable economic development in Germany, and are becoming increasingly interesting for a large number of domestic and foreign banks.

We place value on high standards even in this environment of intense competition. Although one of the consequences of the price and risk discipline we apply in our new lending activity is a lower volume of new business, this approach is also leading to rising income accompanied by moderate risk provisioning. IKB was once central to the development of the industrial loan as a financing instrument. Nowadays, internationally-oriented SMEs expect a comprehensive range of financing and support. Our offering is rounded out by capital market activities and advisory services. Our tight-knit network of regional advisory, product and industry expertise allows us to provide quick decisions and offer flexible solutions, thereby gaining new customers, expanding active customer relationships, and ensuring that IKB continues to enjoy operating profitability in the long term.

Düsseldorf, June 2014

Hans Jörg Schüttler

## Focus on the midmarket: Larger SMEs enjoy particularly strong growth momentum

*The importance of SMEs for the stability and growth of the German economy has been highlighted again and again in recent times, including abroad. However, one fact that is often overlooked is that the so-called midmarket is actually an extremely broad and varied segment that encompasses more than 99% of all German companies. As such, it is logical to ask which of the sub-segments, and in particular which company sizes, are responsible for the main impetus in terms of driving our economy.*

*A look at the statistics shows that the greatest momentum is attributable to a category that, at least according to the "official" definition, is no longer even considered to be part of the midmarket: companies with annual sales of between € 50 million and € 1 billion. In the period from 2006 to 2012, for example, these companies increased their total sales by almost 20%, thereby significantly outperforming the categories at the lower end of the midmarket traditionally described as "SMEs": companies with sales of between € 1 million and € 50 million recorded overall sales growth of 13.5%, while total sales in the group of smaller companies (up to € 1 million) increased by just under 7%.*

*The midmarket category in question here still consists of almost 11,000 companies, the majority of which have outgrown the SME segment at least from a purely formal perspective. In de facto terms, however, these companies (which include a number of hidden champions) are still family-owned, and their business models and operating activities are still largely shaped by their owners. They also have typical characteristics of SMEs, such as streamlined organisational structures, long-term company strategies and a deep-rooted connection to their home region. All in all, these medium-sized companies in terms of sales are now considerably more important to our economy than the around 345,000 companies with sales of between € 1 million and € 50 million.*

*This means that, thanks to its innovative strength and international focus, the midmarket in Germany has grown beyond its original dimensions and entered a new magnitude in terms of sales volumes – something that is not adequately reflected in the official statistics for SMEs (small and medium-sized enterprises) with their rigid eligibility criteria. If one were to look solely at these statistics, it would seem as if "small and medium-sized enterprises" in Germany made a considerably smaller contribution to gross economic value added than in most other European countries – a finding that clearly contradicts the general perception of the situation.*

*If SMEs are described as the engine of Germany's current economic growth, then, it would be logical to assume that this primarily refers to the midmarket companies discussed here. It is precisely these companies that give Germany a unique selling point compared with every other major economy. And it is the export-oriented, innovative companies belonging to the "upper" midmarket in particular that have a significant part to play in Germany's strong global sales performance thanks to their range of high-quality products and services. They provide the all-important impetus that ensures stable economic development in Germany.*

*However, the contribution made by companies from the "traditional" SME segment should certainly not be underestimated. Whether as suppliers, development partners or service providers, many of these firms are extremely important players within the various stages of the value chain that end with internationally successful large midmarket companies and corporations. The latter's complex, leading-edge products would be almost impossible to realise without this intense cooperation bundling technological expertise from different industries.*

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

# Report of the Supervisory Board

In the financial year 2013/14, the Supervisory Board fulfilled the duties and obligations incumbent upon it in accordance with statutory provisions and the Articles of Association and its by-laws. The Supervisory Board supervised the management of the company and advised the Board of Managing Directors on the management of the company. The Supervisory Board was involved in all decisions of fundamental importance to the bank.

## Overview

In its supervisory and advisory activities, the Supervisory Board received regular, timely and comprehensive reports from the Board of Managing Directors, in both oral and written form. The Board of Managing Directors informed the Supervisory Board of the business operations and the economic and financial development of the IKB Group and IKB AG. Other focal points of regular reporting were the general development of IKB and the development of the Group's risk situation, in particular the implementation of the new requirements of the European Banking Authority under the Capital Requirements Directive and other associated regulations (CRD IV) and the impact of the sovereign debt crisis. Furthermore, the Supervisory Board addressed the planning of the Board of Managing Directors for the financial year 2014/15, the medium-term planning and actual development of the business in the financial year 2013/14.

Reports by the Board of Managing Directors on the business situation and on specific issues were supplemented by written presentations and documentation which each member of the Supervisory Board received prior to the meeting for preparation purposes. The members of the Supervisory Board were also provided with the annual financial statements and consolidated financial statements and the auditors' reports in due time prior to the meeting. The members of the Risk and Audit Committee (until 31 December 2013 the Finance and Audit Committee, hereafter consistently referred to as Risk and Audit Committee) and the Supervisory Board plenary meeting also received the half yearly financial report and quarterly reports in due time for preparation purposes. The Supervisory Board Executive Committee approved management measures requiring approval, such as the approval of large exposure loans or related party loans.

The Supervisory Board held five meetings in the financial year 2013/14. Regular meetings were held in June, September, November and February. The Supervisory Board also convened in September, following the Annual General Meeting for the financial year 2012/13, for a constitutive meeting. The Chairmen of the Supervisory Board and the Board of Managing Directors also consulted regularly on key developments and decisions. Individual members were unable to attend some meetings of the Supervisory Board and sent their apologies.

## Topics of the Supervisory Board plenary meeting

At all Supervisory Board meetings in the reporting year 2013/14, the Supervisory Board was able to form a detailed opinion on the general development of the bank based on written and oral reporting by the Board of Managing Directors. In this respect, the Board of Managing Directors also provided the Supervisory Board with explanations concerning the development of business volume and result of the Group. Furthermore, the Board of Managing Directors examined in detail the development in the individual business segments and reported on the capital position, financial situation and Group risk. The Supervisory Board was continuously informed by the Board of Managing Directors about the implementation of regulatory requirements of BaFin and the Deutsche Bundesbank and CRD IV, and the status of material legal disputes.

One focal point of the activities of the Supervisory Board was the impact of the new European Banking Authority and IKB's participation in the comprehensive bank audit by the ECB, the so-called "Comprehensive Assessment".

At its meeting convened to review the annual financial statements in June 2013, the Supervisory Board examined inter alia the annual financial statements, consolidated financial statements and the dependent company report. The Board of Managing Directors also gave a comprehensive written and oral explanation of the risk situation of the IKB Group. Internal Group Audit and the Chief Compliance Officer made their respective annual reports for 2012/13. Auditing company PwC reported on the audit findings, and the Chairman of the Risk and Audit Committee on preparations for the auditing of the annual financial statements and consolidated financial statements as of 31 March 2013 with the combined management report and the dependent company report for the financial year 2012/13. The annual financial statements and consolidated financial statements were approved by the Supervisory Board. No objections were raised to the declaration of the Board of Managing Directors in the closing statement of the dependent company report. The report of the Supervisory Board for the financial year 2012/13 was also approved. Further topics explained by the Board of Managing Directors in written and oral form were the business and risk strategy, the five-year plan and the remuneration systems for the company and for the Board of Managing Directors. The Supervisory Board further addressed the agenda for the Annual General Meeting 2013 of IKB and approved the Supervisory Board's proposed resolutions to the Annual General Meeting. Furthermore, the Supervisory Board determined the targets for the variable remuneration of the individual members of the Board of Managing Directors for the financial year 2013/14, deliberated on the achievement of the respective targets for the financial year 2012/13 and accordingly determined the variable remuneration for the individual members of the Board of Managing Directors for the financial year 2012/13. The Supervisory Board further set aside the secrecy of deliberations for the meetings of the financial year 2008/09 in order to allow legal defence in a contestation suit. A lawyer admitted to the German Federal High Court of Justice was mandated for an appeal against the denial of revision in a further contestation suit. The activities of the Risk and Audit Committee were also reported.

At its following quarterly meetings, the Supervisory Board deliberated respectively on the business development and Group risk, and also addressed in this context the regulatory capital position, also with respect to the new requirements under Basel III resp. CRD IV. The Board of Managing Directors informed the Supervisory Board on this both in written and oral form.

Further topics in the reporting period were the business and risk strategy. The Supervisory Board also deliberated on medium-term quantitative and qualitative HR planning and development, and had the implementation status of the social plan explained by the Board of Managing Directors.

The Board of Managing Directors gave the Supervisory Board a timely and comprehensive written and oral explanation of the business policy and key management issues. This also involved the Supervisory Board in the strategic further development of IKB in view of IKB's position in the market for IKB senior bonds for private investors. In addition, the Supervisory Board once again deliberated on special projects e.g. the repurchase of the outstanding Funding Trust I securities. The Supervisory Board also deliberated on the D&O insurance for members of the company's corporate bodies.

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

The Board of Managing Directors regularly notified the Supervisory Board in written and oral form about the current development in pending litigation. The focus here was on different lawsuits in the USA. IKB is pursuing damage claims here in connection with diverse investments in so-called Residential Mortgage Backed Securities. In addition, the Supervisory Board again deliberated on the progress of proceedings which were brought against the bank by the former member of the Board of Managing Directors Stefan Ortseifen. The

Higher Regional Court of Düsseldorf has dismissed Mr Ortseifen's lawsuit against extraordinary termination of his employment contract. According to the judgment, Mr Ortseifen has to repay the bonus paid to him before the bank's crisis at the end of July 2007 of € 726,048.71 plus interest. Mr Ortseifen further owes the bank damages for expenses incurred without the Supervisory Board's approval in the residential house rented by the bank of € 186,046.- plus interest. IKB is at present offsetting against Mr Ortseifen's pension claims on an ongoing basis. The claims are therefore reducing continuously. Mr Ortseifen has notified IKB that he is threatened with insolvency within the meaning of the Insolvenzordnung [German Insolvency Act] if he is unable to reach an agreement with IKB. The bank is currently discussing an extrajudicial debt settlement with Mr Ortseifen as a measure provided for by law in avoidance of a judicial debt settlement process or insolvency proceedings.

The Supervisory Board also deliberated on the further handling of the crisis at IKB and the assertion of any further damage claims against members of the Board of Managing Directors who were active at the time. The Supervisory Board has refrained from asserting any claims in the financial year 2013/14. This decision by the Supervisory Board had deferred the pursuit of any damage claims in connection with the crisis at the bank but only provisionally. This was therefore not a final waiver of any claims either in law or in fact.

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

IKB is currently pursuing damage claims in the USA by way of legal action because of diverse investments. The Supervisory Board believed it would not have been in the company's best interest to present the respective opposing parties with the means, indirectly through a public D&O liability process against former members of the Board of Managing Directors which could be used in the defence against IKB's claims in order to obstruct significantly and delay the conduct of IKB's case by ultimately inappropriate or irrelevant arguments, to distract attention from the relevant factual issues or to undermine unjustifiably the company's credibility. For, it is the view of the Supervisory Board that the anticipated economic value of a successful action for damages in the USA exceeds the anticipated value of a D&O liability process against former members of the Board of Managing Directors.

Against this background, the Supervisory Board believed that the assertion of any internal liability claims within the limitation periods should in the best interest of the company begin only at a time when the overall forensic situation has stabilised.

As is well known, a special audit according to the German Stock Corporation Act further examined whether former members of the Board of Managing Directors neglected their duties as directors and officers in connection with the events which led to the company's crisis in the summer of 2007. The Supervisory Board considered it expedient in the past financial year to await the findings of this special audit in order to consider them within the limitation periods in its decision on the assertion of any claims.

The special auditor completed his audit in February 2014. The Board of Managing Directors of IKB was given access to the audit report on 28 February 2014 in order to allow the Board, as provided for by law, to apply to the Court to have specific information not included in the report. This is possible if overriding interests of IKB require this and the information is not imperative to disclose any dishonesty or any gross violation of the law or IKB's Articles of Association. After deliberation with the Supervisory Board Executive Committee, the Board of Managing Directors of IKB availed itself of this by application of 17 April 2014. In exercising its duty of care with respect to the bank's employees, it applied for personal data of employees to be blanked out in the report. Subsequently, IKB's Board of Managing Directors has extended the motion and also applied for personal data of external third parties to be blanked out in the report. Full reference to names of members of the Board of Managing Directors and the Supervisory Board in the audit report is not affected by the application for protection. The proceedings have not yet been completed. The content of the report is, therefore, not yet public. IKB assumes that the special audit report will be submitted to the Commercial Register after completion of the Court's examination in the then applicable version. From such date, shareholders will have a right to be issued with a copy.

Regarding the material findings of the special audit, we refer to Chapter 2. "Economic Report" / Sub-Chapter "Important Events in the Reporting Period", Chapter 3. "Report on Events after the Balance Sheet Date" and Chapter 4. "Risk Report" / Sub-Chapter "Legal Risks" of the management report.

The Supervisory Board fully discussed the report at its meeting on 17 June 2014. Following a thorough analysis, the Supervisory Board adopted a resolution, to assert claims for damages against former members of the Board of Managing Directors for the failure to publish an ad-hoc announcement required by law in July 2007. In the case of Mr Ortseifen this will be done in the context of the already mentioned extrajudicial debt settlement procedure or in the context of the judicial debt settlement process or insolvency proceedings, respectively. Moreover, no further claims for damages against members of the Board of Managing Directors in office in the period under review will be asserted based on the findings of the special audit according to the German Stock Corporation Act.

## Activities of the Committees

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

The Supervisory Board Executive Committee essentially prepared the meetings of the Supervisory Board and focused on business development (including the approval of any business requiring approval) and in particular discussed with the Board of Managing Directors the situation of the bank and the Group. In addition, the Executive Committee deliberated on the preparation of the Annual General Meeting and matters concerning the Board of Managing Directors.

The activities of the Risk and Audit Committee focused on monitoring accounting procedures, the efficiency of the internal controlling system, of the risk management, the internal audit system and compliance as well as the audit of the financial statements, in particular the independence of the auditor and the additional services provided by the auditor. The Committee advised on the preparation of the annual financial statements and the consolidated financial statements and the appointment of the auditor. The Risk and Audit Committee, after presentation of the focal points of the audit, issued the audit assignment to the auditor and agreed on the audit fee.

The Nomination Committee discussed the proposals to the Supervisory Board regarding the election of Supervisory Board members by the Annual General Meeting on 5 September 2013.

The Remuneration Control Committee was established in the implementation of CRD IV in German law and the revision of the Institutsvergütungsverordnung [German Remuneration Regulation for Institutions]. It deliberated in terms of content on the requirements of this new Remuneration Regulation for Institutions and its impact on the remuneration systems of IKB, in particular the Board of Managing Directors, too. The Remuneration Control Committee also deliberated on the adaptation of the employment contracts of the members of the Board of Managing Directors to the new regulatory framework and on questions relating to the pensions of former members of the Board of Managing Directors.

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

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

### Audit of the annual financial statements and consolidated financial statements

The Annual General Meeting appointed PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft (PwC), Düsseldorf, as auditors for the annual financial statements and consolidated financial statements and for any review of the condensed interim consolidated financial statements and the interim Group management report for the first half of the financial year 2013/14. PwC audited the annual financial statements of IKB AG and the Group and the combined management report for IKB AG and the Group and issued unqualified audit opinions. The auditors reviewed the condensed interim consolidated financial statements and the interim Group management report for the first half of the financial year 2013/14.

For the purpose of allocating interim profits to stable tier 1 capital, an auditor was also appointed by Court at the request of the bank to perform a review of the interim financial statements and the consolidated interim financial statements of IKB as of 31 December 2013. A review of the quarterly financial statements was not considered necessary at the time of the Annual General Meeting for the financial year 2012/13 was convened. The inclusion of IKB in the comprehensive bank audit of the ECB within the scope of the "Comprehensive Assessment" made it imperative, however, for IKB to have all options to enable it to strengthen, if necessary, the tier 1 capital base as of 31 December 2013 in order to comply with the relevant targets which became well-known in October 2013. This also includes the allocation of potential interim profits to tier 1 capital.

Examination of and deliberation on the annual financial statements, the consolidated financial statements and the relevant combined management report and the related written audit reports of PwC for the financial year 2013/14 by the Risk and Audit Committee and the plenary meeting of the Supervisory Board took place on 17 June 2014. All members of the Supervisory Board resp. Committees received these documents in due time prior to the respective meeting. This enabled them therefore to deal with the respective contents in due time prior to the meeting. The auditors participated in these deliberations. They reported on the key findings of their audit, including any deficiencies in the internal controlling and risk management system of the bank determined in respect of the accounting process, answered questions and provided additional information. There were no circumstances which gave reason to doubt the impartiality of the auditors. The auditors further informed the Supervisory Board of all services rendered by them in addition to the audit of the financial statements.

The Supervisory Board approved the result of the audit of the financial statements at its meeting held on 17 June 2014. According to the final result of the Supervisory Board's own review of the annual financial statements and consolidated financial statements and combined management report, no objections were raised. The Supervisory Board approved the annual financial statements and consolidated financial statements of 20 May 2014, prepared by the Board of Managing Directors, at its meeting on 17 June 2014. The annual financial statements have thus been adopted.

### Review and approval of the Dependent Company Report for the financial year 2013/14

The report on business relationships with affiliated companies for the financial year 2013/2014 (dependent company report) which was presented 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 legal transactions listed in the report was not inappropriately high, and there are no circumstances that indicate a materially different assessment of the measures listed in the report from that given by the Board of Managing Directors."

At the meetings held on 17 June 2014, first the Risk and Audit Committee and then the Supervisory Board also deliberated on and reviewed the dependent company report. The members of the Supervisory Board resp. Committees received both the dependent company report and the related audit report of the auditors before the respective meeting, enabling them to deal with the respective contents in due time. The auditors also participated in the deliberations on the dependent company report of the Supervisory Board and the Risk and Audit Committee. They reported on the findings of their audits, answered questions and provided additional information. The Supervisory Board approved the result of the auditors' audit at its meeting on 17 June 2014.

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

## Personalia – Supervisory Board

Dr Lutz-Christian Funke and Dr Andreas Tuczka, whose terms of office each ended at the close of the Annual General Meeting of 5 September 2013, were re-elected to the Supervisory Board by resolutions of the Annual General Meeting of 5 September 2013. Furthermore, the Annual General Meeting elected Dr Karl-Gerhard Eick to the Supervisory Board in place of Mr Ulrich Grillo, whose term of office also ended at the close of the Annual General Meeting of 5 September 2013. Election was for the period until the end of the Annual General Meeting which decides on whether to grant discharge to the members of the Supervisory Board for the financial year 2015/16.

Dr Carola Steingräber retired in rotation from the Supervisory Board at the close of the Annual General Meeting of 5 September 2013. A re-election of employee representatives resulted in Mr Rainer Lenz being elected to the Supervisory Board.

The former Finance and Audit Committee was converted into the new Risk and Audit Committee as of 1 January 2014 in implementation of corresponding regulatory requirements. This did not involve personnel changes in the composition of the Committee. Pursuant to a corresponding regulation in the rules of procedure for the Supervisory Board, Mr Bruno Scherrer and Dr Karsten von Köller are members of the Risk and Audit Committee by virtue of their office as Chairman resp. Deputy Chairman of the Supervisory Board. In addition, Dr Claus Nolting was elected to the Risk and Audit Committee as shareholder representative and Mr Rainer Lenz as employee representative. The members of the Committee elected Dr Karsten von Köller as Chairman of the Risk and Audit Committee.

A Remuneration Control Committee was established with effect as of 1 January 2014, also in implementation of new regulatory requirements. According to a corresponding regulation in the rules of procedure for the Supervisory Board, Mr Bruno Scherrer and Dr Karsten von Köller are members of the new Committee by virtue of their office as Chairman resp. Deputy Chairman of the Supervisory Board. In addition, Dr Andreas Tuczka was elected to the Remuneration Control Committee as shareholder representative and Ms Nicole Riggers as employee representative. The Committee is chaired by Mr Bruno Scherrer as Chairman of the Supervisory Board.

Furthermore, a member from the employee representatives was elected to the Nomination Committee. The Supervisory Board elected Ms Teufel as fourth member of the Nomination Committee.

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

### Personalia – Board of Managing Directors

There were no changes in the composition of the bank's Board of Managing Directors over the past financial year. The members of the Board of Managing Directors were Messrs Hans Jörg Schüttler (Chairman of the Board of Managing Directors), Dr Dieter Glüder, Claus Momburg and Dr Michael Wiedmann. The terms of office of Mr Schüttler and Dr Glüder were extended until 31 resp. 15 October 2016, the term of office of Dr Wiedmann until 28 February 2017.

The Supervisory Board would like to thank the members of the Board of Managing Directors and all employees of the IKB Group for their personal commitment and contributions in the past financial year.

Düsseldorf, 17 June 2014

The Supervisory Board

Bruno Scherrer

Chairman

## Focus on the midmarket: International presence strengthened

*The growth capacity of the German midmarket can be attributed in particular to the pronounced international focus of the companies concerned. German SMEs have long been the technology leaders in various industrial product areas – and they have always sold their high-quality products beyond the borders of their home country. Many have established themselves as the "global market leaders". These companies are virtually predestined to benefit from the kind of dynamic growth in the emerging economies that was seen at the start of the last decade. And German SMEs have indeed succeeded in gaining a foothold in the new markets and rapidly expanding their sales volumes.*

*The growing importance of the international markets is documented by the proportion of sales generated abroad, which is already high and continuing to grow. More than a few small and medium-sized mechanical engineering firms and specialists in laser, measurement or medical technology now have export ratios in excess of 80%, while the average export ratio among medium-sized companies in research-intensive branches of industry has reached in excess of 40%. Although medium-sized firms from other sectors – such as the metal or food industries – are mostly less active overseas, even they are now generating more than 30% of their sales abroad on average. This shows that they are also enjoying success on the international stage with high-quality products "made in Germany".*

*However, it is becoming increasingly clear that expanding markets outside Europe cannot be served adequately via exports alone. If leading companies wish to defend their market position globally, it is particularly important that they significantly expand their local presence. German SMEs have established dedicated own locations in the new growth markets to an ever-greater extent in recent years. According to statistics published by Deutsche Bundesbank, the number of German companies investing abroad increased by around 900 to more than 6,800 in the period from 2005 to 2012, while the number of foreign-based company units rose even more rapidly to almost 35,000. While activities abroad initially concentrated on sales and the service offering, the establishment of local production and development capacities is now becoming increasingly important as a means of meeting customer requirements more quickly and in a more needs-oriented manner.*

*Pressing ahead with this process of internationalisation presents companies with major challenges in terms of both human and financial resources. Capital expenditure has to be increased significantly, and the investment models are changing: more and more funds are being committed to projects abroad, but domestic locations are also being upgraded with a view to expanding central functions. The further intensification of research and development activities is another important area. Finally, M&A transactions are becoming increasingly popular as the acquisition of companies and equity interests, both domestically and abroad, enables companies to reinforce their global market position more rapidly.*

*The consequences for financing are clear: companies with international operations are well-advised to employ higher levels of equity to cover the increased risk. And they need a larger and more differentiated financial framework that allows them to realise planned investments quickly and in a targeted manner. Banks also need to respond to this development. They are increasingly being asked to design comprehensive financing concepts for their customers and to arrange complex financing structures alongside traditional individual loans.*

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

# Combined Management Report for the Financial Year 2013/14

## 1. Basic information on the Group

The IKB Group's restructuring measures have essentially been implemented and the changes to the business model have been made. The Bank has a solid tier 1 capital base, risks were reduced once again in the financial year 2013/14, the liquidity base remained secured, and the sources of liquidity were diversified further.

The completion of the restructuring process means that IKB can concentrate on customer business and its advisory, capital market, credit management and asset management activities. The integrated business strategy of regional sales, industry groups and product groups ensures a comprehensive advisory service for customers. In its target customer segment, IKB succeeded in acquiring new customers and building on active customer relationships. IKB's target customers are predominantly industrial SMEs, often fast-growing companies that IKB expects to increase their sales in the next few years and whose activities have already been internationalised.

IKB has a sales network of locations of IKB AG and the IKB Leasing Group that covers all regions of Germany. Domestic sales are supplemented by selected European locations. The IKB Leasing Group has a total of 14 leasing companies in ten European countries (Germany, France, Italy, Austria, Poland, Romania, Russia, Slovakia, Czech Republic and Hungary).

The Bank held a share of the market for long-term corporate loans to the German manufacturing industry of around 6.5% as of 31 December 2013. For public subsidy loans, the specific market share is much higher in some areas. IKB also succeeded in using and developing its expertise in syndication and placement for SMEs in its capital market business. IKB AG's strongest competitors are the major universal banks and selected larger institutions from the public and cooperative banking sector.

In terms of acquisition finance, IKB works together with private equity companies. In April 2013, IKB and a partner also jointly launched the Valin Funds Mittelstand Mezzanine 1 fund, which invests in mezzanine loans to German SMEs. Another fund investing in SME loans is currently in preparation. Launching funds allows IKB to satisfy investors' requirements with regard to various asset classes.

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

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

IKB makes the deposits raised available to its SME customers as medium-term equity loans. Public programme loans are primarily used to cover companies' long-term financing requirements adequately. In order to bring companies to the capital market successfully, IKB conducts proprietary trading to a limited extent. Fund solutions are used to supply companies with a broader range of products (including mezzanine financing), thereby giving them access to additional funding.

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

The increasingly complex regulatory environment and the uncertainty this brings result in increased administrative expenses. This is compounded by numerous projects that entail specific charges for banks and that could have far-reaching steering effects for certain transactions (e.g. the financial transaction tax). Accordingly, the Bank's business model will depend to a large extent on a high degree of cost discipline, particularly when it comes to implementing regulatory provisions, the optimisation of risk-weighted assets and the anticipation of potential future regulations. Other important factors include IT security and the establishment of an IT architecture that is suitable to ensure flexible and timely reporting for internal purposes, as well as increasingly for the banking authorities.

The Bank's business model has not changed compared with the previous year.

## 2. Economic report

### Macroeconomic and industry-specific conditions

The global economy picked up over the course of 2013, and growing confidence among companies in most countries suggests that this process of recovery will continue. The euro zone economy also showed signs of recovery, but the situation in the banking sector of some euro zone countries remained strained.

Monetary policy in the major industrialised nations was consistently expansionary. However, the Fed began to taper its purchase programme in light of the economic recovery in the USA. This measure and its announcement led to a reversal of international cash flows that had a particularly pronounced impact on certain emerging markets and their currencies, triggering substantial exchange rate movements.

#### *General conditions for core business*

The economy continued to improve over the course of 2013, particularly in the industrialised nations. The euro zone also emerged from recession in summer 2013 following six successive quarters of negative GDP development. Momentum picked up slightly as the year progressed, with all four major euro zone countries – Germany, France, Italy and Spain – recording simultaneous growth for the first time in late 2013. The weak start to the year meant that euro zone GDP contracted by 0.4% year-on-year in 2013. Spain (-1.2%) and Italy (-1.9%) saw significant downturns in GDP, while France (+0.2%) enjoyed only muted GDP growth.

The German economy also experienced a moderate phase of weakness in early 2013, largely as a result of the unfavourable weather conditions, before picking up pace once again. GDP growth for 2013 as a whole amounted to 0.4%. One encouraging development is that the pronounced reluctance to invest which continued until spring 2013 has gradually receded as the euro crisis has abated. Taken together with the global economic upturn and the favourable conditions for the domestic economy, the economic situation in Germany is likely to continue to improve.

The adjustment processes in the euro zone are making progress on the whole. In addition to successful budget consolidation, the crisis-hit countries in particular have improved their competitive capability, thereby realising the necessary current account adjustments to a large extent. Although there is still a need for further adjustment, this means that many member states are likely to have now overcome the recession, particularly now that there is greater certainty with regard to the resolution of the crisis in the euro zone.

The United Kingdom emerged from stagnation in 2013, enjoying a substantial economic upturn on the back of the Bank of England’s consistently expansionary monetary policy.

The US economy absorbed the public budget cuts well and recorded extremely stable development. The recovery on the US labour and housing market continued, strengthening the asset position and hence the disposable income of US households and ensuring solid growth in private consumption.

Monetary policy in the major industrialised nations remained expansive. Although the Fed began to taper its purchase programme in the light of the strong economic upturn in the USA, it maintained its zero-interest rate policy. The announcement of the planned tapering put pressure on investments and currencies in the emerging economies in particular. The European Central Bank (ECB) also stuck to its expansionary monetary policy, reducing the main refinancing operations rate further to 0.25% in November 2013 in response to the modest development of the money supply and lending as well as the emerging risk of deflation in the euro zone. All in all, monetary policy and the nature of the turnaround in monetary policy in the USA remain subject to a degree of uncertainty on the markets that could continue to lead to significant corrections.

There are signs of a broad stabilisation in the monetary environment in the euro zone. The spreads for government bonds compared with German government bonds have declined significantly, while interest on borrowing for companies and private households in the euro zone saw a downward trend over the course of 2013. All in all, the financing conditions for the euro zone are favourable. At the same time, the situation remains extremely heterogeneous, particularly in terms of lending, with the programme countries, Italy and Spain on the one hand and the rest of the euro zone on the other. In Germany in particular, there are no signs of restrictive lending on the part of banks. Despite the particularly favourable environment, however, new borrowing by companies remained relatively weak – as in the previous year – because of the lower level of overall demand. This was attributable to the restraint in capital expenditure, which only lifted as the year progressed, as well as extremely limited M&A activities. Furthermore, many companies were in a position to finance necessary investments almost entirely from their cash flow. Large companies and larger SMEs also took advantage of low interest rates to cover their long-term requirements on the capital markets while often also repaying existing liabilities to banks.

Results of operations in the banking sector – including among German banks – remain strained, with persistently low money market and capital market interest rates entailing uncertainty. Although results of operations in the German banking system have been supported in recent years by the unusually low level of write-downs on the credit portfolio, with the robustness of the domestic economy helping to ensure that borrowers enjoy a solid earnings situation, a gradual erosion of the interest spread in Germany has been in progress for a number of years, which suggests a structural earnings weakness. The main reason for this is the competitive situation, which remains intense in the traditional lending segment on which banks are increasingly focusing. The same applies to deposit business, where competition for affordable or stable sources of refinancing intensified greatly. The German banking industry continues to be faced with the challenge of reconciling profitability targets with the more stringent regulations for securing their capital base, borrower quality and liquidity.

All in all, the situation in the European banking system remains uncertain due to the weak development in terms of lending and underlying fears of a renewed outbreak of the euro crisis. For this reason, the ECB is conducting a comprehensive assessment of the balance sheets of systemically important banks, including a stress test, prior to the installation of the banking union in the current year with the aim of identifying weaknesses in the European banking sector. Once this assessment is complete, the ECB will take up its role as the supervisory authority for the major European banks. In connection with the results of the stress test, banks, supervisory authorities and governments should be prepared for the possibility that the need for recapitalisation will be identified at some banks. Detailed clarification as to how potential capital shortfalls at the affected banks will be resolved is still outstanding.

In this environment of continued weak lending and low inflation in the euro zone, the ECB's monetary policy is the subject of increasing controversy. To stimulate lending and combat deflation, a renewed easing of the monetary policy is required. In addition to lowering the interest rate, the ECB can use further measures or a combination of measures to achieve this. However, some have doubts as to their success or consider the ECB to be "overstepping its mandate" in a political sense with certain measures. There are also warnings that the central banks are keeping to a highly expansionary monetary policy for too long and thereby creating the possibility of a renewed bubble on the markets.

## Significant events in the period under review

### *Implementation of EU conditions*

With its ruling on state aid proceedings on 21 October 2008, the European Commission imposed extensive conditions on IKB. By way of a letter dated 23 October 2012, the European Commission confirmed the successful implementation of the EU conditions by IKB and restricted its ongoing monitoring to the winding-up of IKB International S.A. and IKB's former 50% equity interest in Movesta Lease and Finance GmbH, which are still in progress due to legal reasons. The European Commission informed the German Federal Government of the suspension of its ongoing monitoring of the fulfilment of the remaining conditions on 12 July 2013. Irrespective of this, IKB will continue and complete the winding-up of IKB International S.A. and the former 50% equity interest in Movesta Lease and Finance GmbH.

### *Participation of the Bank in the comprehensive assessment by the European Central Bank*

On 23 October 2013, the ECB published details of its planned comprehensive assessment and announced that IKB would be one of the participating banks. The assessment incorporates a supervisory risk assessment, an asset quality review and a stress test, and is scheduled for completion by October 2014. The assessment began in late 2013 and is still ongoing. For more information, see section 6. "Outlook".

### *Recognition of intercompany profits in capital during the financial year*

On 30 September 2013, IKB made an addition to the fund for general banking risks (section 340g of the German Commercial Code – HGB). The allocation of this addition to common equity tier 1 capital was reported to the German Federal Financial Supervisory Authority (BaFin) in accordance with section 10(2a), (3) of the German Banking Act (KWG; in the version valid until 31 December 2013). As of 31 December 2013, IKB made a further addition to the fund for general banking risks and generated intercompany profits at Group level. The approval by the supervisory authorities of the allocation of this addition and the intercompany profits to common equity tier 1 capital (CET 1), which has been required since 1 January 2014 in accordance with Art. 26(1), (2) of the Capital Requirements Regulation (CRR; Regulation (EU) No. 575/2013), was granted to IKB in a letter from BaFin dated 14 March 2014. Based on the provisions of the CRR as of 1 January 2014 and the current interpretation of the European Banking Authority (EBA), the IKB Group had a common equity tier 1 capital ratio (CET 1) of 9.4% as of 31 December 2013, taking into account the transitional provisions for 2014 and the EBA's interpretation of the CRR. The comprehensive assessment by the ECB requires a CET 1 ratio of at least 8% as of this date. The IKB Group had a CET 1 ratio of 10.4% as of 31 March 2014.

### *Classification as potentially posing a risk to the banking system*

In accordance with section 47 of the German Banking Act (KWG), BaFin and Deutsche Bundesbank have classified IKB as a bank that potentially poses a risk to the banking system and, like all other banks classified in this manner, requested that IKB prepare a recovery plan in accordance with section 47a KWG.

### *Changes in the Group*

The "European Liquid Bonds S.A., SICAV-SIF" fund was launched in May 2013. The fund is used by IKB as an investment company for surplus liquidity.

The liquidation proceedings for MD Capital Objekt Nordhausen GmbH i.L. were concluded in August 2013 with the final deletion of the company from the commercial register.

Istop 6 GmbH was formed with effect from 30 October 2013 for the purpose of liquidity investment via special funds as part of the Bank's liquidity management. Istop 6 GmbH had invested around € 112 million in the Partner Fonds Government & Covered Select sub-fund I as of 31 March 2014.

### *Legally relevant events*

#### CDOs arranged by Lehman Brothers

The Bank has concluded its dispute with Lehman Brothers concerning distributions from the original total of five collateralised debt obligations (CDOs) by reaching settlements. Following an initial settlement concerning a transaction under US law in July 2012, a further settlement concerning the remaining four CDO investments was agreed in November 2013. Accordingly, there are no further legal risks in connection with the CDOs.

**Portfolio investments (asset-backed securities – ABS)**

The Bank is still striving to enforce claims for damages, in court and out of court, for former portfolio investments.

**Results of the special audit**

The court-appointed special auditor under German stock corporation law, Dr Harald Ring, submitted his final report to IKB in late February 2014. In accordance with the statutory provisions, the Board of Managing Directors of IKB will initially be given an appropriate period to examine whether a petition for protective proceedings in accordance with section 145(4) of the German Stock Corporation Act (AktG) will be submitted.

Further information on the special audit under German stock corporation law can be found in section 3. “Supplementary report” and the “Legal risk” subsection of section 4. “Risk report”.

**Debt issuance programme**

The debt issuance programme was updated as of 20 February 2014. This programme has since been used for various new issues.

***Personnel changes***

**The Supervisory Board**

Dr Lutz-Christian Funke and Dr Andreas Tuczka, whose terms in office ended after the Annual General Meeting on 5 September 2013, were re-elected to the Supervisory Board by way of resolution of the Annual General Meeting on 5 September 2013. In place of Mr Ulrich Grillo, whose term in office also ended after the Annual General Meeting on 5 September 2013, Dr Karl-Gerhard Eick was newly elected to the Supervisory Board by way of resolution of the Annual General Meeting on 5 September 2013.

As scheduled, Dr Carola Steingräber stepped down from the Supervisory Board at the end of the Annual General Meeting on 5 September 2013. Mr Rainer Lenz was elected to the Supervisory Board as a new employee representative.

Implementing the corresponding regulatory requirements, the previous Finance and Audit Committee was transferred to the new Risk and Audit Committee with effect from 1 January 2014. There were no changes to the composition of the committee. In accordance with a corresponding provision of the rules of procedure for the Supervisory Board, Mr Bruno Scherrer and Dr Karsten von Köller are members of the Risk and Audit Committee by virtue of their position as Chairman and Deputy Chairman of the Supervisory Board. In addition, Dr Claus Nolting and Mr Rainer Lenz were elected to the Risk and Audit Committee as the shareholder representative and the employee representative respectively. The members of the committee elected Dr Karsten von Köller as Chairman of the Risk and Audit Committee.

A Remuneration Control Committee was also created with effect from 1 January 2014 in order to implement new regulatory requirements. In accordance with a corresponding provision of the rules of procedure for the Supervisory Board, Mr Bruno Scherrer and Dr Karsten von Köller are members of the new committee by virtue of their position as Chairman and Deputy Chairman of the Supervisory Board. In addition, Dr Andreas Tuczka and Ms Nicole Riggers were elected to the Remuneration Control Committee as the shareholder representative and the employee representative respectively. The committee is chaired by Mr Bruno Scherrer as the Chairman of the Supervisory Board. At the same time, the authorisations of the Nomination

Committee were expanded without any change to the composition of the committee. This amendment is also due to changes in the relevant regulatory conditions.

**Board of Managing Directors**

On 27 June 2013, Mr Hans Jörg Schüttler and Dr Dieter Glüder were reappointed as members of the Board of Managing Directors of the company until 31 October 2016 and 15 October 2016 respectively. Mr Schüttler continues to exercise the office of Chief Executive Officer. On 21 November 2013, the term of office of Dr Michael Wiedmann was extended for the period from 1 March 2014 to 28 February 2017.

***Reconciliation of interests and redundancy scheme***

A reconciliation of interests and a redundancy scheme were agreed with the employee representatives on 7 May 2012 in connection with cost reduction and restructuring measures. At the end of the term on 31 March 2014, the objective of a total workforce reduction of 211 had been achieved. This related to central units in particular.

***Annual General Meeting on 5 September 2013***

The Annual General Meeting of IKB for the 2012/13 financial year was held in Düsseldorf on 5 September 2013. 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. A shareholder initiated compulsory information proceedings in accordance with section 132 of the German Stock Corporation Act (AktG) following the Annual General Meeting. The Bank believes this claim to be unfounded. A final decision is yet to be issued. No legal proceedings were initiated against resolutions of the Annual General Meeting.

***Valin funds***

In April 2013, IKB Deutsche Industriebank AG and Seer Capital Management LP launched their first joint fund, Valin Funds Mittelstand Mezzanine 1. The fund has a target volume of € 300 million. It was initially closed with first-time capital commitments of € 105 million. Further investors are being sought with a view to reaching the target volume. The fund will primarily invest in mezzanine loans to German SMEs with annual sales above € 50 million.

***Purchase programme for IKB Funding Trust I hybrid securities***

On 18 September 2013, Matrona GmbH (an IKB Group company) invited the holders of the trust preferred securities issued (ISIN DE0008592759) by IKB Funding Trust I to submit offers to sell these securities. The acceptance of the sale offer was subject to various conditions, including the approval of proposed contractual amendments to the conditions of the trust preferred securities by at least 66 2/3% of investors. The acceptance period for the purchase programme initially ran until 28 October 2013 and was extended on one occasion from 28 October 2013 to 22 November 2013. As the required approval rate among investors had not been reached by the end of the extended offering period, Matrona GmbH terminated the purchase programme on 22 November 2013 and did not acquire any IKB Funding Trust I securities.

## Net assets, financial position and results of operations

Unless noted otherwise, the comments below apply to both the Group management report (Group) and the management report of IKB AG (IKB AG).

### *Business development*

Due to restrained credit demand on the market and selective lending by IKB, the Group's new business volume declined by € 0.3 billion year-on-year to € 2.7 billion in the financial year 2013/14. The receivables from customers item therefore decreased further in this financial year, as forecast. The majority of the new business volume relates to IKB AG. The share of public programme loans in new business was 36% in the financial year 2013/14 (previous year: 38%).

The further decline in total assets and the development of administrative expenses are in line with the previous year's expectations. Owing to the positive developments on the capital markets, measurement gains were generated from financial instruments and, as expected, were used by the Bank to strengthen tier 1 capital by recognising reserves in accordance with section 340g of the German Commercial Code (HGB).

### *Results of operations*

In the financial year 2013/14, IKB generated consolidated net income of € 32 million having reported a consolidated net loss (€ -143 million) in the previous year. This figure includes an expense for the addition to the fund for general banking risks in accordance with section 340g of the German Commercial Code (HGB) in the amount of € 402 million (previous year: € -19 million).

The results of operations were impacted in particular by net other income of € -73 million (previous year: € 21 million) and tax income of € 133 million (previous year: tax expense of € 6 million), as well as the increase in net interest and lease income to € 310 million (previous year: € 210 million).

The addition to the fund for general banking risks in accordance with section 340g HGB serves to increase common equity tier 1 capital in accordance with the provisions of the CRR and the CRD IV banking reform package by the same amount.

As at the balance sheet date, IKB AG reported net income of € 0 million after taxes and the addition to/reversal of the fund for general banking risks in accordance with section 340g HGB (previous year: net loss of € 162 million).

The main reasons for the improved results of operations recorded by the IKB Group and IKB AG are the general improvement in the situation on the capital markets, which IKB harnessed to realise mark-to-market gains, the sustained low level of interest rates, which had a positive impact on interest expense, and the improved earnings outlook as a result of the economic upturn that is forecast for Germany, which is also likely to be accompanied by an acceleration in investment activity, and hence in IKB's business activity.

#### Net interest and lease income

Net interest income includes current income from financial instruments, equity investments, investments in affiliated companies, income from profit transfer agreements with companies not included in consolidation, and close-out payments for the early dissolution of derivative transactions in the banking book in connection with ongoing portfolio management. Net lease income consists of lease income, expenses and write-downs.

The Group's net interest and lease income rose by € 100 million in the period under review to € 310 million (previous year: € 210 million). The volume-related reduction in interest income was more than offset by the improvement in refinancing conditions compared with the previous year.

Net interest income at IKB AG increased by € 83 million to € 233 million in the past financial year (previous year: € 150 million).

**Net fee and commission income**

The Group recorded net fee and commission income of € 29 million (IKB AG: € 38 million), up significantly on the prior-year figure of € 5 million (IKB AG: € 9 million). The main reason for this increase was the absence of SoFFin (German Financial Market Stabilisation Fund) commission expenses in the year under review as a result of the final repayment of the SoFFin guarantees in the course of the financial year 2012/13 (previous year: € 33 million).

**Administrative expenses**

Administrative expenses comprise the following items: personnel expenses, other administrative expenses and depreciation and write-downs of intangible and tangible assets.

Administrative expenses in the Group declined by € 19 million to € 285 million (IKB AG: by € 16 million to € 242 million).

Personnel expenses increased by € 2 million to € 161 million (IKB AG: by € 3 million to € 127 million). This was due in particular to recruitment in front office. The headcount increase is intended to boost sales activities at IKB.

Other administrative expenses and depreciation and write-downs of intangible and tangible assets fell by € 21 million to € 124 million (IKB AG: by € 19 million to € 115 million). This was primarily attributable to the significant reduction in consulting and legal expenses and the lower level of expenses for deposit protection as a result of Gesellschaft für Bonitätsbeurteilung mbH upgrading IKB's rating.

**Net other income**

Net other income comprises other operating and extraordinary income and expenses and write-downs and reversals of write-downs on equity investments, investments in affiliated companies and long-term investments. Furthermore, net other income includes the addition to (previous year: reversal of) the fund for general banking risks (section 340g HGB reserve), which qualifies as common equity tier 1 capital in accordance with the CRR and the CRD IV banking reform package.

The main factors influencing net other income, which declined by € 94 million, from € 21 million to € -73 million (IKB AG: by € 96 million to € -88 million), are presented below.

The addition to the fund for general banking risks in the amount of € 402 million is recognised as an expense in net other income. The common equity tier 1 capital of IKB increased by a corresponding amount.

The measurement and sale of long-term investments resulted in net income of € 141 million (IKB AG: € 126 million) after net income of € 108 million (IKB AG: € 100 million) in the previous year.

Close-out payments in connection with the strategic early dissolution of derivative transactions in the banking book resulted in net income of € 148 million (IKB AG: € 144 million) compared with net expenses of € 49 million in the previous year (IKB AG: € 47 million).

€ 19 million was recognised from the net reversal of provisions for interest on tax obligations (previous year: net addition via interest expense in the amount of € 5 million).

**Net risk provisioning**

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

Net risk provisioning included in amortisation/depreciation and write-downs of receivables, specific securities and additions to loan loss provisions in the Group rose by € 16 million, from € -71 million to € -87 million (IKB AG: increase of € 11 million to € -83 million).

The net addition to the Group's provisions for possible loan losses contained in this figure increased by € 7 million to € -87 million (IKB AG: increase of € 2 million to € -83 million), but remained at a moderate level when compared over several years.

Provisions for possible loan losses in the Group include € 118 million (IKB AG: € 114 million) in net additions to specific valuation allowances, income from recoveries on receivables written off, provisions and write-downs, which increased by € 70 million year-on-year (IKB AG: by € 67 million). This was due in particular to the increase in net additions to specific valuation allowances.

In terms of global valuation allowances for lending business in the Group, there was a net reversal of € 31 million in the year under review (IKB AG: € 31 million) compared with a net addition of € 32 million in the previous year (IKB AG: € 34 million). The net reversal contained € 20 million of global valuation allowances recognised in the previous year – reflecting the elevated risk of lending to companies in euro zone countries that were in or imminently facing recession – that were utilised in the financial year 2013/14 in the context of corresponding specific valuation allowances.

Net risk provisioning includes net income from securities in the liquidity reserve and derivatives in the amount of € -1 million (IKB AG: € 1 million) after € 9 million in the previous year (IKB AG: € 9 million).

**Taxes**

Tax income amounted to € 133 million in the period under review (IKB AG: € 136 million) after tax expense of € 6 million (IKB AG: € 1 million) in the same period of the previous year. Based on planning as at 31 March 2014 for the coming financial years, deferred taxes were recognised in profit or loss in the amount of € 101 million (IKB AG: € 101 million). The reversal of tax provisions no longer required led to income of € 48 million (IKB AG: € 48 million). Expenses for current and other taxes amounted to € 16 million (IKB AG: € 13 million).

**Net income**

Overall, net income improved significantly in the Group and at IKB AG. Consolidated net income amounted to € 32 million in the financial year 2013/14, up € 175 million on the net loss of € 143 million reported in the previous year (IKB AG: improvement in net income after the addition to the fund for general banking risks of € 162 million to € 0 million).

***Net assets***

The Group's total assets declined by € 2.9 billion in the period under review, amounting to € 24.7 billion on the reporting date (IKB AG: decrease of € 2.9 billion to € 24.0 billion).

The gross credit volume, which also includes off-balance sheet business (see also section 4. "Risk report"), amounted to € 26.6 billion in the Group on the reporting date, down € 3.1 billion on the figure for the previous year (IKB AG: decrease of € 3.3 billion to € 27.4 billion), and primarily comprises medium-term and long-term loans to banks, loans to customers, liabilities held for trading, asset derivatives in the non-trading book, and guarantees.

**Assets**

Receivables from banks in the Group were unchanged year-on-year at € 2.2 billion (IKB AG: unchanged year-on-year at € 2.1 billion).

Receivables from customers in the Group decreased by € 2.4 billion to € 12.3 billion (IKB AG: by € 2.5 billion to € 14.2 billion), largely as a result of restrained credit demand on the market and selective lending by IKB.

Bonds and other fixed-income securities in the Group declined slightly by € 0.3 billion to € 7.5 billion (IKB AG: by € 0.5 billion to € 6.5 billion).

The recognition in profit or loss of deferred taxes on temporary differences led to an increase in deferred tax assets of € 101 million to € 249 million in the Group (IKB AG: increase of € 101 million to € 252 million).

**Equity and liabilities**

Liabilities to banks decreased by € 1.7 billion to € 10.2 billion at Group level (IKB AG: by € 1.7 billion to € 10.2 billion), particularly due to lower utilisation of public programme loans.

Liabilities to customers fell by € 1.3 billion to € 9.6 billion (IKB AG: by € 1.3 billion to € 9.6 billion), largely as a result of the reduction in the volume of customer deposits accepted.

Securitised liabilities in the Group increased by € 0.1 billion to € 1.1 billion (IKB AG: by € 0.3 billion to € 0.7 billion); this was primarily due to the issue of new bearer bonds in the amount of € 0.5 billion (IKB AG: € 0.5 billion), which was offset by bonds maturing in the amount of € 0.4 billion (IKB AG: € 0.2 billion).

Subordinated liabilities in the Group declined by € 0.4 billion to € 1.0 billion (IKB AG: by € 0.4 billion to € 0.5 billion) as a result of maturities in the period under review.

The fund for general banking risks consists of reserves in accordance with section 340g HGB and section 340e HGB. Section 340g HGB reserves, which also qualify as common equity tier 1 capital in accordance with the CRR and the CRD IV banking reform package, increased to € 573 million (previous year: € 171 million) as a result of the additional allocation of € 402 million.

**Equity**

Group equity increased by € 31 million, from € 952 million to € 983 million, largely as a result of the net income recorded in the past financial year (IKB AG: equity unchanged at € 1,207 million). Including the loss carried forward of € 2,408 million for the Group (IKB AG: € 2,167 million), net accumulated losses amounted to € 2,376 million (IKB AG: € 2,167 million).

When calculating regulatory own funds, the fund for general banking risks in accordance with section 340g HGB in the amount of € 573 million is taken into account as common equity tier 1 capital. As of 31 March 2014, common equity tier 1 (CET 1) capital, which has been required to be calculated in accordance with the Capital Requirement Regulation (CRR) since 1 January 2014, amounted to € 1.5 billion for the IKB Group (IKB AG: € 1.7 billion). This resulted in a common equity tier 1 ratio (CET 1 ratio) of 10.4% for the IKB Group and 14.3% for IKB AG and a total capital ratio of 16.1% for the IKB Group and 17.3% for IKB AG. Details of the legal environment for the calculation of the CET 1 ratio can be found in the information on the regulatory tier 1 ratio in section 4. “Risk report”.

Unrealised gains and losses have arisen in recent financial years from financial instruments in the banking book in the form of long-term securities, from derivatives and from the refinancing of the credit book without matching maturities as a result of changes in market interest rates, exchange rates and credit ratings. In view of positive developments on the capital market, the Group generated increases in the value of derivatives and securities of € 289 million in the financial year 2013/14. Despite these increases, net unrealised losses at the balance sheet date were largely unchanged year-on-year at € 776 million (previous year: € 759 million). This could lead to a lower level of net interest income or losses on disposal in future financial years. As in the previous year, the calculation in accordance with IDW RS BFA3 did not result in any provisioning requirements.

### *Financial position*

The funding mix means that IKB's liquidity situation is stable and refinancing is generally achievable at more favourable conditions than in the previous periods. In addition to earmarked and other secured refinancing, IKB is accepting revolving deposits from corporate clients and retail customers. The Bank is also issuing bearer bonds in the retail customer segment, further reducing its volume of non-strategic assets in order to generate liquidity and being selective when it comes to entering into new lending business.

Regarding the change in cash flows from operating and financing activities, please see the consolidated cash flow statement in the notes. Regarding the presentation of the maturities of liabilities, please refer to the breakdown of remaining terms in the notes. Regarding the liquidity and financing situation, please refer to section 4. "Risk report".

### *Overall assessment*

The results of operations are characterised by an improved earnings situation compared with the previous year that is satisfactory for the Bank. Net assets and the financial position are in order.

From the Bank's perspective, the course of business was positive on the whole.

## Financial and non-financial performance indicators

Non-financial performance indicators are of minor importance in terms of management at IKB. In addition to a wide range of management-related sub-indicators, IKB applies the following key financial performance indicators for management purposes.

### *Regulatory tier 1 ratio*

The regulatory tier 1 ratio or common equity tier 1 ratio is calculated as the ratio of tier 1 capital or CET 1 to regulatory risk-weighted assets. Details of the reconciliation of regulatory CET 1 and risk-weighted assets can be found in the information on the regulatory capital situation in section 4. "Risk report".

As of 31 March 2014, the CET 1 ratio amounted to 10.4% for the IKB Group and 14.3% for IKB AG. This meant that, as forecast, IKB exceeded the statutory minimum requirement (CRR) for the CET 1 ratio of 4.0% and complied with the benchmark of 8.0% required by the ECB as part of its comprehensive assessment before possible adjustments.

The CET 1 ratios were calculated in accordance with the current legal status of the CRR as of 31 March 2014 including transitional provisions and the interpretations published by the supervisory authorities. The possibility that future EBA/ECB standards and interpretations or the terms of the comprehensive assessment (asset quality review, risk assessment or stress test) or other supervisory actions will lead to a retrospective change in the CET 1 ratio as of 31 March 2014 cannot be ruled out.

### *Leverage ratio*

In addition to the risk-weighted capital requirements forming part of the solvency system, the provisions of the CRR introduced the leverage ratio as a simple and transparent indicator of indebtedness with effect from 1 January 2014.

The leverage ratio compares the largely unweighted total of balance sheet and off-balance sheet transactions with regulatory tier 1 capital. At present, this indicator is only disclosed for monitoring purposes and is not expected to become binding until 1 January 2019. Although the exact figure for this date is still to be determined, a benchmark of at least 3.0% has established itself internationally.

Applying the transitional provisions for 2014, the leverage ratio of the IKB Group in accordance with Article 429 CRR amounted to 7.4% as of 31 March 2014 (IKB AG: 6.9%), thereby exceeding the benchmark of 3.0%

### *Net income after taxes and before additions to/reversals of the fund for general banking risks (section 340g HGB)*

As stated in the Annual Report for the year ended 31 March 2013, IKB assumed that, overall, positive operating results would be generated in the past financial year 2013/14 from earnings in operating business and measurement gains from financial instruments, which can then be used to strengthen tier 1 capital. This aim was achieved with net income of € 435 million in the IKB Group as of 31 March 2014 (IKB AG: € 402 million) before additions to the fund for general banking risks (section 340g HGB). This net income was used to make an allocation of € 402 million to the aforementioned fund in order to strengthen tier 1 capital.

### *Liquidity ratio in accordance with section 2 (1) of the German Liquidity Regulation*

The liquidity ratio in accordance with section 2 (1) of the German Liquidity Regulation (LiqV) is used to evaluate short-term liquidity risk. The LiqV defines the liquidity ratio as the ratio of the cash and cash equivalents available within a period of up to one month to the payment obligations callable during this period. A liquidity ratio of 1 or greater is necessary in order to meet the requirement.

IKB AG's liquidity ratio in accordance with section 2 (1) LiqV comfortably exceeded 1 throughout the entire financial year 2013/14 and amounted to 2.12 as of 31 March 2014, meaning that IKB AG had an adequate liquidity buffer at all times.

## 3. Supplementary report (events after 31 March 2014)

The following major developments have arisen since 31 March 2014:

### Special audit under German stock corporation law

With respect to the report by the court-appointed special auditor under German stock corporation law, Dr Harald Ring, that was submitted to IKB in February 2014, IKB petitioned the Düsseldorf Regional Court for protective proceedings in accordance with section 145(4) of the German Stock Corporation Act (AktG) on 17 April 2014. In exercising its duty of care for its employees, IKB petitioned to have the personal data of Bank employees blurred in the report.

Further information on the special audit under German stock corporation law can be found in the "Legal risk" subsection of section 4. "Risk report".

## 4. Risk report

### Risk management organisation

The Bank has further developed its comprehensive risk management system in accordance with the Minimum Requirements for Risk Management (MaRisk) and other applicable pronouncements by the national and international supervisory authorities. All material risks are included in the risk management system.

The strategic business focus and the resulting opportunities are managed by the Strategic Planning unit separately from risk management (see section 5. “Report on opportunities”).

The business and risk strategy outlook and the measures derived from this are set out in the business and risk strategy.

The companies included in risk management are defined on the basis of the materiality of the respective risks broken down by risk type (counterparty default risk, market price risk, etc.). Materiality is determined on the basis of the Group-wide risk inventory, which encompasses all material Group companies. The risk consolidation group is thus identical to the consolidated group under commercial law with the exception of Rio Debt Holdings (Ireland) Limited, Bacchus 2008-1 Plc., Dublin, Ireland, and Bacchus 2008-2 Plc., Dublin, Ireland.

Individual tasks and areas of responsibility are documented in risk management rules and regulations, which specify the principles of the risk management system at IKB, taking into consideration statutory requirements and specific organisational instructions.

#### *The Supervisory Board*

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

#### *Board of Managing Directors*

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

Departmental responsibility for back office functions in terms of transaction-related risk monitoring, intensive support and problem exposure management is held by Mr Momburg. Dr Glüder is responsible for risk controlling and monitoring earnings management and capital resources. Responsibility for legal and compliance risks lies with Mr Schüttler. The Board of Managing Directors as a whole is responsible for managing risks associated with the strategic business focus and reputation risks.

#### *Risk committees*

Special committees set up to manage and monitor risk-relevant decisions support the Board of Managing Directors in risk management and decision-making. The most important is the Strategy and Risk Committee, which monitors the implementation of the targets defined in the business and risk strategy, incorporates current market developments and expectations into the measures required to achieve the targets, and discusses the areas of the business and risk strategy requiring adjustment. The Committee is composed of the members of the Board of Managing Directors and the heads of various front and back office divisions, and meets at least once a quarter.

### *Credit risk management*

The key tasks of Credit Risk Management include activities associated with the credit approval process to be carried out independently of front office, as well as developing and monitoring Group-wide standards for the lending business and ongoing risk monitoring of counterparty default risks. This includes the voting process, independent of front office, for investments in securities and derivative instruments. The division also participated in credit portfolio management.

Exposures with an increased risk as well as restructuring and settlement cases are managed in special management units within Credit Risk Management, which are also responsible for the impairment process for these exposures. The aim of this special management is to take action in good time in order to maintain the company’s capacity for redevelopment, in the event that these endeavours fail, to reduce the economic losses. Particular attention is paid not only to non-performing loans – irrespective of whether permanent impairment is expected – but to all exposures where available information indicates that they require special and intensive management by units specialising in restructuring.

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

### *Risk controlling*

The Risk Controlling division 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.

Business risk is another material risk that is taken into account in calculating risk-bearing capacity. Business risk is monitored by the Finance division.

### *Monitoring earnings development and capital resources*

The Finance division prepares monthly performance analyses for existing and new business in the context of performance controlling and presents management reports to the Board of Managing Directors on a weekly basis, in which deviations from planning in income and assets are identified and analysed. This ensures that business risk is continually monitored and reported. The Board of Managing Directors is therefore able to react to negative developments even at short notice.

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

### *Internal audit*

The Group Audit central division is organised as a process-independent part of the risk management system and the internal control processes. It operates on behalf of the entire Board of Managing Directors, with no duty to comply with instructions, as an independent body that reports directly to the Chairman of the Board of Managing Directors. All relevant activities and processes throughout the Group are examined on the basis of risk-oriented process checks. It focuses on particularly risk-sensitive processes and quantitative methods as well as IT work flows in the lending, advisory 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 processes and activities outsourced by IKB to other service providers are monitored as part of continuous outsourcing controlling and the dedicated audit activities performed by Group Audit at the outsourcing companies. The Board of Managing Directors receives ongoing reports on the audit findings. In its annual report, Group Audit informs the Board of Managing Directors of the significant and serious audit findings and their processing status in summarised format. The member of the Board of Managing Directors responsible for Group Audit then informs the Supervisory Board of current developments and material results at least once a year. Independently of this, it is ensured that the Chairman of the supervisory body or the Finance and Audit Committee can obtain information directly from the head of Group Audit with the involvement of the Board of Managing Directors. In addition, Group Audit will submit a quarterly report to the Board of Managing Directors and the Supervisory Board in accordance with section 25c (4a) sub-section 3g KWG in future (starting from the first quarter of 2014).

## Regulatory capital resources and risk-bearing capacity

### *Regulatory capital resources*

Since 1 January 2014, the Bank has calculated its regulatory capital resources in accordance with the provisions of the CRR. It applies the standardised approach for credit risk for counterparty default risk, the base indicator approach for operational risk, and the standard regulatory methods for market price risk (interest risk: duration method; option risk: delta plus method or scenario matrix method). The Bank continues to use the regulatory netting approach to determine the net basis of measurement for derivatives, taking account of existing netting agreements. The following tables provide an overview of the regulatory risk items, equity base and ratios as applicable on approval of the accounts. The prior-year comparative figures are presented in accordance with the provisions of the German Solvency Regulation (SolvV) in the version applicable until 31 December 2013. The figures as of 31 March 2014 are based on the principles and methodology of the CRR:

*Table: Regulatory capital situation at the IKB Group in accordance with CRR/CRD IV*

| **Figures in € million** | **31.3.2014[1)]** | **1.1.2014[2)]** |
|---|---|---|
| Counterparty default risk | 13,528 | 13,784 |
| Market risk equivalent | 252 | 254 |
| Operational risk | 289 | 289 |
| **Total risk-weighted assets (RWA)** | **14,069** | **14,327** |
| **Common equity tier 1 (CET 1)** | 1,464 | 1,340 |
| Additional tier 1 (AT 1) | 346 | 367 |
| **Total tier 1 (T 1)** | **1,810** | **1,707** |
| Tier 2 (T 2) | 461 | 474 |
| **Own funds** | **2,271** | **2,181** |
| **CET 1 ratio** | **10.4%** | **9.4%** |
| T 1 ratio | 12.9% | 11.9% |
| Own funds ratio | 16.1% | 15.2% |

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

1) All figures after approval of the accounts and taking into consideration the phase-in and phase-out provisions of the CRR for 2014
2) The figures as at 1 January 2014 are based on a statement of reconciliation from the old legal situation in accordance with the old version of the German Solvency Regulation (SolvV) to the new regulations in accordance with CRR.

*Table: Comparative figures at Bank Group level (section 10a of the German Banking Act, old version)*

| **in € million** | **31.12.2013** | **31.3.2013** |
|---|---|---|
| Risk-weighted assets | 13,363 | 15,016 |
| Market risk equivalent | 254 | 460 |
| Operational risk | 289 | 287 |
| **Risk position** | **13,906** | **15,763** |
| Tier 1 capital | 1,826 | 1,542 |
| Tier 2 capital | 524 | 672 |
| Tier 3 capital | - | - |
| Deductions[1)] | -14 | -44 |
| **Own funds** | **2,336** | **2,170** |
| Tier 1 ratio in % | 13.1 | 9.6 |
| Overall capital ratio in % | 16.8 | 13.8 |

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

1) Deductions relate solely to securitisation positions.

*Table: Regulatory capital situation at individual Bank level in accordance with CRR/CRD IV*

| Figures in € million | 31.3.2014[1)] | 1.1.2014[2)] |
|---|---|---|
| Counterparty default risk | 11,837 | 11,892 |
| Market risk equivalent | 117 | 119 |
| Operational risk | 194 | 194 |
| **Total risk-weighted assets (RWA)** | **12,148** | **12,205** |
| **Common equity tier 1 (CET 1)** | 1,733 | 1,592 |
| Additional tier 1 (AT 1) | 0 | 0 |
| **Total Tier 1 (T 1)** | **1,733** | **1,592** |
| Tier 2 (T 2) | 366 | 379 |
| **Own funds** | **2,099** | **1,971** |
| **CET 1 ratio** | **14.3%** | **13.0%** |
| T 1 ratio | 14.3% | 13.0% |
| Own funds ratio | 17.3% | 16.2% |

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

1) All figures after approval of the accounts and taking into consideration the phase-in and phase-out provisions of the CRR for 2014

2) The figures as at 1 January 2014 are based on a statement of reconciliation from the old legal situation in accordance with the old version of the German Solvency Regulation (SolvV) to the new regulations in accordance with CRR.

*Table: Comparative figures at Bank level (section 10a of the German Banking Act, old version)*

| in € million | 31.12.2013 | 31.3.2013 |
|---|---|---|
| Risk-weighted assets | 11,224 | 12,624 |
| Market risk equivalent | 119 | 292 |
| Operational risk | 194 | 263 |
| **Risk position** | **11,537** | **13,179** |
| Tier 1 capital | 1,602 | 1,330 |
| Tier 2 capital | 523 | 693 |
| Tier 3 capital | - | - |
| Deductions[1)] | - | - |
| **Own funds** | **2,125** | **2,022** |
| Tier 1 ratio in % | 13.9 | 10.1 |
| Overall capital ratio in % | 18.4 | 15.3 |

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

1) Deductions relate solely to securitisation positions.

The consolidated financial statements method has been applied in calculating own funds and risk positions since 30 September 2013. There is no material difference between the results determined using this method and the aggregation method that was used previously.

The decrease in risk-weighted assets as of 31 March 2014 is primarily attributable to scheduled repayments, unscheduled repayments and sales of non-strategic assets accompanied by limited new business. Although the introduction of the new CRR regulations with effect from 1 January 2014 had a pronounced impact on risk-weighted assets (RWA), the reduction in RWA continued on the whole.

At 10.4% at Group level and 14.3% at individual Bank level, IKB's CET 1 ratios are in excess of the minimum level of 8% required by the ECB as part of its comprehensive assessment (AQR and stress test baseline scenario). This means that IKB comfortably exceeds the statutory minimum requirements in terms of CET 1.

The Board of Managing Directors expects it to be possible to meet the statutory minimum requirements in the future (see also section 6. "Outlook"). Although the CRR is binding with effect from 1 January 2014, there remains considerable uncertainty with regard to the interpretation of the new regulation that will only be resolved over time and following the issuance of a uniform, Europe-wide, and hence binding interpretation by the EBA. Furthermore, a large number of regulatory standards to be announced by the EBA are not yet available in their final version. Further uncertainty is provided by the fact that the results of the international banking regulation process and the European project for uniform bank supervision are not always foreseeable. In particular, the findings of the AQR and stress test phases of the ECB comprehensive assessment and the regulatory measures derived as a result cannot be foreseen at present.

### *Risk-bearing capacity*

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

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

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

In accordance with the "Supervisory assessment of bank-internal capital adequacy concepts" guideline published by the German Federal Financial Supervisory Authority (BaFin), IKB applies a fully accounting-based perspective for its going-concern perspective. On the basis of the regulatory equity items, the risk coverage potential is determined in such a way that all minimum capital requirements would be met in the analysis period even if the risk coverage funds were completely exhausted. If the regulatory minimum capital requirements change during the analysis period, this is accounted for in the calculation of the risk cover. In addition, when the risk coverage potential is determined, it is ensured that capital items that do not participate in current losses are not included. The methodology of the going-concern perspective has been adjusted in the current financial year.

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

The following table compares the economic capital requirements in the going-concern perspective that could arise mathematically in a year to cover unexpected losses at a confidence level of 95% (value at risk) with the risk coverage potential that will be available in the next twelve months (the confidence level for the going-concern perspective has been increased in the current financial year; all figures for the start of the year have been restated accordingly).

*Table: Economic capital requirements – going-concern perspective*

| | 31.3.2014 in € million | 31.3.2014 in % | 31.3.2013 in € million | 31.3.2013 in % |
|---|---|---|---|---|
| Counterparty default risk | 206 | 50% | 229 | 55% |
| Market price risk | 58[1)] | 14% | 32 | 8% |
| Operational risk | 25 | 6% | 42 | 10% |
| Business risk | 99 | 24% | 97 | 23% |
| Liquidity risk | 26[2)] | 6% | 15 | 4% |
| **Total** | **414** | **100%** | **415** | **100%** |
| less diversification effects | -74 | | -76 | |
| **Overall risk position** | **340** | | **338** | |
| **Risk coverage potential** | **873** | | **505** | |

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

1) Market price risk of € 45 million excluding the interest rate risk recognised for the first time as of 31 March 2014.

2) Liquidity risk of € 17 million excluding the change in methodology as of 31 March 2014.

The risk cover of € 873 million at the reporting date is € 368 million higher than in the previous year (31 March 2013). The higher level of risk cover is primarily due to the net income for the period and the corresponding addition to the fund for general banking risks (section 340g HGB).

The overall risk position rose slightly by € 2 million year-on-year to € 340 million. This was largely due to the increase in market price risk and liquidity risk, which more than offset the lower level of counterparty default risk and operational risk. Adjusted for the change in methodology, the overall risk position would have amounted to € 318 million.

As of 31 March 2014, the overall risk position amounted to 39% of the risk coverage potential (31 March 2013: 67%). This means that the risk coverage potential is comfortably sufficient to cover the economic capital requirements arising from the occurrence of unexpected risks across the risk horizon. All regulatory minimum capital requirements under Basel III will continue to be met – even excluding diversification effects – should these unexpected risks occur.

In addition to the above going-concern perspective, the Bank also observes and analyses the overall risk position and risk coverage potential from a liquidation perspective. Unlike the primarily management-related going-concern perspective, risk coverage potential from the liquidation perspective is calculated as the sum of all the equity components available to the Bank, including profit participation capital and subordinated capital. At the same time, all hidden liabilities/reserves from loans, securities and derivatives are included in full. The methodology of the liquidation perspective has also been adjusted in the current financial year. Hidden liabilities and reserves from credit spreads and the associated risks are now also taken into account when calculating the risk coverage potential and quantifying risk. The prior-year figures have been adjusted.

After application of the aforementioned new methodology, risk coverage potential in the liquidation perspective increased by € 406 million compared with the start of the financial year (prior-year figures adjusted) to total € 1,592 million. This means that the risk cover is sufficient to cover the overall risk position at a confidence level of 99.76% (derived from a BBB rating) with utilisation of 77% (31 March 2013: full utilisation of risk cover at a confidence level of 99.51%). Even excluding diversification effects, risk cover still exceeds the overall risk position.

### *Forecast calculations and stress tests*

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

An analysis of the stress tests shows that more extreme assumptions, such as the collapse of the euro zone with wider economic consequences for the entire European Economic Area, would mean that risk cover would no longer be sufficient to fully cover the resulting overall risk position.

## Risk strategy

The individual risk strategies are a component of the integrated business and risk strategy. They set out the framework towards which IKB's business activities are geared. In the financial year 2013/14, all of the risk strategies were revised in order to reflect the current business focus and the economic situation. The areas of the strategies requiring adjustment as identified by the Strategy and Risk Committee were taken into account.

### *Credit risk strategy*

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

### *Market price risk strategy*

The market price risk strategy describes the risk profile IKB is prepared to accept when entering into market price risk, how this is measured and controlled and what measures are taken to prevent undesirable risks. In its customer business, the Bank focuses on providing interest and currency derivatives to support the interest and currency management of its customers with regard to possible market price risks. This is supplemented by the fact that securities issued by customers with the aim of promptly reselling them to third-party investors are accepted in the trading book. For trading book transactions, the Bank largely restricts itself to highly liquid products denominated in euro and US dollar, while the maximum risk positions this entails are kept very low. The majority of the Group's market price risk therefore results from asset/liability management and its investment portfolios. The key risk drivers are credit spread risks and interest rate risks, which the Bank intends to continue to limit as part of its market price risk management.

### *Liquidity strategy*

The current liquidity protection is based on the acceptance of customer deposits guaranteed by the Deposit Protection Fund, the issuance of promissory note loans, secured borrowing on the interbank market and participation in the ECB tender procedure. In addition to ensuring that the Bank is able to meet its payment commitments at all times, the aim of liquidity management is to ensure permanent access to affordable, diversified refinancing options. A diversified portfolio of ECB-eligible liquid securities serves as a liquidity reserve.

### *Operational risk strategy*

The primary objective of operational risk management at IKB is to reduce the losses resulting from operational loss events. Based on data from the business impact analysis, which records and evaluates the operational risks that are inherent to IKB's business, processes and systems, contingency plans are prepared for the risks classified as "critical" as a minimum. In each case, the contingency plan for the respective concrete situation describes the immediate measures to be taken and the measures that are required to ensure an orderly return to normal operation. In addition to the business impact analysis, a quarterly individual analysis of the operational risk situation is conducted with a view to human resources, processes, projects, legal risks and infrastructure as well as the measures initiated to reduce or prevent risk in each case.

## Counterparty default risk

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

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

### *Credit approval process and individual exposure monitoring*

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

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

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

The basis for every credit decision is a detailed credit analysis which shows and evaluates the information relevant to the decision, and documents this clearly in a decision paper. In addition to the analysis of the economic circumstances of borrowers based on annual financial statements, forecasts and liquidity planning, credit analysis places a considerable focus on the sales and procurement markets of the respective borrowers, their positioning in the relevant markets and their prospects for the future. At the same time, a great deal of importance is attached to the mobility of loans, i.e. their eligibility for transfer or syndication.

In syndication transactions, acquisition finance and other individual cases of corporate finance involving the assumption of underwriting risks and subsequent transfer, there is a limit system for the size of individual underwriting positions and the aggregate of all underwriting positions, the aim of which is to ensure that even those risk positions that are intended only to be held in the credit book for a short period are syndicated during the approved period.

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

Existing credit exposures are generally reviewed by Credit Risk Management every twelve months using the appropriate processes and approval procedures. Furthermore, individual sub-portfolios and key individual exposures are analysed with regard to their risk situation and exposure strategies derived on an annual basis. Regular portfolio analysis and measurement for all security investments, securitisations, portfolio investments and other structured loan products are also carried out by the Credit Risk Management central division.

### *Rating process and systems*

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

In the case of classic corporate financing, IKB uses a corporate rating that assesses the economic situation of the borrower based on financial ratios using mathematical and statistical processes. Individual customer and industry characteristics (qualitative factors) are taken into consideration by means of expert opinions.

For acquisition finance, the Bank uses a system that has been specially developed for leveraged finance transactions, which takes into account the financing structure on the basis of key ratios as well as qualitative factors of the transaction. The development, maintenance and operation of the rating system have been outsourced to a third-party service provider.

For project and special financing, IKB uses models that enable statements as to the debt service capacity by means of various scenarios, as the focus in this area is on the amount and sustainability of the cash flow for servicing interest payments and repayments which arise during the project duration. The real estate rating procedure used in commercial real estate financing rates creditworthiness on the basis of a variety of specific property data and investor information. As both project finance and real estate financing are no longer part of IKB’s strategic focus and there will be no more new business, these rating methods will no longer be developed further.

### *Country risk*

Country ratings are determined using economic data and ratios regarding the economic development of the country and its solvency in conjunction with a qualitative assessment of the political and social situation in the country. Internal economic analyses, international databases, rating agencies and, where applicable, other external sources are used as a basis for decision-making. Country ratings are determined by Credit Risk Management based on its evaluation of this information.

### *Quantifying credit risk*

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

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

### *Portfolio monitoring and management*

When monitoring portfolios, the central focus is on examining the entire credit portfolio. Industry and market changes are jointly observed in a timely manner by front and back office units specialising in industry risks. Their extensive industry expertise is an important component of the cluster analyses carried out in the context of risk management. The aim here is to recognise and limit sector risks in the lending business as early as possible, taking into consideration expected developments. In addition, monthly portfolio meetings are generally held between the company advisors and restructuring specialists in back office at the branches in order to discuss potential problem exposures at an early stage and initiate measures aimed at reducing counterparty default risk.

Regular monitoring by the Limit Committee, which comprises representatives from the Economic Research, 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. Sector limits are determined on the basis of the existing structures and in due consideration of identified sector risks and economic influences on the individual sectors and upper limits for individual loans and loans to company groups are defined in order to prevent concentration risks. Furthermore, the credit portfolio is continuously monitored by risk analysts at Credit Risk Management specialising in industrial sectors.

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

### *Structure of counterparty default risk*

The credit volume as of 31 March 2014 was composed as follows:

*Table: Credit volume*

| | | Group | | | IKB AG | |
|---|---|---|---|---|---|---|
| **in € million** | **31.3.2014** | **31.3.2013** | **Change** | **31.3.2014** | **31.3.2013** | **Change** |
| Receivables from banks | 2,235 | 2,219 | 16 | 2,109 | 2,091 | 18 |
| Receivables from customers | 12,263 | 14,707 | -2,444 | 14,232 | 16,752 | -2,520 |
| Bonds and other fixed-income securities not including own bonds | 6,820 | 7,161 | -341 | 6,524 | 6,991 | -467 |
| Equities and other non-fixed-income securities | 568 | 497 | 71 | - | 28 | -28 |
| Liabilities held for trading | 318 | 266 | 52 | 318 | 266 | 52 |
| Equity investments[1)] | 25 | 27 | -2 | - | - | - |
| Lease assets | 1,170 | 1,365 | -195 | - | - | - |
| Other assets: Assets held for sale | - | 91 | -91 | - | - | - |
| **Subtotal: balance sheet assets** | **23,399** | **26,333** | **-2,934** | **23,183** | **26,128** | **-2,945** |
| Contingent liabilities[2)] | 1,376 | 941 | 435 | 2,370 | 2,024 | 346 |
| Asset derivatives in the non-trading book | 1,412 | 2,148 | -736 | 1,435 | 2,146 | -711 |
| Write-downs[3)] | 497 | 531 | -34 | 455 | 480 | -25 |
| Leasing: deferred income and advance payments for intangible assets | -78 | -138 | 60 | | | - |
| Provisions for expected losses for embedded derivatives | -41 | -120 | 79 | -41 | -120 | 79 |
| less portions of bonds and receivables from banks attributable to third parties | -15 | -13 | -2 | - | - | - |
| **Gross credit volume** | **26,550** | **29,682** | **-3,132** | **27,402** | **30,658** | **-3,256** |
| For information purposes: other significant counterparty default risks outside the gross credit volume | - | - | | - | - | |
| Irrevocable loan commitments | 822 | 1,211 | -389 | 767 | 1,066 | -299 |
| Investments[1)] and shares in associated and affiliated companies | 73 | 44 | 29 | 148 | 136 | 12 |

1) In the Group, investments after consolidation are part of the gross credit volume, at IKB AG they are outside the gross credit volume.
2) not including derivative components of non-separated structured products (credit default swaps – CDS), which are reported under "Bonds and other fixed income securities", before deducting risk provisions
3) not including provisions for expected losses for embedded derivatives in structured products; credit volume after deduction of valuation allowances on bonds and other fixed-income securities

The gross credit volume at the Group declined by € 3.1 billion to € 26.6 billion in the past financial year. This was primarily due to the € 2.4 billion reduction in receivables from customers as a result of repayments, as well as the € 0.7 billion decrease in asset derivatives in the non-trading book due to the streamlining of the derivatives portfolio. Development at IKB AG was similar. In addition, leasing assets at Group level declined by € 0.2 billion, while the volume of bonds decreased by € 0.3 billion.

The increase in contingent liabilities of € 0.4 billion to € 1.4 billion in the Group is attributable to new protection seller credit default swaps.

*Table: Credit volume by size – Group*

| | 31.3.2014 in € million | 31.3.2014 in % | 31.3.2014 Number[1] | 31.3.2013 in € million | 31.3.2013 in % |
|---|---|---|---|---|---|
| Under € 5 million | 3,254 | 12% | 21,340 | 3,726 | 13% |
| Between € 5 million and € 10 million | 1,809 | 7% | 254 | 2,105 | 7% |
| Between € 10 million and € 20 million | 2,867 | 11% | 208 | 3,050 | 10% |
| Between € 20 million and € 50 million | 3,050 | 11% | 100 | 2,994 | 10% |
| Over € 50 million | 13,555 | 51% | 66 | 14,350 | 48% |
| **Subtotal** | **24,535** | **92%** | **21,968** | **26,225** | **88%** |
| Risk transferred to third parties[2] | 2,015 | 8% | - | 3,457 | 12% |
| **Total** | **26,550** | **100%** | **21,968** | **29,682** | **100%** |

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

While there was an above-average reduction in the credit volume in both absolute and relative terms in the risk transferred to third parties and the categories up to € 20 million – particularly as a result of repayments – the share attributable to the "Over € 50 million" category increased from 48% to 51%. However, the credit volume in this category also declined in absolute terms. The increase is primarily attributable to loans to the public sector, the volume of which rose from € 3.2 billion to € 4.1 billion.

By contrast, the credit volume attributable to banks and the financial sector in this category fell from € 9.3 billion to € 8.1 billion. Corporate financing in this category also declined from € 1.9 billion to € 1.5 billion. The average exposure per borrower unit in this category is € 205 million (previous year: € 153 million based on 94 borrower units).

In terms of both volume and number, the "Under € 5 million" category primarily consists of lease finance.

The volume of risks transferred to third parties declined by € 1.4 billion to € 2.0 billion, largely as a result of repayments of loans transferred or secured by way of securitisation transactions. All in all, risks transferred to third parties still accounted for 8% of the total credit volume. They comprise liability sub-participations by banks (primarily KfW Bankengruppe – KfW) of € 1.2 billion, public guarantees including Hermes cover of € 0.1 billion and synthetic securitisations of € 0.7 billion, in which KfW hedges the credit risk. The Bank is secured against counterparty default risks by means of synthetic securitisations, although the loans are still reported in the balance sheet and continue to be managed by IKB.

The synthetic securitisations of € 0.7 billion (previous year: € 1.6 billion) are comprised as follows:

- The credit risk for loans with a volume of € 0.2 billion has been transferred in full.
- Hedging in the amount of € 0.2 million is in place for loans of € 0.3 billion; this is considered sufficient subordination.
- Loans with a volume of € 0.2 billion relate to risk transfers for which only the expected, and parts of the unexpected, loss in the amount of € 32 million (originally € 39 million) has been transferred. This subordination is still considered sufficient on account of the quality of the securitised credit receivables.

*Table: Credit volume by size – IKB AG*

| | 31.3.2014 in € million | 31.3.2014 in % | 31.3.2014 Number[1] | 31.3.2013 in € million | 31.3.2013 in % |
|---|---|---|---|---|---|
| Under € 5 million | 1,537 | 6% | 1,238 | 1,831 | 6% |
| Between € 5 million and € 10 million | 1,707 | 6% | 236 | 1,975 | 6% |
| Between € 10 million and € 20 million | 2,741 | 10% | 197 | 2,881 | 9% |
| Between € 20 million and € 50 million | 3,099 | 11% | 101 | 3,140 | 10% |
| Over € 50 million | 12,033 | 44% | 59 | 12,907 | 42% |
| **Subtotal** | **21,117** | **77%** | **1,831** | **22,734** | **74%** |
| Risk transferred to third parties[2] | 2,015 | 7% | - | 3,457 | 11% |
| Internal transactions | 4,270 | 16% | - | 4,467 | 15% |
| **Total** | **27,402** | **100%** | **1,831** | **30,658** | **100%** |

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

### *Collateral, risk transfer and securitisation*

The provision of cover by means of traditional collateral (property liens, transfers of ownership and guarantees) is still of great importance for the traditional lending business at IKB. The carrying amounts for collateral used for security in the classic lending business are continually checked and updated. Leased assets are assigned to the “Transfers of ownership” category.

*Table: Credit volume by type of collateral – Group*

| | 31.3.2014 in € million | 31.3.2014 in % | 31.3.2013 in € million | 31.3.2013 in % |
|---|---|---|---|---|
| Property liens and charges | 3,799 | 14% | 4,202 | 14% |
| Transfers of ownership and leased assets | 2,564 | 10% | 2,799 | 9% |
| Other collateral[1] | 2,361 | 9% | 2,546 | 9% |
| Collateralised | 1,458 | 5% | 2,418 | 8% |
| **Secured credit volume[2]** | **10,182** | **38%** | **11,965** | **40%** |
| Without collateral | 14,353 | 54% | 14,260 | 48% |
| **Subtotal** | **24,535** | **92%** | **26,225** | **88%** |
| Risk transferred to third parties[3] | 2,015 | 8% | 3,457 | 12% |
| **Total** | **26,550** | **100%** | **29,682** | **100%** |

1) e.g. assignment of receivables, participation rights, assignment of shares, ownership rights, subordinations, positive/negative pledges
2) including credit portions beyond collateral value
3) Hermes guarantees, indemnifications, risks transferred

Exposures secured by means of mortgage loans, transfers of ownership and other collateral decreased by a total of € 0.8 billion in the past financial year following repayments.

As the Bank does not offset derivatives with positive fair values against derivatives with negative fair values involving the same counterparty when presenting its credit volume, the “Collateralised” category shows the derivative volume for which derivatives with positive fair values are accompanied by derivatives with negative fair values in the same amount. The volume declined from € 2.4 billion to € 1.5 billion as a result of streamlining the portfolio.

Where the Bank also provides collateral in the form of cash and term deposits for derivatives on the interbank market, these are reported under “Without collateral”.

The proportion of the total credit volume without collateral increased from 48% to 54% as a result of the expansion of the credit volume in the public sector.

The majority of unsecured loans relates to banks and the financial sector (€ 7.2 billion; previous year: € 7.7 billion) and the public sector (€ 4.2 billion; previous year: € 3.3 billion). Unsecured loans relating to banks and the public sector primarily include securities that are assigned to the cash portfolio and are eligible at the ECB, currently including € 3.0 billion in mortgage bonds and covered bonds. Around € 3.0 billion of the unsecured loans relate to corporate financing (previous year: € 3.3 billion).

*Table: Credit volume by type of collateral – IKB AG*

| | 31.3.2014 in € million | 31.3.2014 in % | 31.3.2013 in € million | 31.3.2013 in % |
|---|---|---|---|---|
| Property liens and charges | 3,798 | 14% | 4,197 | 14% |
| Transfers of ownership | 452 | 2% | 470 | 2% |
| Other collateral[1)] | 2,361 | 9% | 2,544 | 8% |
| Collateralised | 1,458 | 5% | 2,416 | 8% |
| **Secured credit volume[2)]** | **8,069** | **29%** | **9,627** | **31%** |
| Without collateral | 13,048 | 48% | 13,107 | 43% |
| **Subtotal** | **21,117** | **77%** | **22,734** | **74%** |
| Risk transferred to third parties[3)] | 2,015 | 7% | 3,457 | 11% |
| Internal transactions | 4,270 | 16% | 4,467 | 15% |
| **Total** | **27,402** | **100%** | **30,658** | **100%** |

1) e.g. assignment of receivables, participation rights, assignment of shares, ownership rights, subordinations, positive/negative pledges
2) including credit portions beyond collateral value
3) Hermes guarantees, indemnifications, risks transferred

### *Geographical structure*

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

*Table: Credit volume by region – Group*

| | 31.3.2014 in € million | 31.3.2014 in % | 31.3.2013 in € million | 31.3.2013 in % |
|---|---|---|---|---|
| Germany | 11,687 | 44% | 13,062 | 44% |
| Outside Germany | 12,848 | 48% | 13,163 | 44% |
| Western Europe | 10,481 | 39% | 9,880 | 33% |
| Eastern Europe | 1,149 | 4% | 1,039 | 4% |
| North America | 1,099 | 4% | 2,156 | 7% |
| Other | 119 | 0% | 88 | 0% |
| **Subtotal** | **24,535** | **92%** | **26,225** | **88%** |
| Risk transferred to third parties[1)] | 2,015 | 8% | 3,457 | 12% |
| **Total** | **26,550** | **100%** | **29,682** | **100%** |

1) Hermes guarantees, indemnifications, risks transferred

With the credit volume falling overall, the share of domestic financing in the credit volume remained unchanged at 44% but its share of the non-transferred credit volume declined compared with the proportion attributable to the foreign portfolio.

The volume in Western Europe in particular increased by € 0.7 billion to € 10.5 billion. This was due in particular to investments in the public sector (€ 3.0 billion; previous year: € 2.2 billion) and the banking and financial sector (€ 5.0 billion; previous year: € 4.6 billion). By contrast, corporate financing declined by € 0.6 billion to € 2.5 billion (previous year: € 3.1 billion).

The share attributable to Eastern Europe remained essentially unchanged. Of the country obligations attributable to Eastern Europe in the amount of € 1.15 billion, around 5% relates to business activities in Russia. There are no business ties with Ukraine.

The downturn in the share attributable to the North American portfolio is due to the streamlining of derivatives business.

*Table: Credit volume by region – IKB AG*

| | 31.3.2014 in € million | 31.3.2014 in % | 31.3.2013 in € million | 31.3.2013 in % |
|---|---|---|---|---|
| Germany | 9,799 | 36% | 10,969 | 36% |
| Outside Germany | 11,318 | 41% | 11,765 | 38% |
| Western Europe | 9,643 | 35% | 9,191 | 30% |
| Eastern Europe | 528 | 2% | 404 | 1% |
| North America | 1,028 | 4% | 2,082 | 7% |
| Other | 119 | 0% | 88 | 0% |
| **Subtotal** | **21,117** | **77%** | **22,734** | **74%** |
| Risk transferred to third parties[1)] | 2,015 | 7% | 3,457 | 11% |
| Internal transactions | 4,270 | 16% | 4,467 | 15% |
| **Total** | **27,402** | **100%** | **30,658** | **100%** |

1) Hermes guarantees, indemnifications, risks transferred

*Table: Breakdown of country lending obligations by IKB country rating – Group*

| **31.3.2014** | | **Country ratings[1)]** | | | | |
|---|---|---|---|---|---|---|
| **in € million** | **Total[2)]** | **1-6** | **7-9** | **10-12** | **13-15** | **16-19** |
| Western Europe | 10,481 | 8,591 | 1,826 | 64 | - | - |
| Eastern Europe | 1,149 | 887 | 62 | 200 | - | - |
| North America | 1,099 | 1,099 | - | - | - | - |
| Other | 119 | 100 | 2 | 11 | 6 | - |
| **Total** | **12,848** | **10,677** | **1,890** | **275** | **6** | **-** |

1) excluding risks transferred to third parties; higher credit ratings reflect higher risk levels
2) Export credit guarantees are deducted from the figures presented above. No other adjustments for collateral are made.

In the Group, 83% of the credit volume attributable to countries outside Germany was assigned to the six best country ratings, 1-6. In addition, risk transfers (e.g. secured by Hermes guarantees) of € 0.2 billion related to borrowers outside Germany.

The country obligations in risk classes 13-15 primarily relate to Iran.

Country risks are included in the rating procedure of the Bank and when calculating impairments for significant receivables. To cover country risks, a global valuation allowance is recognised from rating class 13 downwards for the credit volume for which risk is not transferred; the resulting global valuation allowance amounted to € 0.2 million on account of the low credit volume and the collateral provided.

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

| 31.3.2014 | | Country ratings[1) | | | | |
|---|---|---|---|---|---|---|
| **in € million** | **Total[2)** | **1-6** | **7-9** | **10-12** | **13-15** | **16-19** |
| Western Europe | 9,643 | 8,020 | 1,559 | 64 | - | - |
| Eastern Europe | 528 | 509 | 1 | 18 | - | - |
| North America | 1,028 | 1,028 | - | - | - | - |
| Other | 119 | 100 | 2 | 11 | 6 | - |
| **Total** | **11,318** | **9,657** | **1,562** | **93** | **6** | **-** |

1) excluding risks transferred to third parties; higher credit ratings reflect higher risk levels
2) Export credit guarantees are deducted from the figures presented above. No other adjustments for collateral are made.

Within Western Europe, risks relate to the following states:

*Table: Credit volume in Western Europe by risk – Group*

| 31 Mar. 2014 in € million | Credit volume after risk mitigation | thereof public sector | thereof banks and financial sector[1) | thereof other counter-party default risks |
|---|---|---|---|---|
| UK | 2,448 | - | 1,770 | 678 |
| Italy | 1,674 | 1,128 | 190 | 356 |
| Spain | 1,630 | 605 | 555 | 470 |
| France | 1,574 | 147 | 885 | 542 |
| EU[2) | 1,525 | 697 | 828 | - |
| Netherlands | 421 | 107 | 210 | 104 |
| Austria | 266 | 172 | 44 | 50 |
| Switzerland | 210 | - | 127 | 83 |
| Ireland | 196 | - | 112[3) | 84 |
| Finland | 145 | 98 | 4 | 43 |
| Belgium | 140 | 27 | 97 | 16 |
| Denmark | 98 | 91 | 7 | - |
| Portugal | 64 | - | 25 | 39 |
| Other | 90 | - | 29 | 61 |
| **Total** | **10,481** | **3,072** | **4,883** | **2,526** |

1) Bank exposures in Spain and Italy contain primarily mortgage covered bonds.
2) European Commission, European Financial Stability Facility (EFSF) and European Investment Bank
3) The figure for Ireland contains portfolio investments of € 54 million held via special purpose entities in Ireland

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

| 31 Mar. 2014<br>in € million | Credit volume after risk mitigation | thereof public sector | thereof banks and financial sector[1] | thereof other counter-party default risks |
|---|---|---|---|---|
| UK | 2,395 | - | 1,717 | 678 |
| Italy | 1,539 | 1,128 | 55 | 356 |
| Spain | 1,371 | 605 | 296 | 470 |
| France | 1,295 | 145 | 815 | 335 |
| EU[2] | 1,525 | 697 | 828 | - |
| Netherlands | 417 | 105 | 208 | 104 |
| Austria | 230 | 172 | 24 | 34 |
| Switzerland | 209 | - | 126 | 83 |
| Ireland | 189 | - | 105[3] | 84 |
| Finland | 116 | 70 | 3 | 43 |
| Belgium | 115 | 25 | 74 | 16 |
| Denmark | 98 | 91 | 7 | - |
| Portugal | 64 | - | 25 | 39 |
| Other | 80 | - | 26 | 54 |
| **Total** | **9,643** | **3,038** | **4,309** | **2,296** |

1) Bank exposures in Spain and Italy contain primarily mortgage covered bonds.
2) European Commission, European Financial Stability Facility (EFSF) and European Investment Bank
3) The figure for Ireland contains portfolio investments of € 54 million held via special purpose entities in Ireland

## *Sector structure*

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

*Table: Credit volume by sector – Group*

| | 31.3.2014<br>in € million | 31.3.2014<br>in % | 31.3.2013<br>in € million | 31.3.2013<br>in % |
|---|---|---|---|---|
| Industrial sectors | 11,173 | 42% | 12,220 | 41% |
| Mechanical engineering | 1,206 | 5% | 1,139 | 4% |
| Retail | 868 | 3% | 850 | 3% |
| Services | 744 | 3% | 905 | 3% |
| Metal products | 733 | 3% | 830 | 3% |
| Energy supply | 716 | 3% | 777 | 3% |
| Other industrial sectors | 6,906 | 26% | 7,719 | 26% |
| Real estate | 699 | 3% | 1,001 | 3% |
| Financial sector | 1,780 | 7% | 2,188 | 7% |
| Banks | 6,654 | 25% | 7,466 | 25% |
| Public sector | 4,229 | 16% | 3,350 | 11% |
| **Subtotal** | **24,535** | **92%** | **26,225** | **88%** |
| Risk transferred to third parties[1] | 2,015 | 8% | 3,457 | 12% |
| **Total** | **26,550** | **100%** | **29,682** | **100%** |

1) Hermes guarantees, indemnifications, risks transferred

The reduction in the credit volume is reflected in almost all of the industry clusters. The credit volume decreased by € 1.0 billion year-on-year in the industrial sectors and by € 0.3 billion in the real estate industry. The € 0.8 billion reduction in the banking sector is primarily attributable to the decrease in the fair value of derivatives.

The degree of diversification in the industrial sectors is still high, with no single sector accounting for more than 5% of the portfolio. There was moderate growth in the credit volume in the two largest industrial sectors at present, mechanical engineering and retail, while the volume in the other sectors declined.

*Table: Credit volume by sector – IKB AG*

| | 31.3.2014 in € million | 31.3.2014 in % | 31.3.2013 in € million | 31.3.2013 in % |
|---|---|---|---|---|
| Industrial sectors | 9,054 | 33% | 9,880 | 32% |
| Mechanical engineering | 932 | 3% | 824 | 3% |
| Retail | 836 | 3% | 815 | 3% |
| Energy supply | 713 | 3% | 774 | 3% |
| Services | 538 | 2% | 677 | 2% |
| Metal products | 478 | 2% | 544 | 2% |
| Other industrial sectors | 5,557 | 20% | 6,246 | 20% |
| Real estate | 682 | 2% | 968 | 3% |
| Financial sector | 1,660 | 6% | 2,060 | 7% |
| Banks | 5,531 | 20% | 6,478 | 21% |
| Public sector | 4,190 | 15% | 3,348 | 11% |
| **Subtotal** | **21,117** | **77%** | **22,734** | **74%** |
| Risk transferred to third parties[1)] | 2,015 | 7% | 3,457 | 11% |
| Internal transactions | 4,270 | 16% | 4,467 | 15% |
| **Total** | **27,402** | **100%** | **30,658** | **100%** |

1) Hermes guarantees, indemnifications, risks transferred

### *Credit rating structure*

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

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

| | 31.3.2014 in € million | 31.3.2014 in % | 31.3.2013 in € million | 31.3.2013 in % |
|---|---|---|---|---|
| 1-4 | 7,781 | 29% | 7,606 | 26% |
| 5-7 | 8,270 | 31% | 8,689 | 29% |
| 8-10 | 4,907 | 18% | 5,669 | 19% |
| 11-13 | 2,165 | 8% | 2,159 | 7% |
| 14-15 | 387 | 1% | 482 | 2% |
| Lehman assets[2] | - | 0% | 344 | 1% |
| Non-performing assets[3] | 1,025 | 4% | 1,276 | 4% |
| **Subtotal** | **24,535** | **92%** | **26,225** | **88%** |
| Risk transferred to third parties[4] | 2,015 | 8% | 3,457 | 12% |
| **Total** | **26,550** | **100%** | **29,682** | **100%** |

1) higher rating classes reflect lower creditworthiness
2) see the "Significant events in the period under review"/"CDOs arranged by Lehman Brothers" subsection of section 2. "Economic report"
3) Carrying amounts, i.e. after deducting losses from securities with specific valuation allowances
4) Hermes guarantees, indemnifications, risks transferred

With the credit volume declining overall, the share attributable to the two best credit rating categories (1-4 and 5-7) increased from 55% to 60% of the total credit volume.

The € 0.2 billion increase in credit rating levels 1-4 is primarily attributable to new exposures in the public sector.

The lower credit volume in the corporate sector is reflected in credit rating levels 5-10 in particular. The majority of the 14-15 credit ratings relate to lease exposures for which the leased assets serve as collateral. The Lehman assets were returned following the settlement that was agreed in early November 2013.

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

| | 31.3.2014 in € million | 31.3.2014 in % | 31.3.2013 in € million | 31.3.2013 in % |
|---|---|---|---|---|
| 1-4 | 7,152 | 26% | 7,072 | 23% |
| 5-7 | 7,504 | 27% | 8,080 | 26% |
| 8-10 | 4,011 | 15% | 4,578 | 15% |
| 11-13 | 1,398 | 5% | 1,373 | 4% |
| 14-15 | 131 | 0% | 145 | 0% |
| Lehman assets[2)] | - | 0% | 344 | 1% |
| Problem exposures[3)] | 921 | 3% | 1,142 | 4% |
| **Subtotal** | **21,117** | 77% | **22,734** | 74% |
| Risk transferred to third parties[4)] | 2,015 | 7% | 3,457 | 11% |
| Internal transactions | 4,270 | 16% | 4,467 | 15% |
| **Total** | **27,402** | 100% | **30,658** | 100% |

1) higher rating classes reflect lower creditworthiness
2) see the “Significant events in the period under review”/“CDOs arranged by Lehman Brothers” subsection of section 2. “Economic report”
3) Carrying amounts, i.e. after deducting losses from securities with specific valuation allowances
4) Hermes guarantees, indemnifications, risks transferred

## *Non-performing assets (problem exposures)*

The following tables provide an overview of non-performing assets.

*Table: Non-performing assets[1)] – Group*

| | 31 Mar. 2014 in € million | 31 Mar. 2013 in € million | Change in € million | Change in % |
|---|---|---|---|---|
| Assets with specific valuation allowances | 838 | 1,064 | -226 | -21% |
| Non-impaired | 227 | 265 | -38 | -14% |
| **Total** | **1,065** | **1,329** | **-264** | **-20%** |
| as % of credit volume | 4.0% | 4.5% | | |

1) Credit volume including losses from securities with specific valuation allowances (31 March 2014: € 40 million; 31 March 2013: € 54 million)

The definitions relating to non-performing assets were changed as follows:

The definitions of problem exposures have been adjusted to reflect a proposal by the EBA[1]. The existing system remained unchanged as it was largely[2] already consistent with this proposal.

In accordance with this, default risks that show a debtor default as per section 178 CRR[3] are referred to as "non-performing assets" (previously: problem exposures).

If the Bank's individual reviews establish that the respective contractual obligations cannot be fulfilled by way of later payment or the liquidation of collateral, the receivable is classified as permanently impaired and an impairment loss is recognised. IKB takes the liquidation value of the available collateral into account. Non-performing assets classified as permanently impaired are reported separately as "Assets with specific valuation allowances".

Non-performing assets without specific valuation allowances also include exposures for which crisis-related restructuring (forbearance) has been performed without this requiring the recognition of specific valuation allowances.

Non-performing assets do not include:

- Risks transferred to third parties for non-performing assets (€ 278 million), as these credit risks have been assumed by other banks, public sector entities or via collateralised loan obligations (CLOs) and are assigned to the party assuming liability (change in credit rating). The credit portions transferred are only considered to be problem exposures if the party assuming liability also meets one of the default criteria (double default).
- Unutilised commitments for debtors whose residual exposure is classified as a problem exposure (€ 20 million); open commitments are not included in the credit volume, and
- securities transferred to Rio Debt Holdings – see the "Structured credit products" subsection of "Counterparty default risk" in section 4. "Risk report".

Non-performing assets decreased further as a result of the reduction in assets with specific valuation allowances and the improvement in the credit quality of non-impaired problem exposures (recovery).

1 "EBA FINAL draft Implementing Technical Standards On Supervisory reporting on forbearance and non-performing exposures under article 99(4) of Regulation (EU) No 575/2013" (ITS) dated 21 October 2013

2 IKB currently applies shorter compliance periods for borrower recovery than proposed by the EBA (EBA: 24 months; IKB: 12 months).

3 An asset is classified as "non-performing" if (1) insolvency proceedings have been initiated (2) interest or redemption payments have been in default for more than 90 consecutive days or if (3) there are other clear indications that the debtor cannot fulfil its contractual obligations.

*Table: Non-performing assets[1) ]– IKB AG*

| | 31 Mar. 2014 in € million | 31 Mar. 2013 in € million | Change in € million | Change in % |
|---|---|---|---|---|
| Assets with specific valuation allowances | 754 | 953 | -199 | -21% |
| Non-impaired | 194 | 232 | -38 | -16% |
| **Total** | **948** | **1,185** | **-237** | **-20%** |
| as % of credit volume | 3.5% | 3.9% | | |

1) Credit volume including losses from securities with specific valuation allowances (31 March 2014: € 27 million; 31 March 2013: € 43 million)

The following tables provide an overview of the development of assets with specific valuation allowances.

*Table: Assets with specific valuation allowances – Group*

| | 31 Mar. 2014 in € million | 31 Mar. 2013 in € million | Change in € million | Change in % |
|---|---|---|---|---|
| Germany | 431 | 618 | -187 | -30% |
| Outside Germany | 318 | 349 | -31 | -9% |
| **Loans with specific valuation allowances** | **749** | **967** | **-218** | **-23%** |
| Securities with specific valuation allowances[1)] | 89 | 97 | -8 | -8% |
| **Assets with specific valuation allowances (total)** | **838** | **1,064** | **-226** | **-21%** |
| as % of credit volume | 3.2% | 3.6% | | |

1) Carrying amounts plus losses from securities with specific valuation allowances (31 March 2014: € 40 million; 31 March 2013: € 54 million)

The € 226 million reduction in assets with specific valuation allowances is attributable to settlement and sales activities in Germany and abroad in the amount of € 218 million, which focused in particular on scaling back the volume of impaired loans in Germany (€ -187 million), as well as the sale and repayment of securities with specific valuation allowances in the amount of € 8 million.

*Table: Assets with specific valuation allowances – IKB AG*

| | 31 Mar. 2014 in € million | 31 Mar. 2013 in € million | Change in € million | Change in % |
|---|---|---|---|---|
| Germany | 401 | 558 | -157 | -28% |
| Outside Germany | 284 | 310 | -26 | -8% |
| **Loans with specific valuation allowances** | **685** | **868** | **-183** | **-21%** |
| Securities with specific valuation allowances[1)] | 70 | 85 | -15 | -18% |
| **Assets with specific valuation allowances (total)** | **755** | **953** | **-198** | **-21%** |
| as % of credit volume | 2.8% | 3.1% | | |

1) Carrying amounts plus losses from securities with specific valuation allowances (31 March 2014: € 27 million; 31 March 2013: € 43 million)

### *Risk provisioning*

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

*Table: Provisions for possible loan losses – Group*

| | 31 Mar. 2014 in € million | 31 Mar. 2013 in € million | Change in % |
|---|---|---|---|
| Additions to specific valuation allowances/provisions[1)] | 216.1 | 171.7 | 26% |
| Direct write-downs | 6.0 | 9.5 | -37% |
| Recoveries on loans previously written off | -9.7 | -10.5 | -8% |
| Reversal and unwinding of specific valuation allowances/provisions[1)] | -95.0 | -101.9 | -7% |
| Additions to/reversals of global valuation allowances | -29.9 | 31.6 | |
| **Provisions for possible loan losses** | **87.5** | **100.4** | **-13%** |
| Embedded derivatives/recoveries on receivables from portfolio investments previously written off | -0.7 | -20.9 | -97% |
| **Net addition to risk provisioning** | **86.8** | **79.5** | **9%** |
| Net income from securities and derivatives in the liquidity reserve | **0.7** | **-8.9** | |
| **Net risk provisioning** | **87.5** | **70.6** | **24%** |
| **Development of specific valuation allowances/provisions[2)]** | | | |
| Opening balance | 414.6 | 525.8 | -21% |
| Utilisation | -123.4 | -182.5 | -32% |
| Reversal | -83.9 | -83.5 | 0% |
| Reclassification and net interest expense and discounting | - | 0.2 | -100% |
| Unwinding | -11.1 | -18.4 | -40% |
| Additions to specific valuation allowances/provisions | 216.1 | 171.7 | 26% |
| Effect of changes in exchange rates | -1.1 | 1.3 | |
| **Total specific valuation allowances/provisions** | **411.2** | **414.6** | **-1%** |
| **Global valuation allowances** | | | |
| Opening balance | 135.2 | 103.6 | 31% |
| Addition/reversal | -29.9 | 31.6 | |
| **Total global valuation allowances** | **105.3** | **135.2** | **-22%** |
| **Total provisions for possible loan losses (including provisions)** | **516.5** | **549.8** | **-6%** |

1) including global valuation allowance for contingent liabilities recognised as provisions, net € 1 million reversal
2) not including provisions for embedded derivatives

At € 88 million, the net addition to provisions for possible loan losses was down € 12.9 million on the prior-year figure of € 100 million.

It should be noted that the figure of € 216 million for additions to specific valuation allowances and provisions in the financial year 2013/14 contains around € 20 million for risks from acquisition, project and real estate financing in Italy, France, Spain and the United Kingdom that was included in the global valuation allowances for identified latent risks in the financial year 2012/13. € 20 million were also included in the reversal of global valuation allowances in the financial year 2013/14. Additions to specific valuation allowances were also impacted by two significant individual cases that involved additions to provisions in the amount of € 49 million.

The reduction in the reversal of risk provisioning including unwinding and income from recoveries on loans previously written off is attributable to the fact that the opening balance of specific valuation allowances and provisions was 21% lower.

### *Risk reporting*

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

### *Structured credit products*

The risks of the remaining structured credit products relate to items that mostly reference corporate and state risks and the retention of IKB's own securitisation. IKB now has economic risks from investments with sub-prime content only for some of the assets transferred to the special-purpose entity Rio Debt Holdings.

The portfolio investments sub-segment included the following elements as of 31 March 2014:

- Securitisation positions with a nominal amount of € 161 million (31 March 2013: € 182 million) and a carrying amount of € 114 million (31 March 2013: € 122 million) assigned to the strategic core business of the Bank and primarily deriving from the securitisation of own loans. These assets largely have a sub-investment grade rating.
- Two synthetic transactions with six tranches and corporate and state reference assets with a total nominal volume of € 200 million (31 March 2013: € 200 million) and a carrying amount of € 200 million (31 March 2013: € 200 million). The transactions have an external rating of Baa.
- Securities with a nominal volume of € 244 million (31 March 2013: € 643 million) and a carrying amount of € 80 million (31 March 2013: € 82 million) that were transferred to Rio Debt Holdings. IKB's sub-prime risks have a carrying amount of € 36 million (31 March 2013: € 33 million). The residual income from the portfolio will be divided between IKB and Lone Star. After deducting the fair value of Lone Star's right to additional proceeds (equity kicker), IKB still has a share of the carrying amount of € 65 million (31 March 2013: € 69 million).

The four outstanding synthetic Lehman transactions (31 March 2013: nominal volume and carrying amount of € 344 million) were concluded by way of a settlement (see "Legal risk" subsection).

In terms of asset classes, the focus is on investments with corporate underlyings (CDOs of corporates and CLOs) in the amount of € 305 million (31 March 2013: € 313 million without Lehman CDOs). The risk of assets with ABS underlyings (ABS and CDO of ABS) amounted to € 74 million (31 March 2013: € 78 million).

## Liquidity risk

At IKB, liquidity risk encompasses insolvency risk, liquidity maturity transformation risk and economic liquidity risk.

Insolvency risk (also described as operational liquidity risk) represents the risk that IKB will be unable to meet its current or future payment obligations in full or in good time. The identification and analysis of liquidity risk is based on the expected cash flows for transactions that have already been contracted, supplemented by modelling, the planning of measures and new business and the liquidity reserve (options for borrowing with the ECB and cash on hand). The planning of measures relates in particular to the extension and establishment of customer deposits with deposit protection. The future liquidity balances thus calculated are reduced further via additional stress components (market disruptions, credit disruptions, changes in conditions, etc.) in order to establish a limit for the minimum liquidity balance over a one-year period. Furthermore, liquidity balances in the long-term funding matrix can lead to insolvency risk if appropriate controlling measures are not taken. This structural liquidity risk is made transparent via the reporting of long-term liquidity balances and is controlled by Treasury in the same way as for insolvency risk. At the same time, the liquidity limit for controlling purposes in liquidity reporting is based on a one-year horizon.

Maturity transformation risk describes the risk of increased refinancing costs (refinancing risk) and the risk that it will only be possible to close out transactions at a discount due to market disruptions (market liquidity risk). These two components are included in the calculation of the Bank's risk-bearing capacity in the form of a cost risk and are taken into account within the limit concept.

Economic risk describes the risk that IKB will find itself in a crisis situation as a result of market disruptions or changes in conditions. This risk is taken into account through the regular updating of stress tests and stress scenarios. The most negative consequences of the combined stress scenarios are applied in the limited scenario. The aim is to ensure that IKB can continue to operate under planning measures in certain stress scenarios for a defined period of time. Stress tests are also conducted as required.

In addition to the calculation of stress tests and stress scenarios on a regular basis and as required, IKB has implemented an early warning system for changes in the liquidity situation. The early warning indicators and the potential consequences are discussed with Treasury at regular intervals.

### *Liquidity risk controlling*

Treasury is responsible for the operational controlling of the liquidity risks discussed above and reported in the liquidity risk report. Treasury and Risk Controlling discuss the liquidity situation and all of the liquidity measures currently available at least once a week. The liquidity situation is also presented to the Asset Liability Committee (ALCo) of the Bank on a weekly basis and measures are discussed and resolved as required.

### *Refinancing situation*

In addition to secured financing on the interbank market and refinancing via the ECB, business involving deposits and promissory note loans with corporate clients, retail customers and institutional investors secured via the Deposit Protection Fund forms a key element of IKB's refinancing.

The secured refinancing volume on the interbank market including refinancing via the ECB amounted to around € 3.4 billion as of 31 March 2014 (previous year: € 3.8 billion).

The volume of customer deposits declined in the period under review, amounting to just under € 6.5 billion as of 31 March 2014 (previous year: € 7.0 billion).

In addition to these customer deposits, IKB has promissory note loans secured via the Deposit Protection Fund with a total volume of € 2.7 billion (previous year: € 3.5 billion). IKB AG also expanded the issue of bearer bonds in the retail customer segment to a total volume of just under € 0.3 billion as of 31 March 2014.

IKB will continue to actively utilise programme loans and global loans from government development banks for its customers.

### *Liquidity situation*

Depending on the development of its new business and taking into account credit facilities and liquidity commitments not yet utilised by customers, the Bank expects its liquidity requirements to amount to between € 7 billion and € 8 billion over the next twelve months. This figure is derived from the legal maturities of the Bank's asset and liability positions and its planned new lending business.

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

Liquidity planning is based on a range of assumptions as to the above and other factors which can determine liquidity, both on the assets side and the liabilities side. In the event that a number of these assumptions do not come to fruition, this may result in liquidity bottlenecks. For example, this may include market developments that prevent the Bank from extending liabilities guaranteed by the Deposit Protection Fund or selling balance sheet assets to a sufficient extent or at all. IKB has a liquidity contingency plan for this eventuality that has been jointly developed by Treasury and Risk Controlling. It describes a package of measures and a defined procedure for responding to a liquidity bottleneck.

IKB had secured its liquidity situation for the longer term as of 31 March 2014. The limited minimal liquidity balance is around € 1.5 billion higher than the liquidity limit. This comfortable liquidity situation is also underlined by the fact that, taking into account the legal maturities of the Bank's asset and liability positions and its options for borrowing with the ECB and on the secured interbank market and excluding its planned new lending business ceteris paribus (e.g. not including market disruptions), IKB is financed for an extended period.

The maturity transformation risk included in the calculation of the Bank's risk-bearing capacity amounts to € 26 million (see table in the notes).

In accordance with the German Liquidity Regulation (LiqV), the Bank will ensure that its liquidity ratio remains within a corridor of between 1.25 and 2.0. In the period under review, the liquidity ratio was comfortably in excess of the regulatory minimum of 1.0 at all times. After collecting initial data from the first year of application within the supervisory monitoring period, IKB will convert its liquidity controlling to the new indicator – the liquidity coverage ratio (LCR) and the net stable funding ratio (NSFR) – going forward. This data will provide an indication as to the benchmarks that will establish themselves for internal controlling above and beyond the statutory minimum requirements.

### Market price risk

Market price risk is defined as the risk of economic and accounting losses as a result of changes in market prices.

Market price risk is broken down into the risk factors of interest rates, credit spreads, FX (foreign exchange) rates, stock market and inflation indexes and their volatilities.

- Interest rate risks relate to potential changes in the value of transactions due to shifts in the risk-free yield curve.
- Credit spread risks result from changes in the default and liquidity premiums over the risk-free interest rate that are priced into securities and derivatives.
- FX rate risks result from fluctuations in the respective exchange rate with the euro.
- Stock market and inflation index risks relate to potential changes in the value of the affected stock market and inflation indices.
- Volatility risks relate to potential changes in the value of direct or indirect option positions as a result of fluctuations in the implicit volatility observable on the market or in option prices.

### Market price risk profile and business segments

IKB distinguishes between the following portfolios:

- Proprietary and customer trading,
- Investment portfolio including liquidity reserve,
- Loan refinancing.

For proprietary trading transactions, the Bank largely restricts itself to highly liquid products denominated in euro and US dollar. In its customer trading, the Bank focuses on providing interest and currency derivatives to support the interest and currency management of its customers with regard to possible market price risks. This is supplemented by the fact that securities issued by customers with the aim of promptly reselling them to third-party investors are accepted in the trading book. The maximum risk positions this entails are kept low.

IKB enters into interest rate risk in the form of refinancing and structural risk.

The relevant credit spread risk for IKB results in particular from securities and promissory note loans, the credit derivatives in its investment portfolio and the remaining portfolio investments. The specific management/hedging of credit spread risk is performed selectively depending on the respective market environment. The fundamental holding intention in the Bank's lending business means that credit spread risks are not considered to be relevant to the management of market price risk and are not actively managed.

IKB largely holds only currency positions in USD, GBP and CHF.

Accordingly, the majority of market price risks result from the investment portfolio and credit refinancing. The key risk drivers are credit spread and interest rate risks.

### Quantification and evaluation of market price risk

Risk identification takes the form of the calculation of value at risk (VaR), supplemented by stress tests and scenario analyses. All portfolios are valued on a daily basis. To measure market price risk, the Bank applies a VaR approach using historical simulations taking into account all relevant risk factors, i.e. interest rates, credit spreads, FX rates, stock market and inflation indexes and their volatilities. This is based on the aggregate holdings to which all material units of the Bank contribute.

For the purposes of daily operational risk monitoring, economic VaR is calculated at a 99% confidence level assuming a holding period of one day. In order to determine the Bank's risk-bearing capacity, VaR is also calculated on a daily basis at a confidence level of 99.76% (economic liquidation perspective) and 95% (accounting-based going-concern perspective) assuming a holding period of one year.

VaR reporting is broken down not only by portfolio, but also by risk type in order to enable a comprehensive assessment of the risk situation: the overall VaR, interest rate/volatility VaR, FX/volatility VaR, credit spread VaR and inflation VaR is calculated for each portfolio.

To support market risk management, risk factor sensitivities are calculated and reported regularly at the level of the individual transactions as well as on an aggregated portfolio basis.

As VaR-based market price risk measurement can only provide information on the development of the respective risk under "normal" conditions and historical simulation is limited to conditions over the last 250 trading days, VaR-based risk measurement is supplemented by stress testing. Depending on the scenario applied, stress tests also provide information on the development of a portfolio under "abnormal" conditions. Generally speaking, stress testing at IKB involves the application of various extreme historical and hypothetical changes in the market for all risk factors as prescribed by BaFin, Deutsche Bundesbank and IKB itself, and the calculation of the present value gain/loss resulting from these scenarios.

Regular backtesting is carried out in order to test the ability of the models used to make predictions. The Board of Managing Directors is informed of the results of backtesting as part of monthly risk reporting.

### *Market price risk management and hedging*

The main task of market price risk management is the management of the market price-sensitive positions entered into by the individual segments. Risks may only be entered into within the assigned limits. Risk measurement and monitoring is performed on an end-of-day basis.

IKB uses a combination of risk indicators, earnings indicators and other indicators to manage market price risk. Market price risk is derived from the daily measurement of all transactions. In connection with the increased inactivity of individual market segments, the extent to which market data still enables adequate measurement is examined regularly. Accordingly, market values derived from measurement models are applied for clearly defined portfolios.

### *Limitation of market price risk at Group level*

At IKB, market price risk is managed at the level of the risk consolidation group. Market risk is limited within the Bank's agreed portfolio structure using a system that contains the following elements:

- VaR limits
- Accounting limits on currency positions
- Position limits on the nominal volume, rating and holding period.

Limits are monitored on a daily basis as part of the preparation of the daily MaRisk report. The management is informed as soon as any limits are exceeded.

VaR limits are derived from risk-bearing capacity. This concerns the limits for the accounting-based going-concern perspective and the economic liquidation perspective. The detailed controlling resulting from the economic liquidation perspective consists of a VaR limit based on a 99% confidence level and assuming a holding period of one day.

### *Equity requirements for market risk*

IKB applies standard methods for calculating the equity requirements for market risk in the trading book.

### *Year-on-year comparison of the market price risk profile*

The following table shows the year-on-year development of the market risk profile at the level of the risk consolidation group in terms of the interest rate and credit spread basis point value and value at risk at a 99% confidence level and applying a holding period of one day.

*Table: Market price risk profile*

| in € million | Value at 31.3.2014 | Value at 31.3.2013 |
|---|---|---|
| **Interest rate basis point value (BPV)** | **-0.2** | **-0.4** |
| **Credit spread BPV** | **-5.8** | **-5.7** |
| VaR – interest rate and volatility | -21.9 | -10.3 |
| VaR – credit spread | -31.8 | -48.3 |
| VaR – FX and volatility | -1.4 | -0.9 |
| VaR – inflation and volatility | -1.2 | -1.9 |
| Correlation effect | 15.6 | 17.4 |
| **VaR (total)** | **-40.7** | **-44.0** |

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

### *Risk reporting*

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

Moreover, the Board of Managing Directors is provided with detailed information once a month on relevant market developments, changes in the portfolio, measurement of the portfolio, earnings development and the market risk profile. This monthly report also supplements market risk observation on the basis of VaR 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.

## Operational risk

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

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

All business units are required to report loss events which have occurred or almost occurred to ORM. Significant loss events and operational risks that become critical are compiled in a central loss database and examined for how they were caused and the impact they had. A risk assessment is carried out once every quarter for the OpRisk areas of activity HR, processes, infrastructure, legal risks and projects. The findings are included in the quarterly risk report.

The gross loss volume identified in the financial year amounted to a total of € 2.6 million at Group level (previous year: € 3.1 million). Around € 0.9 million of this figure related to IKB AG (previous year: € 2.1 million). Loss reductions (e.g. insurance, settlement or goodwill payments) mean that the loss recognised in the income statement can be lower. If individual loss amounts cannot (yet) be determined exactly, the values are based on estimates; it may not be possible to obtain accurate figures until considerably later in some cases.

Despite the resolution of major legal disputes, the Bank still believes that the greatest operational risks lie in its legal risks (see the “Legal risk” subsection) and the strain on resources resulting from extensive parallel regulatory information requirements and audits.

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. They analyse the specific risk profiles for the individual segments and central divisions and derive impetus for risk management.

Group-wide business continuity management is also the responsibility of ORM. All contingency plans are stored in comprehensive format on the IKB intranet and in hardcopy format in business continuity management manuals.

The quality of the contingency plans is ensured by means of regular emergency drills and user exercises.

### *Risk reporting*

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

### *Legal risk*

Legal risk is also included in operational risk. This constitutes the risk of losses incurred by breaching general statutory conditions, new statutory conditions or changes to or interpretations of existing statutory regulations (e.g. high court decisions) which are unfavourable for the Bank. Liability risk resulting from contractual agreements also forms part of legal risk.

The management of legal risk is the responsibility of the Legal central division.

This task is generally performed by internal employees. If necessary, external law firms are brought in for support.

In lending business and related business, a sample contract system based on text modules is used with which credit and collateral agreements in particular can be created. Deviations from these samples are checked and approved by the Legal central division. All sample contracts are continually reviewed to determine whether adjustments are required as a result of legislative changes or adjudications.

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

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

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

IKB and Group companies are involved in legal proceedings. The following section contains a summary of the pending proceedings against IKB and/or Group companies that have a value in dispute of more than € 15 million or that are material for IKB for other reasons:

**Legal proceedings due to alleged incorrect capital market information**

More than 140 claims were originally made against the Bank by investors in IKB securities following the start of the crisis in summer 2007. These claims related to the alleged incorrect content of the press release issued on 20 July 2007, but partly also to the alleged false content of the financial press conference held on 28 June 2007 and the alleged incorrect content of capital market information prior to this date.

The legal proceedings detailed above had a (provisional) total value in dispute of around € 14.6 million. In addition, further shareholders and investors in other IKB securities have approached the company out of court with claims for damages.

To date, more than 130 of these suits by investors have been finally concluded, in some cases with legally binding rulings in favour of the Bank or the withdrawal of the respective suits; in two cases, the Bank has been ordered to make payment. Seven cases of denial of leave to appeal are pending with the German Federal Court of Justice.

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

IKB still considers the outstanding claims by investors not yet dismissed (with a remaining provisional value in dispute of around € 0.75 million) and the out-of-court claims for damages to be unfounded. Nonetheless, even after more than five years since the crisis broke out, the possibility that additional investors will claim for damages against the Bank cannot be completely ruled out. The success of these claims could increase the overall risk to which the Bank is exposed.

**Other legal proceedings**

There is a possibility that claims for damages could be brought against IKB as a result of its activities or the activities of IKB Credit Asset Management GmbH in relation to Rhineland Funding Capital Corporation LLC (RFCC), Delaware, and/or Rhinebridge by parties involved in these transactions. However, a reduction of the legal risks was achieved with a settlement in the proceedings with Iowa Student Loan and King County in the context of the Rhinebridge transaction.

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

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

If IKB culpably violates a specific obligation in the indemnification agreement in connection with a specific claim covered by the indemnification agreement, under certain circumstances, the indemnification claim to this specific claim may be extinguished. The Board of Managing Directors regards the risk of a dereliction of duty as slight. This is because, to assure the contractual obligations of the IKB, the necessary implementation steps for securing behaviour in line with the agreement were specified in detail and documented in writing following in close coordination and cooperation with KfW. The indemnification claims of IKB are also extinguished retroactively if the share sale and transfer agreement or the share transfer in rem between KfW and LSF6 Europe Financial Holdings, L.P., Delaware, Dallas/USA (LSF6 Europe), are null and void or one of the parties exercises a right to terminate a legal relationship by unilateral declaration which results in the reversal of the performance rendered in the transaction 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.

**CDOs arranged by Lehman Brothers**

The Bank invested in structured credit products (originally five synthetic CDOs with a total nominal volume of € 334 million and US$ 213 million) in which Lehman Brothers acted as the secured party through a special purpose entity. Following the insolvency of Lehman Brothers, there was a dispute concerning the seniority of the distribution of the proceeds from the transaction collateral. The Bank has concluded the dispute by way of out-of-court settlements. The first settlement for a transaction under US law was agreed in July 2012. Another settlement encompassing the remaining four transactions was agreed in November 2013. Accordingly, there are no further legal risks in connection with the CDOs.

**State aid proceedings**

With its ruling on state aid proceedings on 21 October 2008, the European Commission imposed extensive conditions on IKB. The European Commission informed IKB of the suspension of its remaining ongoing monitoring of the fulfilment of the conditions in a letter dated 12 July 2013. Irrespective of this, IKB will continue and complete the winding-up of IKB International S.A. and the former 50% equity interest in Movesta Lease and Finance GmbH, which are still in progress due to legal reasons.

**Special audit under German stock corporation law**

In August 2009, the Düsseldorf Regional Court resolved at the request of shareholders to appoint a special auditor to examine whether members of the Board of Managing Directors or the Supervisory Board of IKB committed breaches of duty in connection with certain transactions relating to the crisis at IKB. The District Court awarded the special audit mandate to Dr Harald Ring, a member of the Management Board of Treuhand- und Revisions-Aktiengesellschaft Niederrhein, Wirtschaftsprüfungsgesellschaft/Steuerberatungs-gesellschaft, Krefeld, Germany.

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

Dr Harald Ring submitted his 1,836-page final report to IKB in late February 2014. In accordance with the German Stock Corporation Act (AktG), the Board of Managing Directors of a stock corporation is initially given the opportunity to examine whether a petition should be submitted for the non-inclusion of certain facts in the report. In accordance with the criteria of section 145(4) AktG, this may be necessary due to the overriding concerns of the company being audited. The court-appointed special auditor granted IKB a deadline of 17 April 2014 for this examination.

On 17 April 2014, IKB petitioned the Düsseldorf Regional Court for corresponding protective proceedings. In exercising its duty of care for its employees, IKB petitioned the court to have the personal data of Bank employees redacted in the report due to data protection considerations. The inclusion of the full names of the aforementioned members of the Board of Managing Directors and the Supervisory Board is not affected by the redaction proceedings.

IKB expects the special audit report to be submitted to the commercial register in the applicable version once the redaction proceedings are concluded. Shareholders will be entitled to request a copy of the report from this date. Once the redaction proceedings are concluded, the Board of Managing Directors will be required to include the special audit report as an agenda item when convening the next Annual General Meeting.

The report comes to the conclusion that the former members of the Supervisory Board were not responsible for breaches of duty in connection with the events that triggered the crisis. Although the special audit report identifies individual breaches of duty for the former members of the Board of Managing Directors, these breaches of duty did not lead to the subsequent crisis at IKB or there is insufficient certainty that this was the case.

All in all, the possibility that the facts and assessments included in the report by the special auditor will lead to the initiation of legal proceedings against the company by third parties cannot be ruled out. IKB expects any such legal proceedings to be unsuccessful.

Based on the overall body of available information, IKB is now performing a final examination of the existence and enforceability of claims for damages against the members of the executive bodies during the relevant period. The results of the special audit will be included in this examination.

**Recessionary actions against resolutions by Annual General Meetings**

Recessionary and revocation claims against resolutions made by the following Annual General Meetings are currently still pending:

- Annual General Meeting on 28 August 2008 (agenda item 6: election of the Supervisory Board),
- Annual General Meeting on 25 March 2009 (including agenda items 3 and 4: cancellation of the special audit with regard to the Board of Managing Directors and the Supervisory Board).

With regard to the Annual General Meetings on 27 March 2008, 28 August 2008 and 25 March 2009, compulsory information proceedings have also been filed with the court in accordance with section 132 AktG.

**Derivatives trading**

In individual cases, customers criticised the consulting services provided by the Bank in connection with certain swap products. Legal proceedings were initiated in six cases. One of these cases has since been concluded, while another is currently pending in the second instance. The provisional total value in dispute in all pending proceedings is approximately € 15.3 million.

## IT risk

In the area of IT risk, 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 based on the international standard ISO 27001 and the "Baseline Protection Manual" of the Federal Office for Information Security.

System and network security are also updated on an ongoing basis to reflect changing external threats. Infrastructure risks are minimised by dividing facilities between two separate data centres.

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

Staff training is also a key element of security precautions.

These measures are supported and verified by regular checks and emergency drills. The information security management system (ISMS) is regularly certified by TÜV Rheinland on the basis of ISO 27001. The outsourcing of IT services is taken into account as part of the ISMS; in particular, quality assurance is performed for data security and data protection aspects of significant outsourcings in the form of internal certification.

## Compliance risk

As a bank, IKB is subject, among other things, to the legal standards of the German Banking Act (KWG), the German Securities Trading Act (WpHG) and the German Money Laundering Act (GwG), which results in obligations concerning the prevention of market manipulation and conflicts of interest, the proper performance of investment services and ancillary investment services, and the prevention of money laundering, the financing of terrorism and other illegal acts. The regulatory requirements contained in BaFin circulars, such as the “Minimum Requirements for the Compliance Function and the Other Conduct, Organisational and Transparency Duties arising from Sections 31 et seq. of the WpHG” (MaComp) and MaRisk, must also be implemented.

The statutory requirements are complied with via a typical three-level organisational structure. In the first line of defence, the employees in the front office and supporting back office departments observe documentation requirements and rules of conduct. The second line of defence, i.e. the compliance function, provides technical advice and support on compliance requirements for front office, performs monitoring activities and manages central directories and registers in a preventive and process-related capacity. The independent monitoring of the Group’s business activities with respect to money laundering provisions is ensured by the anti-money laundering officers of IKB AG in Germany, the local anti-money laundering officers at the foreign branches and the officers appointed by the subsidiaries. The compliance officers and anti-money laundering officers report to the Board of Managing Directors and, for the compliance function, to the Supervisory Board on an annual basis and as required. Group Audit then performs a process-independent audit of the propriety and economic efficiency of the principles, tools and procedures as the third line of defence.

IKB’s newly developed business activities in recent years give rise to legal obligations for trading with financial instruments, rendering investment services and ancillary investment services and providing investment advice to customers. New product processes have to be carried out for new products with the support of the compliance function and money laundering prevention. With the Bank’s predominantly professional customers, a large amount of sensitive information is exchanged in connection with the lending and advisory business. Due to the associated high number of insiders in the Bank, varied compliance measures are required to protect this information against use that could cause conflicts of interest. The establishment of confidentiality areas, the management of the directory of insiders and the controlling of employee transactions are particularly important. To ensure that the various requirements are observed by the front-line employees, regular training is provided by the compliance function and money laundering/fraud prevention and individual measures and workflows are documented in organisational instructions/manuals. Employees are also continuously informed about current regulatory developments. Furthermore, the compliance function manages the registers of conflicts of interests, inducements, financial analyses/securities bulletins and the directory of insiders. The central office administers the fraud register and the internal whistleblower system. The central complaints register is held in the Legal division.

Overall, on account of its specific operations, IKB is exposed to less risk of money laundering than banks that perform over-the-counter business and payment transactions on behalf of customers. IKB has taken and implemented appropriate protective measures overall based on its business activities. Deposit and custody business with retail customers is monitored as part of ongoing outsourcing controlling.

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

The risks arising from fraudulent and other illegal acts to the detriment of the Bank are also analysed and evaluated in the threat analysis by the central office in accordance with section 25c KWG. All in all, there is considered to be a low to medium risk in this area. IKB is therefore not facing any non-standard or exaggerated risk of fraud.

In order to ensure the suitably efficient use of resources and to uphold the principle of proportionality, the compliance function pursues a risk-based approach. It performs a regular risk analysis (at least once a year) to identify the risks in terms of compliance with the relevant regulatory provisions and to determine the focal points for its ongoing advisory and monitoring activities. The compliance function performs monitoring activities in line with a risk-based monitoring plan. To prevent the vulnerabilities arising from the corresponding compliance risks, the compliance function permanently monitors the relevant legislation and regulatory developments, evaluates specialist literature and cooperates in associations and committees in order to allow it to identify and address areas requiring action at an early stage.

IKB has also implemented compliance regulations that specify conduct requirements with regard to securities compliance as binding for all employees (compliance concept) and that describe process instructions for the key areas of the investment services and ancillary investment services rendered (organisational instructions). IKB also describes the moral concepts and beliefs of the Bank in a Code of Conduct. The principles set out in the IKB Code of Conduct include requirements for the conduct of all employees at all locations of the Group. These provide a binding frame of reference for day-to-day business.

### Personnel risk

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

As a result of the extensive reorganisation of the Bank, there has been a reorganisation of the workplace and a reduction in the number of jobs over recent years. Existing structures and deeply-rooted processes were adjusted. Thanks to the clear regulations in the reconciliation of interests and the redundancy scheme that was in place until 31 March 2014, as well as the Bank’s stable management structures, the reorganisation proved to be successful without notable inefficiencies or elevated propensity to error. The cost reduction and restructuring measures implemented primarily related to the Düsseldorf location.

In the financial year 2013/14, the number of people leaving the Bank was roughly the same as the number of new appointments. The people leaving the Bank were spread equally across all segments. The anticipated personnel bottlenecks owing to the headcount reduction in the context of the restructuring only occurred in a handful of isolated cases. One factor that can be considered to have reduced risk in this regard is that the Bank has continued to succeed in recruiting a number of highly qualified new employees and executives.

Due to the regulatory conditions introduced by the German Remuneration Ordinance for Institutions (InstitutsVergV), IKB made various adjustments to the implementation of the statutory requirements in the financial year 2013/14. This included the adjustment of internal regulations and processes (including staff appraisal, section 4 of the old version of the InstitutsVergV).

The implementation of the new version of the InstitutsVergV dated 16 December 2013 means that IKB is now classified as a major institution. As IKB's financial year does not correspond to the calendar year, it has been agreed with BaFin that the adjustments will only be implemented at the start of the new financial year 2014/15. Among other aspects, the risk analysis for identifying risk takers, the negotiation of the new company agreements on variable remuneration and the adjustment of employment contracts and internal regulations are currently still in progress. As at 1 April 2014, a remuneration officer and a deputy remuneration officer had already been appointed, a Remuneration Control Committee had been set up, the derivation of targets in the context of staff appraisals from the business and risk strategy had been specified and the new control units had been defined and set out in writing.

### Strategic risk and reputation risk

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

Due to the fact that there are no regularities as regards strategic risks, it is difficult to capture these quantitatively as special risks in an integrated system and they are therefore assessed qualitatively. Accordingly, they are subject to the close and continuous observation of the Board of Managing Directors and the Strategic Planning and Investment Management central division. This includes the regular examination of the business strategy by the Board of Managing Directors, taking into account the implications for the planning process. Business policy objectives, measures and risks are also continuously reviewed by the Strategy and Risk Committee and at the Board of Managing Directors conferences and meetings. This gives rise to strategic initiatives and optimisation measures.

Reputation risks are the risk of losses, falling income, increasing costs and reduced enterprise value as a result of deterioration in the Bank's reputation in the eyes of the public, primarily in the case of customers, rating agencies, employees and shareholders. Reputation risks frequently result from other types of risk and compound these as a result of their public impact. It is generally not possible to quantify the probability and the consequences of the occurrence of a reputation risk.

Reputation risks at IKB are managed by the Board of Managing Directors. Responsible communications with all interest groups is a high priority in the management of reputation risks.

### Business risk

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

The operating management of business risk – i.e. reducing the risk of a negative change in earnings performance within the business strategy agreed with the Board of Managing Directors – is the responsibility of each individual segment, central division and subsidiary. The Finance division prepares monthly performance analyses for existing and new business in the context of performance controlling and presents management reports to the Board of Managing Directors on a weekly basis, in which deviations from planning in income and assets are identified and analysed. This provides a basis for ensuring that business risk is continually monitored and reported. The Board of Managing Directors is therefore able to react to negative developments even at short notice.

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

### *Risk reporting*

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

## Participation risk

As the material individual counterparty default, market price, liquidity, business and operational risks in the investment portfolio are already taken into account for the individual risk types, participation risk (in the sense of dividend suspension, write-downs of carrying amounts, losses on disposal and reductions in hidden reserves) is not classified as a material risk type in its own right.

IKB pursues the objective of minimising the number of subsidiaries and investments.

The Bank makes a distinction between credit substitution and strategic investments. In particular, credit substitution investments are investments in the Bank's product range. The Bank enters into strategic investments to generate sustainable (strategic) value added. The Bank distinguishes between primary strategic investments that are intended to increase customer and market potential and that form part of its business model and strategic investments in joint ventures and other companies that may be entered into with the aim of supplementing the product range, tapping synergies and reaching new target customers (cooperation/joint ventures). These are supplemented by investments in companies that perform services for the Bank (outsourcing) or that represent joint investments or shelf companies. The strategic investments are examined for materiality once a year. The resulting material investments are included in the quarterly investment report.

The Strategic Planning and Investment Management central division handles and coordinates the operative investment processes. The Legal central division is responsible for examining and designing all matters relating to company and regulatory law and consults on the legal aspects of strategic decisions and on the performance of shareholder functions. The Finance central division is responsible for investment controlling and the evaluation of the strategic investments. Authority for decisions on strategic investments lies with the Board of Managing Directors as a whole; in a few defined cases (such as investment decisions relating to less than € 500,000 or mandate decisions), the authority resides solely with the relevant responsible member of the Board of Managing Directors. The Executive Committee must approve the acquisition, disposal or formation of companies if the subject of the respective transaction accounts for more than 5% of the liable equity of IKB or this is required by the regulatory standards.

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

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

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

In order to maintain an appropriate tier 1 capital ratio for IKB AG and the IKB Group, internal transactions are conducted within the Group to reallocate risk-weighted assets and to balance capital ratios.

## Overall assessment of the risk situation

IKB generated consolidated net income in the year under review. In particular, it strengthened the Group's common equity tier 1 (CET 1) capital and the CET 1 ratio during the year and with the addition to the fund for general banking risks at the end of the financial year. This resulted in positive effects in terms of increased risk-bearing capacity as well as additional scope for the comprehensive assessment (CA) that is currently being conducted by the ECB. There are still doubts as to the sustainability of the "recovery" in the euro zone, whether because the eagerness to reform has abated or because fears of deflationary trends are emerging. The lingering conflict in Ukraine is another factor providing uncertainty. With this in mind, the strengthening of tier 1 capital in the year under review is also useful in terms of protecting against potential reactions in a capital market environment that remains fragile.

At present, the benchmarks set by the ECB as part of the CA (8% for the asset quality review – balance sheet assessment) and for the baseline scenario in the stress test and 5.5% for the adverse scenario in the stress test) are the key minimum targets for IKB's own common equity tier 1 ratio. At the end of the financial year, IKB had a CET 1 ratio in accordance with CRR/CRD IV of 10.4% at Group level, meaning that it has a buffer for the ECB's CA that can be used for any more stringent requirements that may arise from the balance sheet assessment and/or the stress tests. The final amount of the additional requirements in terms of common equity tier 1 capital is expected to remain uncertain for all of the banks supervised by the ECB until October 2014. This uncertainty could well have a negative impact on the upturn on the European capital markets that was observed in the past financial year. IKB intends to continue to increase its CET 1 ratio through targeted measures.

Taking the Bank's forecasts into account, risk-bearing capacity from a going-concern perspective as currently required by the national regulatory provisions set out in MaRisk remains secure without restriction for the next twelve months and a further two years after that. Here, too, the scope in terms of free risk coverage potential has increased. The Bank's risk-bearing capacity in the liquidation perspective has also improved significantly. In IKB's view, there is still no threat that the risks affecting major euro zone member states will take hold in the near future and thus endanger the Bank.

In view of the process of banking union and the imminent adoption of the resolution regime for banks in the EU, it remains necessary for IKB to continue to spread the euro securities it requires (ECB eligibility, inclusion in the LCR – liquidity coverage ratio) among the counterparty states as well as focusing almost exclusively on good-quality covered debt securities (mortgage bonds, covered bonds, etc.). Generally speaking, the sustained low level of interest rates is impeding the generation of adequate interest income. IKB's securities portfolio continued to increase in value during the financial year 2013/14 due to the easing of the tension on the capital markets. Interest receivables from the securities portfolio helped to stabilise net interest income in an extremely low-interest environment. In IKB's lending business with corporate customers, there remains a stable situation with regard to German companies. Despite the recession in many European countries, German companies enjoyed good to very good sentiment in the past calendar year. The favourable situation at present could be endangered in particular if the Ukraine conflict were to gain undesirable momentum. The current competitive situation among banks in Germany embodies the risk of inadequate margins. IKB is maintaining its high profitability and risk standards.

The situation for corporate financing in Italy, Spain and France is considerably more difficult than in Germany; however, these countries now account for only a small proportion of IKB's overall corporate loan portfolio. Furthermore, the risk provisions recognised in the financial year led to high coverage ratios. The first signs of improvement in the strained economic situation in the other EU countries mentioned above had emerged by the end of the financial year, but it remains unclear as to how sustainable this development will prove to be.

In an environment characterised by substantial potential event risks (Ukraine, fears of deflation, setbacks in the euro zone), IKB has secured its liquidity situation for the long term and is remaining cautious in its liquidity management.

The Bank considers the remaining legal risks at present to be manageable. This also applies to the potential legal consequences of the special audit.

Broadly speaking, the banking industry will continue to be accompanied by the uncertainty described above and the resulting high volatility on the markets, as well as the growing number of new regulatory measures, for some time. Against this backdrop, the possibility of further new crises resulting in unexpected default, market price and liquidity risks for the banking system – and therefore also for IKB – cannot be ruled out, even in the near future. This could also restrict the business opportunities available to the Bank and have a corresponding impact on the fulfilment of regulatory requirements, the development of risk-bearing capacity and the development of risk provisioning.

The need to implement the various regulatory measures imposed by the banking authorities poses a particular challenge for the Bank's employees with the extensive additional requirements arising from the ECB's CA. The CA requires an unusually high number of loan reviews and the provision of an extremely deep and broad-based range of data with a high level of quality within a tight timeframe. This will result in significant additional costs due to IKB-specific factors (such as the fact that the Bank's financial year is not the calendar year). The extraordinary nature and extent of these requirements mean that human resources bottlenecks are all but inevitable.

The Board of Managing Directors expects the economic upturn in Europe and the USA to continue, with Germany in particular also seeing an improvement in investment activity, enabling further growth in operating business. This will have a material influence on the duration of the current phase of low interest rates and the successful renunciation of the ECB's highly expansionary monetary policy. In the euro zone, the continued development of the economy, the banking sector and individual banks will also depend to a large extent on the effects of a number of regulation and taxation projects whose impact is difficult to assess. This applies in particular to the CA that is currently in progress, including the ambitious banking union project.

## 5. Report on opportunities

IKB has focussed its business model on services for SMEs with extensive advisory and financing requirements. In the year under review, targeted measures were undertaken to strengthen the sales team in specific cases.

The Bank's common equity tier 1 capital and risk-bearing capacity were strengthened further in the financial year 2013/14. Total assets and risk-weighted assets were reduced, while existing loans were higher-yielding and selective new lending was performed at higher margins than in the past. The portfolio of non-strategic loans was reduced further. The risk management system, which had already been strengthened and expanded, was adjusted to reflect the growing requirements of the banking authorities. The material risks triggered by the IKB crisis have been resolved. Liquidity has been secured by reducing the requirements and by establishing targeted deposit business. Refinancing costs in particular were reduced in the year under review. On this basis, IKB is concentrating on the systematic expansion of its operating business in the financial year 2014/15. IKB expects German companies to increase their investment volume once again and seek to generate external growth to a greater extent than has been the case recently. IKB is well-placed to provide the necessary financing and advisory services thanks to its product range, its strategic positioning and its SME expertise. This applies in particular to companies that are looking to finance their expansion via the capital markets as an alternative to their relationship bank.

In the medium term, the supply of credit could be curbed by banking regulation measures. This may be one of the reasons why the potential market volume for European credit funds is growing. In the past financial year, insurance companies and pension funds invested a growing percentage of their assets directly in private debt and loans. In light of the high barriers to entry in this market for traditional asset managers and the fact that only a few of them have suitable platforms for achieving this, IKB is well positioned to benefit from future market developments. IKB has launched an SME fund for mezzanine loans. At the start of the financial year 2014/15, the Bank will launch another fund investing in SME loans with a clear focus on investors from the insurance industry.

IKB successfully developed new customer relationships in the past financial year. With its integrated approach, the Bank creates value added for customers and offers tailored services. The Bank expects to increasingly attract new, interesting customers and that its operating course of business will improve going forward.

At the same time, the new banking regulatory requirements must be implemented, which will lead to substantial costs at least for the time being. As a medium-sized bank, IKB has learned how to implement regulations in a streamlined form and prevent structural burdens even when the burden as a whole remains high. For example, the application of national accounting provisions and the use of the standardised approach for capital adequacy have avoided complexity and cost. An adequate IT infrastructure that, in particular, enables flexible and rapid reporting will become increasingly important with a view to banking regulation. Here, too, IKB believes that it is appropriately positioned for its size.

The successful completion of the banking union could lead to significant advantages. The individual banks will benefit directly, while new opportunities could arise in the medium term if the confidence of banks in each other and confidence in banks as a whole is gradually restored.

IKB has laid the foundations for the further optimisation of its balance sheet structure in terms of the development of total assets and the composition of assets and liabilities. IKB will continue to focus on carefully reducing its remaining non-strategic assets and optimising its portfolio of profitable loans to its target customers. If – as is increasingly the focus of debate at present – the international banking authorities adopt a realistic approach to the use of ABS, IKB will be able to use this efficiently on behalf of its target customers and for the purposes of balance sheet and capital management thanks to its extensive experience in this area (Promise, Mobility, Bacchus).

Liability-side management is particularly important. This includes stable deposit business and a further expansion in the funding mix. All in all, the income generated will be used in particular to ensure a sufficiently high tier 1 capital ratio, as the nature and extent of the capital requirements could change rapidly (stress tests, leverage ratio, Pillar 2) and the Bank intends to have the necessary scope for new lending in conjunction with the upturn in investment activity.

IKB will continue to improve the efficiency of all significant processes with a view to cutting costs. Another important factor in cost development will be the streamlined implementation of the extensive changes resulting from the large number of regulatory projects.

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

# 6. Outlook

## Future general economic conditions

The global economy stabilised in the course of 2013 having previously lost considerable momentum as a result of the euro crisis. Unlike in previous years, this was driven to a large extent by the industrialised nations. The economy was supported by the continued highly expansionary monetary policy and the lower level of uncertainty concerning the development of the euro zone.

The industrialised nations in particular have seen an improvement in sentiment among companies and consumers alike. The signs are that growth in the USA will continue to accelerate in 2014. The upturn on the real estate market that has been in progress for two years is set to continue, while consumer demand from private households is likely to pick up thanks to positive asset effects. In addition, despite the steady improvement on the US labour market, the Fed is not expected to increase interest rates this year, meaning that the expansionary monetary policy should continue to stimulate corporate investment activity and demand for real estate. A similar development is anticipated in the United Kingdom.

Although GDP in the euro zone is expected to increase again in 2014 for the first time in two years, the adjustment processes in the programme countries and some of the other euro countries are likely to pose an obstacle to a more pronounced upturn. Fiscal policy is also still providing restrictive impetus, although this is likely to be less the case than in previous years. In addition, there are supply-side constraints on lending as banks in these countries continue to battle the consequences of the euro crisis. In light of the slow recovery, the continued weakness of lending and the low level of inflation in the euro zone for the time being, the ECB is expected to maintain its expansionary monetary policy in the current year and refrain from raising the headline rate.

In its outlook for 2014 as a whole, the European Commission is forecasting GDP growth of 0.6% in Italy and 1.0% in both Spain and France, followed by a further acceleration in all three countries in 2015. The economy has also brightened considerably in the United Kingdom, where GDP is expected to enjoy considerable growth of 2.5% in both 2014 and 2015.

The German economy picked up pace during the course of 2013. The global economy looks to have expanded more strongly again and the uncertainty in connection with the euro crisis has diminished considerably. The favourable general conditions for the domestic economy are continuing to be felt keenly. The good labour market situation in particular and the continued favourable financing conditions are spurring on the economy. Investment activity is expected to pick up strongly in 2014 and 2015. While the uncertainty concerning the euro zone and the sales prospects on the global markets led to the second successive downturn in corporate investment in the past year, these factors are likely to see a considerable improvement in 2014 and 2015, rising by 4% and over 6% respectively on the back of the improved sales prospects in Germany and abroad. The construction industry is also benefiting from the positive investment environment and low interest rates in particular. German exports are being stimulated by the further invigoration of the global economy and the emerging recovery in the euro zone. All in all, the European Commission is forecasting GDP growth in Germany of 1.8% in 2014 and 2.0% in 2015.

Although the outlook has improved, there remain downside risks. For example, the potential consequences of the Crimean crisis could have a significant negative impact on the real economy. The situation for the euro zone also remains fundamentally susceptible to setbacks, with the unexpectedly pronounced slowdown in price dynamics in the euro zone representing a downside risk for the economy. Although the euro zone is still some way from a self-perpetuating deflationary spiral of wages and prices, if it were to slip into a sustained phase of declining prices, this would pose an obstacle to the economic recovery. There is also a risk that the calmer situation on the financial markets could prompt many governments to ease off in their reform and budget consolidation efforts or that the economic upturn could fail to materialise due to weak lending. This could lead to a further loss of confidence in the markets, triggering a significant rise in government bond yields and leading to a deterioration in the economic outlook on numerous fronts.

There is also uncertainty over the form of the monetary policy turnaround in the industrialised nations. In light of this, the International Monetary Fund is concerned about a hasty reorientation in terms of monetary policy with potentially negative consequences for global financial stability and the global economy. For example, a poorly communicated withdrawal from expansionary monetary policy in the industrialised nations could lead to uncertainty and excessive reactions on the markets. Furthermore, the risk of exchange rate crises in the emerging nations following a withdrawal from expansionary monetary policy in the industrialised nations cannot be ruled out, while an excessively early increase in interest rates could lead to a setback in economic development.

Earnings opportunities for banks in the euro zone are likely to remain limited. Sustained low interest rates are continuing to affect margins, while the economic profile in some euro zone countries is only improving extremely slowly. The earnings situation could also come under pressure due to intense competition, particularly in Germany. The level of competitive pressure on individual markets could increase even further due to the emergence of new competitors from the non-banking sector, particularly in the area of lending. Banks are also increasingly having to prepare themselves for a general shift in corporate financing, with corporations and large midmarket companies at least favouring capital market finance over traditional bank lending to an ever greater extent.

Banks are also being increasingly impacted by the extensive regulatory measures, some of which have been adopted, but others of which are still the subject of intense debate and discussion at various levels. The implementation of the measures that have already been resolved, particularly in terms of capitalisation, is proving to be extremely difficult in practice due to the complexity of the regulations and is tying up considerable human resources. Smaller banks are being affected to an above-average extent. This situation is exacerbated by the fact that the roadmap issued by the supervisory authorities for compliance with individual targets could be rendered irrelevant due to the expectations of the markets, i.e. banks may have to accept the need to meet the targets more rapidly. Furthermore, equity requirements that already go far beyond the current Basel III requirements are being imposed on the relevant systemically important banks as part of the ECB’s comprehensive assessment ahead of the planned banking union. According to a recent study by Deutsche Bundesbank, German banks have succeeded in significantly improving their capital ratios of late (as of June 2013) by expanding their capital base and reducing the volume of risk-weighted assets. In an international peer group comparison, however, the ratios of larger banks in particular remained below-average, suggesting a need for further adjustment.

More and more questions are being raised with regard to the overall impact of the numerous and in some cases overlapping regulations and provisions. The aggregate effect of the measures on business models and structures in the banking sector remains largely unclear.

## Net assets

For the financial year 2014/15, the Bank expects to see a slight reduction in receivables from customers, as the growth in new lending business is likely to be more than offset by repayments in the lending business and asset-side reductions. The Bank will continue to be selective when it comes to new lending business in the financial year 2014/15 in order to generate appropriate income for the risks entered into and to take into account the growing requirements imposed by the banking authorities at an early stage. If the economic situation improves on a sustainable basis, this could lead to a catch-up effect in credit demand and in lending by IKB. The equity and liabilities side of the balance sheet will continue to be characterised by a diverse funding mix in the forecast period, in which deposit-taking business will remain an important component.

IKB will further expand its common equity tier 1 (CET 1) capital and increase its CET 1 ratio (see the information below on the CRR and the CRD IV banking reform package and the Bank's participation in the European Central Bank's comprehensive assessment). This will be achieved by realising unrealised gains on financial instruments and transferring the gains to reserves, as well as by continuing to reduce risk-weighted assets, chiefly in the form of non-strategic loans. Likewise to strengthen the CET 1 ratio, IKB will use funds that third parties can also invest in for lending to its customers. In this context, the Valin Funds Mittelstand Mezzanine 1 was launched. Further Valin funds are being prepared.

The Bank's business planning and all of the associated measures depend on the market environment. IKB's situation could be impacted by significant unexpected losses and market disruptions with the characteristics of a stress scenario, additional regulatory capital requirements and the need to ensure sustained compliance with the capitalisation requirements of CRR/CRD IV and the benchmarks of the comprehensive assessment.

### Participation of the Bank in the comprehensive assessment by the European Central Bank

On 15 October 2013, the Council of the European Union adopted the Council Regulation to give specific tasks related to financial stability and banking supervision to the ECB (Single Supervisory Mechanism Regulation). The Regulation entered into effect at the start of November 2013.

The ECB published details of the comprehensive assessment on 23 October 2013. This is a comprehensive review of the 124 banking groups in total (128 banks, 24 of which German) in the euro zone that are considered significant. The ECB stipulated that IKB will also be included in this comprehensive assessment. This will result in considerable costs and a significant human resources, organisational and technical burden for IKB.

The comprehensive assessment is intended as a preliminary measure by the ECB for its adoption of single supervision of the banks in the EU that are considered significant. One of its core components is the risk assessment that, in the opinion of Deutsche Bundesbank and BaFin, should be similar to the bank supervisory review process in Germany and covers all banking risks. The second step, the asset quality review (also known as the balance sheet assessment), focuses first and foremost on the quality of the main assets and their valuation. The risk assessment and the asset quality review relate to several reference dates, ending with 31 December 2013. The risk assessment and the asset quality review began in the form of comprehensive data inquiries in October and November 2013 and, according to ECB planning, will be completed in July 2014. The third element starting from May 2014 will be a forward-looking stress test that examines banks' resilience in the event of a deterioration in economic conditions ("adverse scenario"). The overall result of all comprehensive assessment elements is scheduled for publication in October 2014. Based on the overall result, the ECB is planning to implement a series of follow-up measures on a bank-by-bank basis, the content of which has not yet been conclusively decided (e.g. premiums on or increases in risk-weighted assets, additional regulatory capital requirements, etc.).

The ECB's benchmark for the CET 1 ratio is 8%, significantly higher than the statutory minimum requirement. IKB exceeded this figure with a CET 1 ratio of 9.4% at Group level as of 31 December 2013. This means that IKB has a buffer for potential adjustments in determining the ratio. The CET 1 ratio of 9.1% that was published on 6 March 2014 was retrospectively increased to 9.4% following the announcement by the EBA on the treatment of certain items of collateral when calculating risk-weighted assets. This means that IKB has a buffer for any adjustments to the CET 1 ratio arising from the CA. The CET 1 ratio for the IKB

Group amounted to 10.4% as of 31 March 2014 (IKB AG: 14.3%). The CET 1 ratios were calculated in accordance with the current legal status of the CRR as of 30 April 2014 including transitional provisions and the interpretations published by the supervisory authorities. The possibility that future EBA/ECB standards and interpretations or the terms of the comprehensive assessment (risk assessment, AQR or stress test) or other supervisory actions will lead to a retrospective change in the CET 1 ratio as of 31 December 2013 or 31 March 2014 cannot be ruled out.

IKB expects the CET 1 ratio to improve slightly during the financial year 2014/15 and at the end of the financial year. This will allow it to compensate for any adjustments to the CET 1 ratio.

The asset quality review and the stress tests have separate benchmarks for the CET 1 ratio. The benchmark for the AQR is 8% as of 31 December 2013, while the minimum CET 1 ratio for each of the year-end closing dates in 2014, 2015 and 2016 in the stress test baseline scenario is 8%. In the adverse stress test scenario, the CET 1 ratio may not fall below 5.5% as of the year-end closing date in 2016. Any shortfalls in terms of capital or capital ratios are expected to be required to be resolved within six months or nine months of the announcement of the results of the CA. Based on the information currently available, any such shortfalls may be resolved by increasing common equity tier 1 capital until the announcement of the test results, through internal or external capital injections after this date, and by reducing risk-weighted assets as a result of asset sales.

The AQR is expected to be concluded in summer 2014. Comprehensive data has been provided to the ECB for the AQR. As part of the AQR, a large number of loans have been reviewed by the banking authorities and an auditor in the form of an audit in accordance with section 44 KWG.

The ECB/EBA stress tests are being conducted initially at the same time. The stress test is expected to last the entire summer. During this time, the potential results will be solidified and the ECB will then summarise the results from the AQR. This means that the banks will have to go without an overview of the results of the CA and the resulting consequences for some time to come.

The process as a whole is being supported by the German banking authorities. The German authorities have also imposed additional requirements and deadlines that have to be observed.

The ECB has reported that the final group of banks to be supervised by it directly will not be decided until the third quarter of 2014. As such, the possibility that IKB will take part in the ECB's comprehensive assessment but will ultimately – particularly with regard to its size – remain under the direct supervision of the national authorities, i.e. BaFin and Deutsche Bundesbank, cannot be ruled out.

### CRR and CRD IV bank reform package (Basel III)

The European Parliament adopted the final texts of CRD IV and CRR on 16 April 2013. Following the publication of the CRR (Regulation (EU) no. 575/2013) and CRD IV (Directive 2013/36/EU) in the Official Journal of the European Union on 27 June 2013, the new regulations entered into effect as of 28 June 2013 and 17 July 2013. The rules of the regulation are required to be applied from 1 January 2014. The Member States had to endorse the Directive in national law and administrative provisions by 31 December 2013 to be applied from 1 January 2014.

A key element of the reform package was an increase in the minimum requirement for common equity tier 1 capital from 2% to 4.5% and an increase in the minimum requirement for total tier 1 capital from 4% to 6%. These requirements must be met in two stages by 1 January 2015.

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

The Bank is assuming that it will continue to satisfy the capital requirements of the CRR and CRD IV in future.

The CRD IV reform package causes high costs. It is to be seen primarily in combination with a large number of other regulation projects that are being implemented or planned in parallel. IKB is currently working on several projects to implement the new regulations. Despite the early start, there are still significant uncertainties as a number of statutory regulations have not yet been finalised or have yet to be specified or announced by the EBA, the ECB or the national banking authorities. Signs of further reform proposals by the Basel Committee on trading book provisions, securitisation regulations or the revision of the credit risk standardised approach for counterparty default risk are already emerging. The dynamic regulatory environment and the resulting uncertainties will affect the Bank's business model and the management of the balance sheet, the regulatory equity capital, the risk-weighted assets and therefore also the Bank's risk-bearing capacity.

If the regulatory requirements remain unchanged in comparison to the current legal status, the Bank expects to achieve a slight increase in the CET 1 ratio in the future.

### Valin funds

IKB is planning to launch an additional Valin fund, the Valin Mittelstand Senior Debt Fund, in the financial year 2014/15. The fund will have a target volume of € 475 million and a term of twelve years. It will invest in unsubordinated loans to German SMEs. The target investors of the fund are regulated insurance companies in particular.

### Liquidity situation

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

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

The funds generated will be used to repay refinancing as it matures and for new business. The future liquidity situation is also dependent on the development of new business, the extent to which customers draw on existing loan commitments, the investment behaviour of deposit customers, agreements with the Deposit Protection Fund of the Association of German Banks, further developments in European deposit protection, the options for secured refinancing on the interbank market and with the ECB, and the market value development of collateral and derivatives. IKB has sufficient liquidity even applying the defined stress scenarios. According to planning, liquidity is ensured with a sufficient buffer. In light of various risks (Ukraine, fears of deflation, setbacks in the euro zone), IKB will remain cautious in its liquidity management.

The Bank expects its liquidity ratio in accordance with the German Liquidity Regulation (LiqV) to remain within a corridor of between 1.25 and 2.0 in the financial year 2014/15. After collecting initial data from the first year of application within the supervisory monitoring period that began on 1 January 2014, IKB will convert its liquidity controlling to the new indicators – the liquidity coverage ratio (LCR) and the net stable funding ratio (NSFR) – going forward.

### Leverage ratio

IKB expects the leverage ratio to remain roughly constant at its current level.

### Results of operations

New lending business in the past financial year was down on the previous year as demand for credit in Germany was low and competitive intensity was high. IKB maintained its standards with regard to risk and margins and entered into lending business on this basis. IKB expects the lower level of credit demand and high competitive intensity in Germany to remain in place, with the volume of business generally only increasing again when the country enters the expected economic recovery. Despite the low level of interest rates, the decline in refinancing costs that was observed in the year under review will continue to a limited extent with an improved assessment of IKB's credit by market participants. All in all, IKB is forecasting a lower level of net interest income in the financial year 2014/15 following the significant rise in the year under review.

If there is a tangible increase in demand for credit in Germany or refinancing costs remain low for an extended period of time, the Bank's net interest income may enjoy better development than anticipated.

All in all, the Bank is forecasting a significant increase in net commission income in the coming financial year thanks to its positioning. This development could be increasingly driven by the expected upturn in financing activity, planned growth measures among companies and the improvement in IKB's market position.

Achieving the goal of further reducing the Group's administrative expenses will be made more difficult by the expenses for the ECB's comprehensive assessment, which are disproportionately high in the light of IKB's status as a relatively small bank (within the largest banks in the euro zone). The Bank will take efforts to compensate for these additional administrative expenses. Accordingly, IKB expects its total administrative expenses to remain unchanged in the financial year 2014/15.

The Bank expects the positive trends on the capital markets to continue on the whole, as they have already done in the first few months of 2014, and assumes that in the coming year positive operating results can still be generated from earnings in operating business including realisation gains on financial instruments, which can be used to strengthen common equity tier 1 capital by recognising section 340g HGB reserves.

### Overall assessment

In light of the factors outlined above, IKB expects to generate positive earnings after taxes and before additions to the fund for general banking risks (section 340g HGB) in the coming financial year 2014/15. These earnings are expected to be lower than in the past financial year.

Servicing the compensation agreements of a total amount of € 1,151.5 million and the value recovery rights of the hybrid investors mean that IKB AG will probably not report any, or only minimal, profit for a long time to come, even if earnings are profitable. To the extent that net income is reported in future, the reduction in net accumulated losses and the backpayment of bank levies will mean that it is still not possible to distribute a dividend to the shareholders of IKB AG.

## 7. Disclosures in accordance with section 312 AktG

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

## Focus on the midmarket: Current financing trends

*Financing for German companies was relatively unproblematic in the past year. Their financing requirements remained within reasonable limits, while there were no notable restrictions in terms of the available financing.*

*All in all, corporate financing requirements remained low as the sustained weakness of the economy made it advisable for companies to adopt a cautious investment policy. Investment activity only saw a sustained upturn towards the end of the year on the back of growing signs of an economic recovery. The acquisition of companies and equity interests was also restrained.*

*Most companies were able to cover their reduced financing requirements largely from their own cash flow. Although net cash from operating activities declined in many cases, the lower level of operating income was often compensated by savings in working capital, meaning that companies generally enjoyed a comfortable framework for self-financing.*

*The moderate demand for external financing was and continues to be met by a sufficient range of potential financiers. For the banking sector, indicators such as the Ifo credit hurdle show that companies still consider lending to be largely unrestricted. Most companies are having no difficulties in obtaining bank loans, while fears that banks could be forced to restrict their lending due to increased regulation have – so far – proved to be unfounded.*

*Nevertheless, statistics issued by Deutsche Bundesbank show that the total volume of loans to companies declined by around € 14 billion in 2013, although this cannot be solely attributed to the low level of demand. As in previous years, there was considerable variation in terms of the various categories of banks: midmarket-oriented savings banks and credit cooperatives continued to report growth in the credit volume, whereas larger banks and Landesbanks saw a significant downturn. This suggests that the customers of the latter group – primarily corporations and larger SMEs – are increasingly supplementing or replacing bank loans with other financing components such as bonds. Indeed, the volume of German corporate bonds in circulation rose substantially by € 14 billion in 2013.*

*The growing interest in capital market financing is not only attributable to the justified concern that regulatory measures could lead to the supply of bank loans (particularly long-term loans) becoming more restrictive and more expensive, at least in the medium term. The extremely low financing costs at present are also prompting many companies to perform extensive borrowing on the capital markets in anticipation of future (re)financing requirements. Financing decisions are increasingly also being driven by the international focus adopted by companies, which require a broad financial scope for their global activities and consider it beneficial to ensure that international investors are brought on board. This can be achieved through bonds as well as promissory note loans.*

*As such, there is much evidence to suggest that capital market financing will continue to grow in importance – irrespective of the negative headlines that have hit the market for SME bonds of late. With a view to the future, it therefore seems as if larger midmarket players will adjust their financing model accordingly, while bank loans will remain the primary source of financing for small and medium-sized enterprises.*

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

# Combined Annual Financial Statements of the Group and IKB Deutsche Industriebank AG for the 2013/14 Financial Year

# Consolidated balance sheet of IKB Deutsche Industriebank AG as at 31 March 2014

| in € million | 31 Mar. 2014 | 31 Mar. 2013 |
|---|---|---|
| **Assets*** | | |
| **Cash reserve** | **22.2** | **86.9** |
| a) Cash on hand | - | - |
| b) Balances with central banks | 22.2 | 86.9 |
| thereof: with Deutsche Bundesbank | 22.2 | 86.9 |
| c) Balances in postal giro accounts | - | - |
| **Debt instruments of public sector entities and bills of exchange eligible for refinancing of central banks** | **-** | **-** |
| **Receivables from banks** | **2,235.4** | **2,219.2** |
| a) Repayable on demand | 2,128.9 | 2,099.2 |
| b) Other receivables | 106.5 | 120.0 |
| **Receivables from customers** | **12,263.2** | **14,707.1** |
| thereof: mortgage loans | 1,465.2 | 1,805.8 |
| thereof: public sector loans | 1,010.9 | 1,381.0 |
| **Bonds and other fixed-income securities** | **7,506.6** | **7,855.1** |
| a) Money market securities | - | - |
| b) Bonds and notes | 6,820.3 | 7,161,0 |
| ba) Public sector issuers | 3,609.8 | 2,761.8 |
| thereof: eligible as collateral for Deutsche Bundesbank | 3,479.7 | 2,587.2 |
| bb) Other issuers | 3,210.5 | 4,399.2 |
| thereof: eligible as collateral for Deutsche Bundesbank | 2,783.1 | 3,539.7 |
| c) Own bonds | 686.3 | 694.1 |
| Nominal amount | 695.3 | 697.2 |
| **Equities and other non-fixed-income securities** | **567.8** | **496.7** |
| **Assets held for trading** | **318.1** | **265.9** |
| **Equity investments** | **25.4** | **26.8** |
| thereof: banks | 0.2 | 0.2 |
| **Investments in associates** | **45.0** | **15.0** |
| thereof: financial services institutions | 12.2 | 11.1 |
| **Investments in affiliated companies** | **2.3** | **2.1** |
| **Assets held in trust** | **-** | **0.3** |
| thereof: Trustee loans | - | 0.3 |
| **Equalisation claims on the public sector including debt securities arising from their exchange** | **-** | **-** |
| **Lease assets** | **1,170.1** | **1,365.3** |
| **Intangible assets** | **15.2** | **19.0** |
| a) Internally generated industrial and similar rights and assets | - | - |
| b) Purchased concessions, industrial and similar rights and assets, and licenses in such rights and assets | 15.0 | 18.7 |
| c) Goodwill | - | - |
| d) Advance payments made | 0.2 | 0.3 |
| **Tangible assets** | **26.0** | **12.8** |
| **Called unpaid capital** | **-** | **-** |
| **Other assets** | **130.5** | **285.2** |
| **Prepaid expenses** | **121.7** | **71.9** |
| **Deferred tax assets** | **248.8** | **148.2** |
| **Excess of plan assets over post-employment benefit liability** | **33.2** | **39.9** |
| **Total assets** | **24,731.5** | **27,617.4** |

*31 March 2013 figures restated

| in € million | 31 Mar. 2014 | 31 Mar. 2013 |
|---|---|---|
| **Equity and liabilities** | | |
| **Liabilities to banks** | **10,169.1** | **11,863.1** |
| a) Repayable on demand | 1,247.8 | 804.8 |
| b) With agreed lifetime or notice period | 8,921.3 | 11,058.3 |
| **Liabilities to customers** | **9,629.5** | **10,881.5** |
| a) Savings deposits | - | - |
| b) Other liabilities | 9,629.5 | 10,881.5 |
| ba) Repayable on demand | 891.1 | 588.4 |
| bb) With agreed lifetime or notice period | 8,738.4 | 10,293.1 |
| **Securitised liabilities** | **1,071.9** | **987.1** |
| a) Bonds issued | 1,071.9 | 987.1 |
| b) Other securitised liabilities | - | - |
| **Liabilities held for trading** | **333.9** | **242.1** |
| **Liabilities held in trust** | **-** | **0.3** |
| thereof: Trustee loans | - | 0.3 |
| **Other liabilities** | **552.2** | **511.3** |
| **Deferred income** | **154.2** | **145.8** |
| **Deferred tax liabilities** | **-** | **-** |
| **Provisions** | **260.5** | **457.5** |
| a) Provisions for pensions and similar obligations | 3.2 | 6.1 |
| b) Tax provisions | 69.3 | 105.8 |
| c) Other provisions | 188.0 | 345.6 |
| **Subordinated liabilities** | **971.3** | **1,373.6** |
| **Profit participation capital** | **32.2** | **32.2** |
| **Fund for general banking risks** | **574.0** | **170.8** |
| thereof: trading-related special reserve according to section 340e (4) HGB | 0.9 | 0.2 |
| **Equity** | **982.7** | **952.1** |
| a) Called-up capital | 1,621.5 | 1,621.5 |
| Subscribed capital | 1,621.5 | 1,621.5 |
| Less uncalled unpaid contributions | - | - |
| Contingent capital | 191.7 | 191.7 |
| b) Capital reserves | 1,750.7 | 1,750.7 |
| c) Revenue reserves | 4.9 | 5.0 |
| ca) Legal reserve | 2.4 | 2.4 |
| cb) Reserve for shares in a parent or majority investor | - | - |
| cc) Statutory reserves | - | - |
| cd) Other revenue reserves | 2.5 | 2.6 |
| d) Difference in equity from currency translation | -18.2 | -16.7 |
| e) Net accumulated losses | -2,376.2 | -2,408.4 |
| **Total equity and liabilities** | **24,731.5** | **27,617.4** |

| | | |
|---|---|---|
| **Contingent liabilities** | **1,602.0** | **1,486.1** |
| a) Contingent liabilities from rediscounted and settled bills of exchange | - | - |
| b) Liabilities from guarantees and indemnity agreements | 1,602.0 | 1,486.1 |
| c) Liability arising from the provision of collateral for third-party liabilities | - | - |
| **Other obligations** | **822.0** | **1,211.0** |
| a) Repurchase obligations from non-genuine repurchase agreements | - | - |
| b) Placement and underwriting obligations | - | - |
| c) Irrevocable loan commitments | 822.0 | 1,211.0 |

# Balance sheet of IKB Deutsche Industriebank AG as at 31 March 2014

| in € million | 31 Mar. 2014 | 31 Mar. 2013 |
|---|---|---|
| **Assets*** | | |
| **Cash reserve** | **22.2** | **86.9** |
| a) Cash on hand | - | - |
| b) Balances with central banks | 22.2 | 86.9 |
| thereof: with Deutsche Bundesbank | 22.2 | 86.9 |
| c) Balances in postal giro accounts | - | - |
| **Debt instruments of public sector entities and bills of exchange eligible for refinancing of central banks** | **-** | **-** |
| **Receivables from banks** | **2,108.6** | **2,091.0** |
| a) Repayable on demand | 2,017.6 | 1,981.7 |
| b) Other receivables | 91.0 | 109.3 |
| **Receivables from customers** | **14,232.2** | **16,752.3** |
| thereof: mortgage loans | 1,465.2 | 1,805.8 |
| thereof: public sector loans | 1,010.9 | 1,381.0 |
| **Bonds and other fixed-income securities** | **6,526.9** | **6,991.9** |
| a) Money market securities | - | - |
| b) Bonds and notes | 6,524.3 | 6,990.7 |
| ba) Public sector issuers | 3,609.8 | 2,761.8 |
| thereof: eligible as collateral for Deutsche Bundesbank | 3,479.7 | 2,587.2 |
| bb) Other issuers | 2,914.5 | 4,228.9 |
| thereof: eligible as collateral for Deutsche Bundesbank | 2,304.8 | 3,061.2 |
| c) Own bonds | 2.6 | 1.2 |
| Nominal amount | 3.2 | 1.8 |
| **Equities and other non-fixed-income securities** | **-** | **28.3** |
| **Assets held for trading** | **318.1** | **265.9** |
| **Equity investments** | **11.3** | **11.1** |
| thereof: banks | 0.2 | 0.2 |
| **Investments in affiliated companies** | **137.0** | **124.7** |
| thereof: banks | - | 22.7 |
| **Assets held in trust** | **-** | **0.3** |
| thereof: Trustee loans | - | 0.3 |
| **Equalisation claims on the public sector including debt securities arising from their exchange** | **-** | **-** |
| **Intangible assets** | **39.6** | **48.2** |
| a) Internally generated industrial and similar rights and assets | - | - |
| b) Purchased concessions, industrial and similar rights and assets, and licenses in such rights and assets | 12.6 | 16.9 |
| c) Goodwill | 27.0 | 31.3 |
| d) Advance payments made | - | - |
| **Tangible assets** | **6.2** | **5.5** |
| **Called unpaid capital** | **-** | **-** |
| **Other assets** | **112.1** | **153.9** |
| **Prepaid expenses** | **202.7** | **198.6** |
| **Deferred tax assets** | **251.7** | **150.7** |
| **Excess of plan assets over post-employment benefit liability** | **33.1** | **38.0** |
| **Total assets** | **24,001.7** | **26,947.3** |

*31 March 2013 figures restated

| in € million | 31 Mar. 2014 | 31 Mar. 2013 |
|---|---|---|
| **Equity and liabilities** | | |
| **Liabilities to banks** | **10,161.2** | **11,888.4** |
| a) Repayable on demand | 1,247.4 | 821.5 |
| b) With agreed lifetime or notice period | 8,913.8 | 11,066.9 |
| **Liabilities to customers** | **9,628.7** | **10,895.1** |
| a) Savings deposits | - | - |
| b) Other liabilities | 9,628.7 | 10,895.1 |
| ba) Repayable on demand | 878.3 | 584.0 |
| bb) With agreed lifetime or notice period | 8,750.4 | 10,311.1 |
| **Securitised liabilities** | **699.5** | **415.1** |
| a) Bonds issued | 699.5 | 415.1 |
| b) Other securitised liabilities | - | - |
| **Liabilities held for trading** | **333.9** | **242.1** |
| **Liabilities held in trust** | **-** | **0.3** |
| thereof: Trustee loans | - | 0.3 |
| **Other liabilities** | **445.5** | **556.8** |
| **Deferred income** | **201.2** | **228.0** |
| **Deferred tax liabilities** | **-** | **-** |
| **Provisions** | **221.9** | **412.6** |
| a) Provisions for pensions and similar obligations | - | 3.2 |
| b) Tax provisions | 65.4 | 102.3 |
| c) Other provisions | 156.5 | 307.1 |
| **Subordinated liabilities** | **496.3** | **898.6** |
| **Profit participation capital** | **32.2** | **32.2** |
| **Fund for general banking risks** | **574.0** | **170.8** |
| thereof: trading-related special reserve according to section 340e (4) HGB | 0.9 | 0.2 |
| **Equity** | **1,207.3** | **1,207.3** |
| a) Called-up capital | 1,621.5 | 1,621.5 |
| Subscribed capital | 1,621.5 | 1,621.5 |
| Less uncalled unpaid contributions | - | - |
| Contingent capital | 191.7 | 191.7 |
| b) Capital reserves | 1,750.7 | 1,750.7 |
| c) Revenue reserves | 2.4 | 2.4 |
| ca) Legal reserve | 2.4 | 2.4 |
| cb) Reserve for shares of a parent or majority investor | - | - |
| cc) Statutory reserves | - | - |
| cd) Other revenue reserves | - | - |
| e) Net accumulated losses | -2,167.3 | -2,167.3 |
| **Total equity and liabilities** | **24,001.7** | **26,947.3** |

| | | |
|---|---|---|
| **Contingent liabilities** | **2,527.1** | **2,437.2** |
| a) Contingent liabilities from rediscounted and settled bills of exchange | - | - |
| b) Liabilities from guarantees and indemnity agreements | 2,527.1 | 2,437.2 |
| c) Liability arising from the provision of collateral for third-party liabilities | - | - |
| **Other obligations** | **766.8** | **1,066.3** |
| a) Repurchase obligations from non-genuine repurchase agreements | - | - |
| b) Placement and underwriting obligations | - | - |
| c) Irrevocable loan commitments | 766.8 | 1,066.3 |

## Consolidated income statement of IKB Deutsche Industriebank AG for the period from 1 April 2013 to 31 March 2014

| in € million | 2013/14 | 2012/13 |
|---|---|---|
| **Expenses** | | |
| **Lease expenses** | **-205.0** | **-179.0** |
| **Interest expenses** | **-1,073.9** | **-1,669.5** |
| **Commission expenses** | **-13.0** | **-42.8** |
| **Net trading results** | **-** | **-** |
| **General administrative expenses** | **-274.7** | **-293.9** |
| a) Personnel expenses | -161.3 | -159.0 |
| aa) Wages and salaries | -138.5 | -135.3 |
| ab) Social security, post-employment and other employee benefit costs | -22.8 | -23.7 |
| thereof: for pensions | -5.5 | -6.1 |
| b) Other administrative expenses | -113.4 | -134.9 |
| **Depreciation and write-downs of intangible tangible assets** | **-402.5** | **-423.1** |
| a) On leasing assets | -392.2 | -413.0 |
| b) On intangible and tangible assets | -10.3 | -10.1 |
| **Other operating expenses** | **-302.1** | **-564.5** |
| **Expenses for the addition to the fund for general banking risks** | **-402.5** | **-** |
| **Depreciation and write-downs of receivables, specific securities and additions to loan loss provisions** | **-87.5** | **-70.6** |
| **Depreciation and write-downs of equity investments, investments in affiliated companies and long-term investments** | **-40.3** | **-47.7** |
| **Expenses of assumption of losses** | **-** | **-** |
| **Extraordinary expenses** | **-4.8** | **-11.6** |
| **Income taxes** | **134.7** | **-4.1** |
| **Other taxes not reported under "Other operating expenses"** | **-2.1** | **-1.9** |
| **Profit transfer on the basis of profit-pooling, profit transfer and partial profit transfer agreements** | **-** | **-** |
| **Net income for the year** | **-32.2** | **-** |
| **Total expenses** | **-2,705.9** | **-3,308.7** |

| in € million | 2013/14 | 2012/13 |
|---|---|---|
| **Income** | | |
| **Lease income** | **679.9** | **686.6** |
| **Interest income from** | **1,279.5** | **1,725.1** |
| a) Lending and money market transactions | 1,104.4 | 1,524.0 |
| b) Fixed-income securities and government-inscribed debts | 175.1 | 201.1 |
| **Current income from** | **21.5** | **60.3** |
| a) Equities and other non-fixed-income securities | 17.8 | 45.4 |
| b) Equity investments | 1.9 | 12.6 |
| c) Associates | 1.8 | 2.3 |
| d) Investments in affiliated companies | - | - |
| **Income from profit-pooling, profit transfer and partial profit transfer agreements** | **-** | **-** |
| **Commission income** | **42.0** | **47.8** |
| **Net trading results** | **5.9** | **1.2** |
| thereof: addition to trading-related special reserve according to section 340e (4) HGB | 0.7 | 0.1 |
| **Income from reversals of write-downs on receivables and certain securities and from the reversal of loan loss provisions** | **-** | **-** |
| **Income from reversals of write-downs of equity investments, investments in affiliated companies and long-term investment securities** | **187.6** | **156.8** |
| **Other operating income** | **487.7** | **465.5** |
| **Income from the reversal of the fund for general banking risks** | **-** | **19.0** |
| **Extraordinary income** | **1.8** | **3.3** |
| **Income from assumption of losses** | **-** | **0.1** |
| **Net loss for the year** | **-** | **143.0** |
| **Total income** | **2,705.9** | **3,308.7** |
| **Net income/loss for the financial year** | **32.2** | **-143.0** |
| **Loss carry-forward from the previous year** | **-2,408.4** | **-2,290.8** |
| **Withdrawals from capital reserves** | **-** | **-** |
| **Withdrawals from revenue reserves** | **-** | **21.9** |
| a) from legal reserve | - | - |
| b) from reserve for shares in a parent or a majority investor | - | - |
| c) from statutory reserves | - | - |
| d) from other revenue reserves | - | 21.9 |
| **Withdrawals from profit participation capital** | **-** | **3.6** |
| **Withdrawals from silent partnership contributions** | **-** | **-** |
| **Allocations to revenue reserves** | **-** | **-** |
| **Replenishment of profit participation capital** | **-** | **-** |
| **Net accumulated losses** | **-2,376.2** | **-2,408.4** |

## Income statement of IKB Deutsche Industriebank AG for the period from 1 April 2013 to 31 March 2014

| in € million | 2013/14 | 2012/13 |
|---|---|---|
| **Expenses** | | |
| **Interest expenses** | **-1,106.5** | **-1,703.9** |
| **Commission expenses** | **-5.4** | **-36.7** |
| **Net trading results** | **-** | **-** |
| **General administrative expenses** | **-231.8** | **-248.3** |
| a) Personnel expenses | -126.6 | -123.7 |
| aa) Wages and salaries | -109.0 | -105.2 |
| ab) Social security, post-employment and other employee benefit costs | -17.6 | -18.5 |
| thereof: for pensions | -5.0 | -5.8 |
| b) Other administrative expenses | -105.2 | -124.6 |
| **Depreciation and write-downs of intangible and tangible assets** | **-9.9** | **-9.2** |
| **Other operating expenses** | **-259.7** | **-510.8** |
| **Expenses for the addition to the fund for general banking risks** | **-402.5** | **-** |
| **Depreciation and write-downs of receivables, specific securities and additions to loan loss provisions** | **-82.7** | **-72.1** |
| **Depreciation and write-downs of equity investments, investments in affiliated companies and long-term investments** | **-23.8** | **-40.7** |
| **Expenses from assumption of losses** | **-** | **-** |
| **Extraordinary expenses** | **-4.2** | **-7.3** |
| **Income taxes** | **136.2** | **-0.2** |
| **Other taxes not reported under “Other operating expenses”** | **-0.2** | **-0.3** |
| **Profit transfer on the basis of profit-pooling, profit transfer and partial profit transfer agreements** | **-** | **-** |
| **Net income for the year** | **-** | **-** |
| **Total expenses** | **-1,990.5** | **-2,629.5** |

| in € million | 2013/14 | 2012/13 |
|---|---|---|
| **Income** | | |
| **Interest income from** | **1,320.7** | **1,770.6** |
| a) Lending and money market transactions | 1,166.5 | 1,594.1 |
| b) Fixed-income securities and government-inscribed debts | 154.2 | 176.5 |
| **Current income from** | **0.4** | **11.2** |
| a) Equities and other non-fixed-income securities | - | - |
| b) Equity investments | 0.4 | 11.2 |
| c) Investments in affiliated companies | - | - |
| **Income from profit-pooling, profit transfer and partial profit transfer agreements** | **18.4** | **71.7** |
| **Commission income** | **43.5** | **46.1** |
| **Net trading results** | **5.9** | **1.2** |
| thereof: addition to trading-related special reserve according to section 340e (4) HGB | 0.7 | 0.1 |
| **Income from reversals of write-downs on receivables and certain securities and from the reversal of loan loss provisions** | **-** | **-** |
| **Income from reversals of write-downs of equity investments, investments in affiliated companies and long-term investment securities** | **176.8** | **124.6** |
| **Other operating income** | **421.7** | **418.2** |
| **Income from the reversal of the fund for general banking risks** | **-** | **19.0** |
| **Extraordinary income** | **3.1** | **4.7** |
| **Income from assumption of losses** | **-** | **-** |
| **Net loss for the year** | **-** | **162.2** |
| **Total income** | **1,990.5** | **2,629.5** |
| **Net income/loss for the financial year** | **-** | **-162.2** |
| **Loss carry-forward from the previous year** | **-2,167.3** | **-2,030.5** |
| **Withdrawals from capital reserves** | **-** | **-** |
| **Withdrawals from revenue reserves** | **-** | **21.9** |
| a) from legal reserve | - | - |
| b) from reserve for shares in a parent or a majority investor | - | - |
| c) from statutory reserves | - | - |
| d) from other revenue reserves | - | 21.9 |
| **Withdrawals from profit participation capital** | **-** | **3.5** |
| **Withdrawals from silent partnership contributions** | **-** | **-** |
| **Allocations to revenue reserves** | **-** | **-** |
| **Replenishment of profit participation capital** | **-** | **-** |
| **Net accumulated losses** | **-2,167.3** | **-2,167.3** |

## Consolidated cash flow statement

| | in € million | 2013/14 | 2012/13 |
|---|---|---|---|
| | **Net income for the period (including minority interest in net income)** | **32.2** | **-117.5** |
| | **Non-cash items included in net income for the year and reconciliation to cash flow from operating activities** | | |
| +/- | Depreciation and amortisation, impairment and reversals of write-downs on receivables, tangible and financial assets | 500.7 | 557.7 |
| +/- | Increase/decrease in provisions | -152.6 | 31.8 |
| +/- | Other non-cash expenses/income | 405.9 | -9.0 |
| -/+ | Gain/loss on the disposal of financial and tangible assets | -146.2 | -122.0 |
| +/- | Other adjustments (net) | -832.7 | -615.0 |
| | **Subtotal** | **-192.7** | **-274.0** |
| | **Changes in assets and liabilities from operating activities** | | |
| | Receivables | | |
| +/- | from banks | -15.9 | 359.2 |
| +/- | from customers | 2,309.0 | 1,252.3 |
| +/- | Securities (unless financial assets) | 19.8 | 2,695.3 |
| | Leasing assets | | |
| + | Receipts from disposal | 240.5 | 211.2 |
| - | Payments for acquisition | -279.8 | -435.3 |
| +/- | Other assets from operating activities | 86.2 | -61.5 |
| | Liabilities | | |
| +/- | to banks | -1,689.9 | -1,343.2 |
| +/- | to customers | -1,219.3 | 870.3 |
| +/- | Securitised liabilities | 83.3 | -4,332.2 |
| +/- | Other liabilities from operating activities | 174.7 | 80.4 |
| + | Interest and dividends received | 1,841.6 | 2,284.9 |
| - | Interest paid | -1,318.3 | -1,869.4 |
| + | Extraordinary receipts | - | 3.2 |
| - | Extraordinary payments | -0.1 | - |
| +/- | Income tax | -4.6 | -3.4 |
| | **Cash flow from operating activities** | **34.5** | **-562.2** |
| | Proceeds from the disposal of | | |
| + | financial assets | 3,661.3 | 3,568.9 |
| + | tangible assets | 0.8 | 0.4 |
| | Payments for the acquisition of | | |
| - | financial assets | -3,350.2 | -2,832.2 |
| - | tangible assets | -6.8 | -2.6 |
| +/- | Change in cash funds from other investing activities (net) | -2.0 | -6.6 |
| | **Cash flow from investing activities** | **303.1** | **727.9** |
| + | Cash receipts from issue of capital | - | 0.1 |
| +/- | Change in cash funds from other capital (net) | -402.3 | -98.2 |
| | **Cash flow from financing activities** | **-402.3** | **-98.1** |
| | Net change in cash funds | -64.7 | 67.6 |
| +/- | Effect on cash funds of exchange rate movements, changes in reporting entity structure and remeasurement | - | - |
| **+** | **Cash funds at beginning of period** | **86.9** | **19.0** |
| | **Cash funds at end of period** | **22.2** | **86.9** |

## Notes on the consolidated cash flow statement

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

- operating activities,
- investing activities and
- financing activities

to cash funds at the end of the financial year.

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

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

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

# Notes to the annual and consolidated financial statements

## Applied accounting principles

In accordance with section 340i(1) HGB in conjunction with section 290 et seq. of the *Handelsgesetzbuch* (HGB – German Commercial Code), IKB AG must prepare consolidated financial statements and a Group management report.

The consolidated financial statements (Group) and the annual financial statements (IKB AG) of IKB Deutsche Industriebank AG for the 2013/14 financial year are prepared in line with the provisions of the *Handelsgesetzbuch* (HGB – German Commercial Code) in conjunction with the *Verordnung über die Rechnungslegung der Kreditinstitute und Finanzdienstleistungsinstitute* (RechKredV – German Bank Accounting Directive) and in line with the relevant regulations of the *Aktiengesetz* (AktG – German Stock Corporation Act). The consolidated financial statements also take into account the standards promulgated by the German Standardisation Council (DSR) and endorsed by the Federal Ministry of Justice in accordance with section 342(2) HGB.

The comparative figures for the previous year were calculated in line with German commercial code and disclosed in accordance with section 298(1) in conjunction with section 265(2) HGB.

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

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

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

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

**Changes in measurement**

The method for calculating the fundamental value of the Bacchus 2008-1 and Bacchus 2008-2 securities was adjusted as at 30 September 2013. This resulted in a € 8.6 million reduction in the carrying amount of the Bacchus 2008-1 security as at 31 March 2014, € 4.4 million of which is attributable to the current financial year. The carrying amount of the Bacchus 2008-2 security was reduced by € 0.2 million, which related entirely to the current financial year. A corresponding write-down was recognised by IKB AG. As both subsidiaries Bacchus 2008-1 and Bacchus 2008-2 are included in consolidation, this had no effect on the IKB Group’s income statement.

As part of this change, the calculation of accrued interest for Bacchus 2008-1 and Bacchus 2008-2 was also adjusted. Instead of referencing 6M Euribor for accrual, the calculation now uses a model-based forecast of the anticipated excess interest on the CLO. This had no notable effect on the income statement.

As part of the standardizing the measurement methods for its own investments, IKB changed the methodology for calculating the fair value of the hold-to-maturity securities Bacchus 2008-1 and 2008-2 securities held as fixed assets to a cash flow-based approach at the end of July 2013. This change in the model increased the fair value of Bacchus 2008-1 by € 12.6 million and Bacchus 2008-2 by € 18.2 million as at 31 March 2014. The effect would have led to a reduction in the unrealised losses from long-term investments disclosed in the notes to the financial statements of € 76.2 million as at 31 March 2013.

As at 31 March 2014, IKB extended the calculation of credit valuation adjustments (CVA) to include derivatives with collateral agreements. The aim of this is to show the residual risk of default on secured derivatives appropriately. To calculate this risk, a CVA value is calculated for counterparty risk on the basis of the residual amount not covered by collateral from future, potential fluctuations in the value of derivatives, credit quality and the individual loss given default (LGD). As at 31 March 2014, this change in measurement gave rise to an additional expense in net trading results of € 0.5 million and a reduction in unrealised gains of € 8.0 million for derivatives not held in the trading portfolio.

By way of letter dated 20 March 2014, the Italian government exercised its right to convert the interest on Italian government bonds from zero interest to a fixed rate. The interest deferral method for this security was changed in light of this. The change resulted in income of € 4.5 million which is reported in interest income.

**Changes in reporting**

The earnings effects from the expiry, exercise or close-out of FX options and other FX forwards are now reported in other operating income or other operating expenses rather than in net interest income as was previously the case. As at 31 March 2014, this resulted in a reduction in net interest expense and an increase in other operating expenses of € 9.3 million (previous year: € 4.6 million) and a reduction in net interest income and an increase in other operating income of € 7.3 million (previous year: € 7.6 million).

Under bonds and notes, the breakdown in prior-year figures into sub-items in the balance sheet was adjusted on account of an incorrect allocation. As a result, the level of bonds and notes of public sector entities was increased and the level from other issuers was reduced by € 611.3 million. The “thereof” figures for eligibility as collateral for Deutsche Bundesbank increased by € 436.9 million for public sector entities in the balance sheet of IKB AG and in the consolidated balance sheet, and declined for other issuers by € 874.5 million in the balance sheet of IKB AG and by € 905.2 million in the consolidated balance sheet.

## (1) Consolidated group

In addition to IKB AG, 43 (previous year: 42) subsidiaries have been included in consolidation in the consolidated financial statements as at 31 March 2014. The subsidiary Istop 6 GmbH was included in the consolidated financial statements for the first time as at 31 December 2013. The purpose of the company Istop 6 GmbH is to acquire, hold and dispose of equity investments in companies and to manage its own assets.

Two associated companies are included in the consolidated financial statements using the equity method (previous year: two). The associated company Argantis Private Equity GmbH & Co. KG was removed from the consolidated group as at 30 September 2013 following the transfer of the limited partner interests to third parties. The sale of the limited partner interests had no significant effect on earnings. The associated company European Liquid Bond S.A. SiCAV-FIS was included in the consolidated financial statements at equity for the first time as at 31 December 2013.

Owing to immateriality to the net assets, financial position and results of operations of the Group, 56 (previous year: 48) subsidiaries were not included in the consolidated financial statements by way of consolidation and 19 (previous year: 22) associates were not included using the equity method, instead these were measured as other equity investments at cost less any impairment losses (see note 52).

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

The Luxembourg fund company Valin Funds S.C.A., SICAV-SIF, for which the IKB subsidiary Valin Asset Management S.à.r.l. originally acted as the general partner, was transformed into an S.A. on 13 March 2014. From the time of the transformation of this fund company, Valin Asset Management S.à.r.l. has no longer been its general partner. The fund company Valin Funds S.C.A, SICAV-SIF had its first capital call in April 2013. The share of IKB AG in the fund company along with the sub-fund Valin Funds Mittelstand Mezzanine 1 was reduced from 100% to 5.04% as at the reporting date as a result. Inclusion in the scope of consolidation, which was waived in accordance with section 296(1) no. 1 HGB in the previous year, is therefore no longer required.

## (2) Consolidation methods

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

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

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

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

Assets, liabilities, deferred income and expenses as well as revenue and expenses between the Group companies included are consolidated, provided that there are no industry-specific accounting regulations preventing this. Intercompany profits from internal transactions are eliminated if not immaterial.

Investments in associated companies are measured using the equity method in accordance with section 312 HGB (book value method). Uniform accounting policies are disregarded when using the equity method in the Group.

## Accounting policies

### (3) Receivables

Receivables from customers and banks are recognised at nominal value less specific and general allowances. Differences between the nominal and payment amount are taken to deferred income and prepaid expenses and allocated. Purchased receivables are recognised at acquisition cost less specific and global valuation allowances.

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

### (4) Securities

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

Subsequent measurement of long-term investments is in line with the moderate principle of lower of cost or market value under section 340e(1) sentence 1 HGB in conjunction with section 253(3) sentence 3 HGB. If impairment is expected to be permanent, assets are written down to the lower fair value as at the reporting date.

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

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

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

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

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

## (5) Risk provisioning

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

Global valuation allowances and generally calculated loan loss provisions are calculated in accordance with the letter from the Federal Ministry of Finance dated 10 January 1994. In so doing, historical credit losses from customer receivables and contingent liabilities from guarantees are taken as a basis and multiplied by a cyclical factor in order to accommodate the general economic situation.

In the reporting year, the economic factor used to calculate global valuation allowances was reduced on account of the current economic assessment. As a result of the decline in receivables from customers and the lowering of the economic factor, the global valuation allowance decreased to around € 10 million as at the reporting date. The additional global valuation allowances as at 31 March 2013 of € 20 million recognised to cover latent risks from acquisition, project and property financing in Italy, France, Spain and the UK deferred risks, which were increased by a further € 15 million as at 30 September 2013, were reversed as at 31 December 2013 on account of the occurrence of the anticipated risks and the specific loan loss provisions recognised in the reporting period.

To reflect latent risks of default on long-term investments, receivables from banks, irrevocable loan commitments and contingent liabilities from protection seller credit default swaps, the Bank also calculated global valuation allowances and generally calculated loan loss provisions for these risks on the basis of the expected loss.

Total global valuation allowances for customer receivables and receivables from banks in the Group amounted to € 105.3 million (previous year € 135.2 million) while global valuation allowances at IKB AG amounted to € 105.0 million (previous year € 134.6 million). There were global valuation allowances for securities of € 5.8 million (previous year: € 5.7 million) in the Group and € 5.4 million (previous year: € 4.9 million) at IKB AG. Generally calculated loan loss provisions in the Group and at IKB AG declined from € 5.6 million to € 4.6 million.

To cover sovereign risk, a global valuation allowance was recognised for the credit volume in high-risk countries with internal ratings from class 13 for which the risk has not been placed with third parties. The resulting global valuation allowances amounted to € 0.2 million.

## (6) Trading liabilities

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

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

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

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

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

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

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

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

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

### (8) Lease assets

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

Depreciation on lease assets in the Group is reported in "Depreciation on lease assets".

### (9) Securities repurchase and lending transactions

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

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

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

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

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

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

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

### (11) Liabilities

With the exception of trading liabilities, liabilities are measured at settlement amount. The difference between this and the amount paid in is deferred and allocated in profit or loss as planned.

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

## (12) Provisions

### *Provisions for pensions and similar obligations*

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

| Measurement factor | 31 Mar. 2014 Assumption | 31 Mar. 2013 Assumption |
|---|---|---|
| Interest rate | 4.83% | 5.03% |
| Wage and salary increase | 2.0% / 3.0% | 3.0% |
| Pension trend | 2.0% | 2.0% |
| **Fluctuation rate in line with grading by age and sex** | | |
| Age up to 35 m/f | 6.5% / 4.5% | 6.5% / 4.5% |
| Age from 36 to 45 m/f | 4.5% / 5.5% | 4.5% / 5.5% |
| Age over 45 m/f | 1.5% / 1.0% | 1.5% / 1.0% |

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

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

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

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

### *Tax provisions and other provisions*

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

The provisions for interest on additional tax receivables from the financial authorities and the effects of interest on tax provisions are reported under other provisions.

### (13) Contingent liabilities

Contingent liabilities are shown at the foot of the balance sheet at nominal amount less any recognised provisions.

### (14) Derivatives

Non-trading derivatives are accounted for in line with the provisions for executory contracts. Premium payments made and received from contingent forwards are reported in other assets/liabilities respectively. For non-contingent forwards, upfront fees paid or received are reported in prepaid expenses and deferred income respectively and amortised on a straight-line basis over their remaining term in net interest income. On the balance sheet date it is checked whether provisions for expected losses from executory contracts need to be recognised.

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

Banking book interest derivatives are loss-free measured at present value together with all other non-trading interest-bearing financial instruments in accordance with the principles of IDW RS BFA 3. Thereby the difference between the present value of the interest-bearing positions and the corresponding carrying amounts is calculated, taking into account administrative costs, risk costs and anticipated refinancing costs. IKB takes the refinancing effect of equity into account. The specific situation at IKB means that distributions to shareholders are not possible for a long time. As a result, zero interest is assumed for the portion of the anticipated refinancing costs of net assets through equity. Loss-free measurement in accordance with IDW RS BFA 3 did not give rise to any provision requirements.

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

### (15) Currency translation

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

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

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

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

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

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

## (16) Valuation units

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

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

The net presentation method ("Einfrierungsmethode") is generally used to present valuation units at IKB. Exceptions to this are micro valuation units for avoiding currency risks in the Group, which are accounted for using the gross presentation method ("Durchbuchungsmethode").

In the net presentation method, the offsetting changes in value of the hedged risk (effective portion) are not recognised. Any net unrealised gain resulting within the hedge is not taken into account. However, if the ineffective portion of changes in the value is a loss, a corresponding provision is recognised. By contrast, in the gross hedge presentation method, the offsetting positive and negative changes in value (effective amounts) of assets and liabilities due to the hedged risk are recognised in the accounts and P&L by adjusting the respective carrying amounts.

In cases in which the contract conditions of the underlying item and the protection instrument oppose each other exactly, both the prospective effectiveness test and the retrospective effectiveness test of the valuation unit are performed by way of a critical terms match. In other cases, effectiveness is ensured by regular monitoring of the opposing measurement effects of hedged risks and underlyings. Valuation units are recognised for the remaining term of the underlying items.

There are no valuation units for highly probable transactions.

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

### (17) Deferred taxes

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

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

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

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

## Notes on the balance sheet

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

| | Group | | IKB AG | |
|---|---|---|---|---|
| **in € million** | **31 Mar. 2014** | **31 Mar. 2013** | **31 Mar. 2014** | **31 Mar. 2013** |
| **Receivables from banks*** | **106.5** | **120.0** | **91.0** | **109.3** |
| remaining term | | | | |
| up to 3 months | 74.0 | 75.0 | 58.5 | 64.2 |
| between 3 months and 1 year | 6.3 | 12.4 | 6.3 | 12.4 |
| between 1 and 5 years | 14.2 | 26.0 | 14.2 | 26.1 |
| more than 5 years | 12.0 | 6.6 | 12.0 | 6.6 |
| **Receivables from customers** | **12,263.2** | **14,707.1** | **14,232.2** | **16,752.3** |
| remaining term | | | | |
| up to 3 months | 1,703.6 | 1,582.5 | 1,763.9 | 1,606.8 |
| between 3 months and 1 year | 1,869.9 | 2,419.7 | 2,044.5 | 2,735.5 |
| between 1 and 5 years | 6,371.1 | 8,197.0 | 7,818.7 | 9,111.8 |
| more than 5 years | 2,318.6 | 2,507.9 | 2,605.1 | 3,298.2 |
| **Liabilities to banks*** | **8,921.3** | **11,058.3** | **8,913.8** | **11,066.9** |
| remaining term | | | | |
| up to 3 months | 1,481.5 | 1,086.3 | 1,480.6 | 1,099.7 |
| between 3 months and 1 year | 1,770.7 | 3,369.6 | 1,770.2 | 3,368.1 |
| between 1 and 5 years | 4,428.3 | 5,100.7 | 4,422.2 | 5,097.4 |
| more than 5 years | 1,240.8 | 1,501.7 | 1,240.8 | 1,501.7 |
| **Liabilities to customers*** | **8,738.4** | **10,293.1** | **8,750.4** | **10,311.2** |
| remaining term | | | | |
| up to 3 months | 1,212.2 | 1,568.4 | 1,224.2 | 1,579.5 |
| between 3 months and 1 year | 3,068.2 | 3,184.5 | 3,068.2 | 3,188.5 |
| between 1 and 5 years | 3,222.9 | 4,072.7 | 3,222.9 | 4,075.8 |
| more than 5 years | 1,235.1 | 1,467.5 | 1,235.1 | 1,467.4 |

*not including receivables or liabilities repayable on demand

€ 500.1 million (previous year: € 678.1 million) of bonds and other fixed-income securities are payable in the following year in the Group and € 293.7 million (previous year: € 510.2 million) are payable in the following year at IKB AG. € 149.9 million (previous year: € 117.4 million) of the bonds issued and reported under securitised liabilities are payable in the following year in the Group and € 100.3 million (previous year: € 117.4 million) are payable in the following year at IKB AG.

### (19) Trading financial instruments

Assets held for trading break down as follows:

| in € million | Group 31 Mar. 2014 | Group 31 Mar. 2013 | IKB AG* 31 Mar. 2014 | IKB AG* 31 Mar. 2013 |
|---|---|---|---|---|
| Derivative financial instruments | 253.9 | 253.1 | 253.9 | 253.1 |
| Receivables | 48.2 | 9.4 | 48.2 | 9.4 |
| Bonds and other fixed-income securities | 17.2 | 4.0 | 17.2 | 4.0 |
| Risk deduction | -1.2 | -0.6 | -1.2 | -0.6 |
| **Total** | **318.1** | **265.9** | **318.1** | **265.9** |

*The "Receivables" item reported as at 31 March 2013 includes receivables of € 39.4 million and liabilities of € 30 million.

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

Liabilities held for trading essentially include derivative financial instruments in the amount of € 266.5 million (previous year: € 242.1 million) and liabilities of € 67.4 million (previous year: € 0.0 million).

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

| 31 Mar. 2014<br>in € million | Nominal amount<br>Group | <br>IKB AG |
|---|---|---|
| Interest-related derivatives | 6,512.4 | 6,512.4 |
| Credit-related derivatives | 5.0 | 5.0 |
| Currency-related derivatives | 981.3 | 981.3 |
| Derivatives assigned to several categories | 732.5 | 732.5 |
| **Total** | **8,231.2** | **8,231.2** |

After taking into account a risk deduction, trading activities generated net income of € 6.6 million for the 2013/14 financial year (previous year: € 1.3 million). This resulted in an addition to a special reserve in accordance with section 340e(4) HGB of € 0.7 million (previous year: € 0.1 million). This left net income of € 5.9 million (previous year: € 1.2 million).

## (20) Valuation units

Valuation units are essentially used at IKB to show hedges of interest and currency risks.

As at the reporting date, there were valuation units with assets with a carrying amount of € 456.4 million (previous year: € 497.1 million) and derivatives with a negative market value of € 112.7 million (previous year: € 119.9 million) as underlying items in the Group. At IKB AG, there were derivatives with a negative market value of € 112.6 million (previous year: € 119.6 million) as underlying items as at the reporting date.

As at the reporting date, hedged risks amounted to € 4.4 million (previous year: € 7.7 million) for the assets and € 107.4 million (previous year: € 115.5 million) for the derivatives in the Group, and to € 107.3 million (previous year: € 115.2 million) for derivatives at IKB AG. The hedged risk is equal to the value of the changes in the value or cash flows of the underlying item compensated by the valuation units.

## (21) Fixed assets

Group:

| in € million | Intangible assets | Tangible assets | Leasing assets | Equity in-vest-ments | Invest-ments in associates | Invest-ments in affiliated companies | Bonds and other fixed-income securities | Equities and other non-fixed-income securities | Total |
|---|---|---|---|---|---|---|---|---|---|
| **Acquisition costs as at 31 Mar. 2013** | **67.4** | **60.8** | **2,529.0** | **65.1** | **21.4** | **13.4** | **8,131.2** | **469.6** | **11,357.9** |
| Additions | 2.2 | 6.9 | 321.4 | - | 0.3 | 75.8 | 2,899.2 | 458.8 | 3,764.6 |
| Reclassifications | -0.1 | 22.1 | -45.0 | -1.1 | 75.0 | -75.5 | - | - | -24.6 |
| Effects of currency translation | - | -0.1 | -0.8 | - | - | - | -50.1 | - | -51.0 |
| Disposals | -6.8 | -12.7 | -476.4 | -6.3 | -52.9 | -1.7 | -3,450.9 | -359.5 | -4,367.2 |
| **Acquisition costs as at 31 Mar. 2014** | **62.7** | **77.0** | **2,328.2** | **57.7** | **43.8** | **12.0** | **7,529.4** | **568.9** | **10,679.7** |
| **Cumulative depreciation/ amortisation, write-downs and reversals thereof by 31 Mar. 2013** | **-48.4** | **-48.0** | **-1,163.7** | **-38.3** | **-6.4** | **-11.3** | **-496.6** | **-1.1** | **-1,813.8** |
| Reversals of write-downs | - | 0.5 | -1.2 | 2.5 | 1.2 | - | 18.7 | - | 21.7 |
| Depreciation/amortisation and write-downs | -5.7 | -4.6 | -391.0 | -2.1 | -0.2 | -0.1 | -15.6 | - | -419.3 |
| Reclassifications | -0.2 | -10.7 | 3.4 | 1.7 | - | - | - | - | -5.8 |
| Effects of currency translation | - | 0.1 | 0.4 | - | - | - | 31.3 | - | 31.8 |
| Disposals | 6.8 | 11.7 | 394.0 | 3.9 | 6.6 | 1.7 | 285.3 | - | 710.0 |
| **Cumulative depreciation/ amortisation, write-downs and reversals thereof by 31 Mar. 2014** | **-47.5** | **-51.0** | **-1,158.1** | **-32.3** | **1.2** | **-9.7** | **-176.9** | **-1.1** | **-1,475.4** |
| **Residual book value as at 31 Mar. 2014** | **15.2** | **26.0** | **1,170.1** | **25.4** | **45.0** | **2.3** | **7,352.5** | **567.8** | **9,204.3** |
| **Residual book value as at 31 Mar. 2013** | **19.0** | **12.8** | **1,365.3** | **26.8** | **15.0** | **2.1** | **7.634.6** | **468.5** | **9,544.1** |

Deferred interest for the financial year and the previous year is shown in additions and disposals.
For the items “Equity investments” and “Investments in affiliated companies”, on account of a gross presentation required but not fully present in the previous year, the cost and cumulative depreciation/amortisation, write-downs and reversals thereof were adjusted as at 31 March 2013. The figures for the item “Equity investments” were each increased by € 8.1 million and for “Investments in affiliated companies” by € 5.9 million.

IKB AG:

| in € million | Intangible assets | Tangible assets | Leasing assets | Equity in-vest-ments | Invest-ments in associates | Invest-ments in affiliated companies | Bonds and other fixed-income securities | Equities and other non-fixed-income securities | Total |
|---|---|---|---|---|---|---|---|---|---|
| **Acquisition costs as at 31 Mar. 2013** | **91.3** | **33.2** | **-** | **12.9** | **-** | **1,341.2** | **7,235.1** | **-** | **8,713.7** |
| Additions | 0.5 | 2.1 | - | - | - | 10.7 | 2,643.4 | - | 2,656.7 |
| Reclassifications | - | - | - | -1.3 | - | -0.5 | - | - | -1.8 |
| Effects of currency translation | - | - | - | - | - | - | -36.6 | - | -36.6 |
| Disposals | -6.4 | -9.1 | - | -0.3 | - | -19.7 | -3,306.8 | - | -3,342.3 |
| **Acquisition costs as at 31 Mar. 2014** | **85.4** | **26.2** | **-** | **11.3** | **-** | **1,331.7** | **6,535.1** | **-** | **7,989.7** |
| **Cumulative depreciation/ amortisation, write-downs and reversals thereof by 31 Mar. 2013** | **-43.1** | **-27.7** | **-** | **-1.8** | **-** | **-1,216.5** | **-347.8** | **-** | **-1,636.9** |
| Reversals of write-downs | - | - | - | - | - | 22.0 | 11.8 | - | 33.8 |
| Depreciation/amortisation and write-downs | -9.1 | -0.8 | - | - | - | -0.6 | -9.6 | - | -20.1 |
| Reclassifications | - | - | - | 1.8 | - | - | - | - | 1.8 |
| Effects of currency translation | - | - | - | - | - | - | 21.2 | - | 21.2 |
| Disposals | 6.4 | 8.5 | - | - | - | 0.4 | 210.4 | - | 225.7 |
| **Cumulative depreciation/ amortisation, write-downs and reversals thereof by 31 Mar. 2014** | **-45.8** | **-20.0** | **-** | **0** | **-** | **-1,194.7** | **-114.0** | **-** | **-1,374.5** |
| **Residual book value as at 31 Mar. 2014** | **39.6** | **6.2** | **-** | **11.3** | **-** | **137.0** | **6,421.1** | **-** | **6,615.2** |
| **Residual book value as at 31 Mar. 2013** | **48.2** | **5.5** | **-** | **11.1** | **-** | **124.7** | **6,887.3** | **-** | **7,076.8** |

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

The item “Bonds and other fixed-income securities” predominantly includes European government bonds, bank bonds, issues by European industrial companies and structured products in the form of CDOs. Units in special funds are also assigned to fixed assets in the item “Equities and other non-fixed-income securities” in the Group (see note 23).

In total, there were unrealised losses at the balance sheet date from long-term investments of € 110.1 million (previous year: € 363.2 million) based on the carrying amounts of € 993.0 million (previous year: € 2,529.5 million) and the fair values of € 882.9 million (previous year: € 2,166.3 million) in the Group.

At IKB AG, the unrealised losses amounted to a total of € 77.0 million (previous year: € 319.4 million) on carrying amounts of € 926.0 million (previous year: € 2,450.4 million) and fair values of € 849.0 million (previous year: € 2,131.0 million).

The differences are not considered to be permanent impairment. Hence, no write-downs have been recognised. The fair values and carrying amounts used to calculate unrealised losses do not include any deferred interest.

Operating and office equipment are included in tangible assets in the Group. In the current financial year, there is one asset (land/buildings) partially used for banking operations (previous year: 0).

Amortisation on intangible leasing assets in the Group amounted to € 0.6 million (previous year: € 0.7 million).

In the current financial year, write-downs on fixed assets of € 23.1 million (previous year: € 60.7 million) were recognised in the Group and of € 9.7 million (previous year: € 27.3 million) at IKB AG on account of impairment expected to be permanent.

## (22) Negotiable securities

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

| | Group | | | IKB AG | | |
|---|---|---|---|---|---|---|
| **31 Mar. 2014 in € million** | **Total nego-tiable** | **Listed** | **Not listed** | **Total nego-tiable** | **Listed** | **Not listed** |
| Bonds and other fixed-income se-curities | 7,462.6 | 7,078.1 | 384.5 | 6,526.9 | 6,526.9 | - |
| Equities and other non-fixed-income securities | 561.5 | - | 561.5 | - | - | - |
| Equity investments | 10.8 | - | 10.8 | - | - | - |

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

The item “Bonds and other fixed-income securities” includes the negotiable securities assigned to fixed assets of € 7,308.5 million (previous year: € 7,634.6 million) in the Group and € 6,421.1 million (previous year: € 6,887.3 million) at IKB AG. The item “Equities and other non-fixed-income securities” exclusively contains the negotiable securities assigned to fixed assets in the Group of € 561.5 million (previous year: € 468.5 million).

## (23) Disclosures on investment assets

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

| | Group | | | | IKB AG | | | |
|---|---|---|---|---|---|---|---|---|
| **in € million** | **Carrying amount 31 Mar. 2014** | **Market value 31 Mar. 2014** | **Differ-ence to carrying amount 31 Mar. 2014** | **Distri-bution 2013/14** | **Carrying amount 31 Mar. 2014** | **Market value 31 Mar. 2014** | **Differ-ence to carrying amount 31 Mar. 2014** | **Distri-bution 2013/14** |
| Mixed funds | 260.4 | 260.4 | **-** | 1.2 | 233.6 | 233.6 | - | 1.2 |
| Other special funds | 561.5 | 565.4 | **3.9** | 17.0 | - | - | - | - |
| **Total** | **821.9** | **825.8** | **3.9** | **18.2** | **233.6** | **233.6** | **-** | **1.2** |

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

The item "Equities and other non-fixed-income securities" includes interests in foreign special funds in accordance with the *Investmentgesetz* (InvG – German Investment Act). The funds predominantly invest in European mortgage bonds. The "Other special funds" of IKB AG were transferred to a Group company with the intention of holding them in the long term.

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

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

## (24) Investments accounted for using the equity method

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

Carrying amounts of investments accounted for using the equity method:

| in € million | 31 Mar. 2014 | 31 Mar. 2013 |
|---|---|---|
| Linde Leasing GmbH, Wiesbaden | 12.2 | 11.1 |
| European Liquid Bond S.A. SiCAV-FIS, Luxembourg, Luxembourg | 32.8 | - |
| Argantis Private Equity GmbH & Co. KG, Cologne | - | 3.9 |
| **Total** | **45.0** | **15.0** |

Key figures for companies accounted for using the equity method:

| 31 Mar. 2014<br>in € million | Assets | Liabilities | Net income/ loss for the financial year | Income |
|---|---|---|---|---|
| Linde Leasing GmbH, Wiesbaden | 494.7 | 453.7 | 5.9 | 207.7 |
| European Liquid Bond S.A. SiCAV-FIS, Luxembourg, Luxembourg | 119.8 | 0.1 | - | 5.0 |

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

| | Group | | | |
|---|---|---|---|---|
| | 31 Mar. 2014 | | 31 Mar. 2013 | |
| in € million | Affiliated companies [1)] | Investees and investors | Affiliated companies [1)] | Investees and investors |
| Receivables from banks | - | - | - | - |
| Receivables from customers | 17.6 | 30.3 | 20.6 | 30.1 |
| Other assets | 0.2 | - | 0.1 | 0.1 |
| Liabilities to banks | - | - | - | - |
| Liabilities to customers | 4.6 | - | 5.2 | 0.5 |
| Securitised liabilities | 1.2 | - | - | - |
| Other liabilities | - | - | - | - |

1) for affiliated companies not included in consolidation only

| | IKB AG | | | |
|---|---|---|---|---|
| | 31 Mar. 2014 | | 31 Mar. 2013 | |
| in € million | Affiliated companies | Investees and investors | Affiliated companies | Investees and investors |
| Receivables from banks | - | - | 1.8 | - |
| Receivables from customers | 3,035.0 | 30.0 | 3,154.7 | 30.0 |
| Other assets | 27.8 | - | 72.2 | - |
| Liabilities to banks | - | - | 32.1 | - |
| Liabilities to customers | 38.4 | 0.5 | 67.9 | - |
| Securitised liabilities | 391.2 | - | 257.4 | - |
| Other liabilities | 36.3 | - | 19.3 | - |

## (26) Trust activities

| | Group | | IKB AG | |
|---|---|---|---|---|
| in € million | 31 Mar. 2014 | 31 Mar. 2013 | 31 Mar. 2014 | 31 Mar. 2013 |
| Assets held in trust: receivables from customers | - | 0.3 | - | 0.3 |
| Liabilities held in trust: liabilities to customers | - | 0.3 | - | 0.3 |

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

## (27) Subordinated assets

| | Group | | IKB AG | |
|---|---|---|---|---|
| in € million | 31 Mar. 2014 | 31 Mar. 2013 | 31 Mar. 2014 | 31 Mar. 2013 |
| Receivables from customers | 787.4 | 1,019.8 | 772.4 | 999.9 |
| Bonds and other fixed-income securities | 0.7 | 0.7 | 0.7 | 0.7 |
| Assets held for trading | 1.0 | - | 1.0 | - |
| **Total** | **789.1** | **1,020.5** | **774.1** | **1,000.6** |

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

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

| 31 Mar. 2014<br>in € million | Group | IKB AG |
|---|---|---|
| **Offset assets** | | |
| Acquisition costs | 277.1 | 248.8 |
| Fair value | 284.1 | 255.2 |
| **Offset liabilities** | | |
| Settlement amount | -252.5 | -222.1 |
| **Excess of plan assets over post-employment benefit liability** | **33.2** | **33.1** |
| **Expenses and income offset in the reporting year** | **2013/14** | **2013/14** |
| **Expenses and income from pension obligations** | | |
| Income from pension obligations | - | - |
| Expenses for pension obligations | -21.8 | -19.5 |
| **Expenses and income from plan assets** | | |
| Income from plan assets | 8.6 | 8.0 |
| Expenses of plan assets | -0.5 | -0.5 |
| **Net income/expense** | **-13.7** | **-12.0** |

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

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

## (29) Leases

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

## (30) Repurchase agreements

The carrying amount of assets reported in the balance sheet as at the reporting date and transferred in repurchase agreements is € 3,617.9 million (previous year: € 3,736.9 million) in the Group and € 3,164.9 million (previous year: € 3,736.9 million) at IKB AG.

## (31) Foreign-currency assets and liabilities

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

| | Group | | IKB AG | |
|---|---|---|---|---|
| in € million | 31 Mar. 2014 | 31 Mar. 2013 | 31 Mar. 2014 | 31 Mar. 2013 |
| Assets | 1,484.1 | 2,456.7 | 1,364.3 | 2,526.4 |
| Liabilities | 324.5 | 1,314.8 | 473.8 | 1,564.8 |

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

## (32) Other assets and other liabilities

Other assets essentially include the following:

| | Group | | IKB AG | |
|---|---|---|---|---|
| in € million | 31 Mar. 2014 | 31 Mar. 2013 | 31 Mar. 2014 | 31 Mar. 2013 |
| Inventories | - | 90.9 | - | - |
| Foreign currency adjustment item* | 18.1 | 5.1 | 18.1 | 5.1 |
| Receivables from leasing business | 17.6 | 50.0 | - | - |
| Receivables from tax authorities | 42.9 | 43.8 | 36.2 | 35.1 |
| Hire-purchase properties not yet realised | 12.1 | 13.7 | - | - |
| Prepaid expenses for derivatives | 9.2 | 12.5 | 9.7 | 16.0 |
| Trade accounts and other receivables | 2.1 | 3.9 | 0.4 | - |
| Receivables from affiliated companies | - | - | 27.8 | 72.2 |

*from spot exchange rate neutralisation

No properties are reported at carrying amount under inventories in the Group (previous year: two). The change results from the disposal of a property sold in the third quarter. Regarding the other property, it was resolved in October 2013 to give up the intention to sell. It is therefore now recognised in fixed assets.

Receivables from leasing business in the Group are essentially down-payments on hire purchase agreements not yet invoiced.

Other liabilities essentially include the following:

| | Group | | IKB AG | |
|---|---|---|---|---|
| in € million | 31 Mar. 2014 | 31 Mar. 2013 | 31 Mar. 2014 | 31 Mar. 2013 |
| True sale securitisations | - | - | 274.6 | 379.2 |
| Synthetic securitisations | 368.2 | 289.4 | 21.8 | 17.5 |
| Obligations from derivatives* | 86.2 | 82.0 | 86.2 | 82.0 |
| Deferred income for derivatives* | 30.5 | 31.7 | 22.8 | 23.9 |
| Liabilities to tax authorities | 17.9 | 14.4 | 14.2 | 5.3 |
| Deferred income for subordinates liabilities | 2.8 | 13.3 | 2.8 | 13.3 |

*Adjusted prior-year figures for IKB AG due to partial reclassification of other liabilities for obligations from derivatives to deferred income for derivatives

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

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

Deferred interests on the derivative transaction are reported net.

## (33) Deferred income and prepaid expenses

Prepaid expenses include discounts on liabilities recognised at carrying amount of € 11.2 million (previous year: € 21.4 million) in the Group and € 11.2 million (previous year: € 22.7 million) at IKB AG and prepaid expenses for derivative business of € 94.7 million (previous year: € 33.5 million) in the Group and € 179.0 million (previous year: € 160.3 million) at IKB AG.

Deferred income includes discounts on receivables recognised at carrying amount of € 22.2 million (previous year: € 35.6 million) in the Group and € 22.2 million (previous year: € 31.8 million) at IKB AG and deferred income for derivative business of € 69.8 million (previous year: € 31.5 million) in the Group and € 175.2 million (previous year: € 182.5 million) at IKB AG.

## (34) Deferred tax assets

| | Group | | IKB AG | |
|---|---|---|---|---|
| **in € million** | **31 Mar. 2014** | **31 Mar. 2013** | **31 Mar. 2014** | **31 Mar. 2013** |
| Excess deferred tax assets | 248.8 | 148.2 | 251.7 | 150.7 |

Loss carried forwards:

| | Group | | IKB AG | |
|---|---|---|---|---|
| **in € million** | **31 Mar. 2014** | **31 Mar. 2013** | **31 Mar. 2014** | **31 Mar. 2013** |
| Reported corporation tax loss carried forwards | 60.9 | 53.8 | 12.7 | 21.7 |
| Reported trade tax loss carried forwards | - | 2.7 | - | - |

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

The rise in deferred tax assets compared to the previous year relates to the increase in deferred taxes on temporary differences in connection with business planning combined with improved profit prospects.

## (35) Pension provisions

The reported pension provisions amount to € 3.2 million (previous year: € 6.1 million) in the Group and € 0.0 million (previous year: € 3.2 million) at IKB AG. The pension provisions at IKB AG in the previous year related to early retirement benefits reported as obligations under the new redundancy scheme that were not offset by plan assets as at 31 March 2013, while in the current financial year these obligations are offset by corresponding plan assets.

In the context of the first-time adoption regulations of the BilMoG, the option was exercised to distribute the additional amount to the pension provisions evenly over a term of 15 years. The outstanding addition as at 31 March 2014 amounted to € 51.0 million (previous year: € 55.7 million) in the Group and € 45.0 million (previous year: € 49.0 million) at IKB AG.

## (36) Subordinated liabilities

There is no early repayment obligation. In the event of insolvency or liquidation, they can only be repaid after all non-subordinated creditors have been repaid. Participation in the losses of operating activities is not provided for here. Interest is owed and paid regardless of the Bank's net profit or loss for the year with the exception of the 2004/2005 issue (Group).

As at the reporting date, subordinated liabilities amounted to € 971.3 million (previous year: € 1,373.6 million) in the Group and € 496.3 million (previous year: € 898.6 million) at IKB AG. Interest expenses on these amounted to € 15.5 million (previous year: € 31.2 million) in the Group and € 15.5 million (previous year: € 31.2 million) at IKB AG in the financial year. Interest expenses were not incurred for the 2004/2005 issue (Group) in the financial year as payment is dependent on distributable profit at IKB AG.

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

| Group<br>Year of issue | Carrying amount in € million | Currency | Interest rate in % | Maturity |
|---|---|---|---|---|
| 2005/2006 | 96.1 | JPY | 2.76 | 21 Jul. 2035 |
| 2006/2007 | 120.0 | EUR | 0.96 | 23 Jan. 2017 |
| 2004/2005 (Group) | 400.0 | EUR | 1) | Perpetual |

| IKB AG<br>Year of issue | Carrying amount in € million | Currency | Interest rate in % | Maturity |
|---|---|---|---|---|
| 2006/2007 | 50.0 | EUR | 0.99 | 20 Jan. 2016 |
| 2004/2005 | 73.0 | EUR | 1.10 | 13 Sept. 2016 |
| 2005/2006 | 96.1 | JPY | 2.76 | 21 Jul. 2035 |
| 2006/2007 | 120.0 | EUR | 0.96 | 23 Jan. 2017 |

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

## (37) Profit participation capital

After loss allocation, profit participation capital in the Group and at IKB AG amounted to € 32.2 million as at the balance sheet date (previous year: € 32.2 million). The nominal value as at the balance sheet date was unchanged at € 300.0 million. In line with terms and conditions, profit participation capital participates fully in the net loss for the year or net accumulated losses of IKB AG. Depending on the issue, interest payments are only made in conjunction with existing distributable profit or net income of IKB AG for the year. The claims of profit participation certificate bearers to capital repayment are subordinate to the claims of other creditors.

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

The profit participation capital in the Group and at IKB AG breaks down as follows:

| Year of issue | Original nominal value in € million | Currency | Interest rate in % | Maturity |
|---|---|---|---|---|
| 2004/2005 | 30.0 | EUR | 4.50 | 31 Mar. 2015 |
| 2005/2006 | 150.0 | EUR | 3.86 | 31 Mar. 2015 |
| 2006/2007 | 50.0 | EUR | 4.70 | 31 Mar. 2017 |
| 2007/2008 | 70.0 | EUR | 5.63 | 31 Mar. 2017 |

No interest was incurred on profit participation certificates for the 2013/14 financial year. Had the requirements for an interest payment been met, interest of € 13.4 million (previous year: € 13.4 million) would have been payable on profit participation certificates in the 2013/14 financial year.

The Extraordinary General Meeting on 25 March 2009 authorised the Board of Managing Directors to issue bearer profit participation certificates on one or several occasions until 24 March 2014. Bearer option warrants can be attached to the profit participation certificates or they can be equipped with a conversion right for the bearer. According to the terms and conditions of the option or convertible profit participation certificates (hereinafter the “profit participation certificate terms and conditions”), the option and conversion rights provide for bearers to subscribe to bearer shares of the company. Actions for annulment have been brought against this resolution on which a verdict has not yet been reached. This has not been entered in the commercial register to date. As the deadline expired on 24 March 2014, this authorisation has since been rendered irrelevant.

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

## (38) Fund for general banking risks

Owing to the net income in the trading portfolio of € 6.6 million (previous year: € 1.3 million), there was an addition to the fund for general banking risks in accordance with section 340e(4) HGB of € 0.7 million (previous year: € 0.1 million) in the 2013/14 financial year (see note 19).

This special reserve was recognised in the amount of € 0.9 million as at the reporting date (previous year: € 0.2 million).

The fund for general banking risks in accordance with section 340g HGB, which is eligible as common equity tier 1 capital in accordance with the CRR, was increased to € 573.1 million by an addition of € 402.5 million in the 2013/14 financial year.

## (39) Development of capital

***Treasury stock***

By way of resolution of the Annual General Meeting on 26 August 2010, the Board of Managing Directors was authorised to acquire and sell treasury shares for the purpose of securities trading until 25 August 2015. The amount of shares acquired for this purpose must not exceed 5% of the share capital at the end of any one day. Together with the treasury shares acquired for other reasons held by the company or assigned to it in accordance with sections 71a et seq. AktG, the treasury shares acquired on the basis of this authorisation may not exceed 10% of the share capital at any time. This authorisation was not utilised in the 2013/14 financial year.

By way of resolution of the Annual General Meeting held on 26 August 2010, the company was authorised to acquire treasury shares of up to 10% of the share capital for purposes other than securities trading until the end of 25 August 2015. The shares can be acquired on the stock exchange or by way of a public bid to all shareholders. The acquisition of shares can be carried out using put or call options. Such share acquisitions are limited to shares of a maximum volume of 5% of the share capital at the time of the resolution on this authorisation by the Annual General Meeting on 26 August 2010. The options must mature by 25 August 2015 at the latest. Together with the treasury shares acquired for trading purposes and other reasons held by the company or assigned to it in accordance with sections 71a et seq. AktG, the treasury shares acquired on the basis of this authorisation must not exceed 10% of the share capital of the company at any time. At the discretion of the Board of Managing Directors, the acquired shares can be sold on the stock exchange or in some other way or, in full or in part, called in. This authorisation was not utilised in the 2013/14 financial year.

By way of resolution of the Annual General Meeting on 5 September 2013, the company was authorised to acquire and sell treasury stock for the purpose of securities trading until 4 September 2018. The amount of shares acquired for this purpose must not exceed 5% of the share capital at the end of any one day. Together with the treasury shares acquired for other reasons held by the company or assigned to it in accordance with sections 71a et seq. AktG, the treasury shares acquired on the basis of this authorisation must not exceed 10% of the share capital at any time. This authorisation was not utilised in the 2013/14 financial year. The authorisation to acquire treasury shares for trading purposes by the Annual General Meeting on 26 August 2010 was revoked by way of resolution of the Annual General Meeting on 5 September 2013 from the time at which the new authorisation comes into effect.

By way of resolution of the Annual General Meeting held on 5 September 2013, the company was authorised to acquire treasury shares of up to 10% of the share capital for purposes other than securities trading until the end of 4 September 2018. The shares can be acquired on the stock exchange (OTC) or by way of a public bid to all shareholders. The acquisition of shares can 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 5 September 2013. The options must mature by 4 September 2018 at the latest. Together with the treasury shares acquired for trading purposes and other reasons held by the company or assigned to it in accordance with sections 71a et seq. AktG, the treasury shares acquired on the basis of this authorisation must not exceed 10% of the share capital of the company at any time. The acquired shares can be sold on the stock exchange (OTC) or in some other way or, in full or in part, called in. This authorisation was not utilised in the 2013/14 financial year. The authorisation to acquire and utilise treasury shares in accordance with section 71(1) no. 8 AktG by the Annual General Meeting on 26 August 2010 was revoked by way of resolution of the Annual General Meeting on 5 September 2013 from the time at which the new authorisation comes into effect.

No treasury shares were held in the 2013/14 financial year, nor were there any additions or disposals of the same.

### *Equity*

By way of resolution of the Annual General Meeting on 28 August 2008, the Board of Managing Directors was authorised, with the approval of the Supervisory Board, to increase the share capital of the company by a total of up to € 500,000,000.00 against cash or non-cash contributions by issuing up to 195,312,500 new no-par-value bearer shares until 27 August 2013. With the approval of the Supervisory Board, the statutory pre-emption rights of shareholders can be disapplied under this authorisation. This authorisation was not utilised in the 2008/09 to 2013/14 financial years. The authorised capital was entered in the commercial register on 3 November 2008.

By way of resolution of the Extraordinary General Meeting on 25 March 2009, the Board of Managing Directors was authorised, with the approval of the Supervisory Board, to increase the share capital of the company by a total of up to € 247,499,996.16 against cash or non-cash contributions by issuing up to 96,679,686 new no-par-value bearer shares until 24 March 2014. With the approval of the Supervisory Board, the statutory pre-emption rights of shareholders can be disapplied under this authorisation. Actions for annulment have been brought against this resolution. The resolution has not yet been entered in the commercial register. As the deadline expired on 24 March 2014, this authorisation has since been rendered irrelevant. By way of resolution of the Annual General Meeting on 5 September 2013, 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 € 560,000,000.00 against cash or non-cash contributions by issuing new no-par-value bearer shares until 4 September 2018. The number of shares must increase by the same proportion as the share capital. With the approval of the Supervisory Board, the statutory pre-emption rights of shareholders can be disapplied under this authorisation. This authorisation was not utilised in the 2013/14 financial year. The authorised capital was entered in the commercial register on 14 October 2013.

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 or option bonds with a total nominal value of € 900,000,000.00 and a maximum duration of 20 years by 27 August 2013 and to grant the bearers of these bonds conversion rights or options to up to 48,339,843 no-par-value bearer shares in the company accounting for up to € 123,749,998.08 of the share capital according to the relevant bond conditions. On 19 November 2008, the Board of Managing Directors of the company resolved to issue subordinated bonds with a total nominal value of up to € 123,671,070.72 with a contingent conversion obligation and contingent conversion right for up to 48,309,012 shares of the company from contingent capital with shareholders' pre-emption rights in place. A subsidiary of the Lone Star group, LSF6 Rio S.à.r.l., had undertaken to assume all bonds not subscribed to by other IKB AG shareholders. Bonds totalling € 150,174.72 were subscribed to by other shareholders and the remaining amount of € 123,520,896.00 was acquired by Lone Star (LSF6 Rio S.à.r.l.). A bond of nominally € 23.04 entitled the bearer to subscribe to nine new shares from contingent capital at a conversion price of € 2.56 per share. The conditions for the existence of a conversion obligation and a conversion right had been met since 1 July 2009, hence there was a conversion right from this time. A conversion obligation existed no later than 11 April 2012. LSF6 Rio S.à.r.l. had exercised its conversion right in full on

2 July 2009. On issuance of the subscribed shares on 14 July 2009, this increased the share capital of the company by € 123,520,896.00 to € 1,621,315,228.16. The increase in the share capital was entered in the commercial register on 4 May 2010. Also, a further creditor of the convertible bond had exercised its conversion right on 20 January 2012. On issuance of the subscribed shares on 30 January 2012, this increased the share capital of the company by € 3,686.40 to € 1,621,318,914.56. The remaining convertible bonds of nominally € 146,488.32 underwent mandatory conversion on 11 April 2012. The number of total voting rights rose by 57,222 as a result of the mandatory conversion from 633,327,701 to 633,384,923 and the subscribed capital increased to € 1,621,465,402.88. The increase in share capital as a result of the conversions in January 2012 and April 2012 was entered in the commercial register on 2 May 2012.

By way of a resolution by the Extraordinary General Meeting on 25 March 2009, the Board of Managing Directors was authorised to issue convertible and option certificates and convertible and option bonds with a total nominal amount of up to € 900,000,000.00 and to grant the bearers of profit participation certificates or bonds conversion rights or options to shares of the company with a share of capital of up to € 618,749,990.40 in line with the respective terms and conditions of the bonds until 24 March 2014. The residual authorisation of 28 August 2008 to issue convertible and option bonds of up to € 776,328,929.28 was revoked by way of resolution of the Extraordinary General Meeting on 25 March 2009. Actions for annulment have been brought against these resolutions on which a verdict has not yet been reached. The resolution has not yet been entered in the commercial register. As the deadline expired on 24 March 2014, this authorisation has since been rendered irrelevant.

By way of resolution of the Annual General Meeting on 26 August 2010, the share capital contingently increased by up to € 229,102.08 (Contingent Capital 2008) still existing from the resolution of the Annual General Meeting on 28 August 2008 was lowered to a maximum of € 150,174.72, comprising up to 58,662 new no-par-value bearer shares with an entitlement to profits starting from the beginning of the financial year in which they are issued. The reduction was entered in the commercial register on 8 November 2010.

By way of resolution of the Annual General Meeting on 26 August 2010, the Board of Managing Directors was authorised, with the approval of the Supervisory Board, to issue bearer convertible or option bonds or combinations of these instruments (referred to together as "bonds" hereafter) with a total nominal value of up to € 400,000,000.00 on one or several occasions, with or without a limited term in each case, until 25 August 2015, and to grant the bearers of bonds conversion or option rights to subscribe to a maximum of 74,874,422 no-par-value bearer ordinary shares of the company with a proportionate amount of the share capital of up to € 191,678,520.32 in total in accordance with the terms of issue of the bonds. This authorisation was not utilised in the 2013/14 financial year. The resolution was entered in the commercial register on 8 November 2010.

### *Hybrid capital instruments*

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

In the Group, trust preferred securities were issued by two subsidiaries in the US created for this purpose. Unlike German preferred shares, these preferred shares grant no share to the liquidation result of the issuing companies. The asset contributions by silent partners, which are otherwise perpetual, can only be cancelled by the issuers, an option that cannot be exercised until 2013 or 2014 at the earliest. A further condition for cancellation is that the repayment value is replenished to the original nominal value of the contribution. Perpetual maturity is agreed for the investor for preferred shares.

The carrying amounts of the preferred shares, which are reported in subordinated liabilities, amounted to € 475.1 million in the Group as at 31 March 2014 (previous year: € 475.1 million). Their nominal value in the Group is still € 475.1 million.

IKB AG has received silent contributions from partners. The loss ratio is calculated by the ratio of the silent partner contribution to balance sheet equity including profit participation certificates. As a result of loss participation in previous years, the repayment claims of the silent partners and therefore their carrying amounts were unchanged at € 0.0 million (previous year: € 0.0 million) in the Group and at IKB AG at a nominal value of € 400.0 million. The replenishment of the repayment amount after loss participation is expressly provided for when certain conditions are met.

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

### *Statement of changes in equity*

Group:

| in € million | 1 Apr. 2013 | Change in reserves | Other changes | Consolidated net profit | 31 Mar. 2014 |
|---|---|---|---|---|---|
| **Called-up capital** | **1,621.5** | **-** | **-** | **-** | **1,621.5** |
| Subscribed capital | 1,621.5 | - | - | - | 1,621.5 |
| **Capital reserves** | **1,750.7** | **-** | **-** | **-** | **1,750.7** |
| **Revenue reserves** | **5.0** | **-** | **-0.1** | **-** | **4.9** |
| Legal reserve | 2.4 | - | - | - | 2.4 |
| Other revenue reserves | 2.6 | - | -0.1 | - | 2.5 |
| Difference in equity from currency translation | -16.7 | - | -1.5 | - | -18.2 |
| Net accumulated losses | -2,408.4 | - | - | 32.2 | -2,376.2 |
| **Equity** | **952.1** | **-** | **-1.6** | **32.2** | **982.7** |

IKB AG:

| in € million | 1 Apr. 2013 | Withdrawals | Additions | Distribution of the result for the year | 31 Mar. 2014 |
|---|---|---|---|---|---|
| **Called-up capital** | **1,621.5** | **-** | **-** | **-** | **1,621.5** |
| Subscribed capital | 1,621.5 | - | - | - | 1,621.5 |
| **Capital reserves** | **1,750.7** | **-** | **-** | **-** | **1,750.7** |
| **Revenue reserves** | **2.4** | **-** | **-** | **-** | **2.4** |
| Legal reserve | 2.4 | - | - | - | 2.4 |
| Other revenue reserves | - | - | - | - | - |
| **Net accumulated losses** | **-2,167.3** | **-** | **-** | **-** | **-2,167.3** |
| **Equity** | **1,207.3** | **-** | **-** | **-** | **1,207.3** |
| For information purposes: Unutilised | | | | | |
| authorised capital | 500.0 | - | 60.0 | - | 560.0 |
| contingent capital | 191.7 | - | - | - | 191.7 |

The own funds of the Group in accordance with Article 72 CRR amount to a total of € 2.3 billion (previous year: € 2.2 billion). The common equity tier 1 capital in accordance with Article 50 CRR amounts to € 1.5 billion in the Group.

The own funds of IKB AG in accordance with Article 72 CRR amount to a total of € 2.1 billion (previous year: € 2.2 billion). The common equity tier 1 capital in accordance with Article 50 CRR amounts to € 1.7 billion at IKB AG.

The distributable amounts locked break down as follows:

Group:

| 31 Mar. 2014<br>in € million | Gross income | Deferred tax assets | Deferred tax liabilities | Restriction on distribution |
|---|---|---|---|---|
| Unrealised gains on plan assets | 7.1 | - | -2.0 | 5.1 |
| Recognition of deferred taxes | - | 367.4 | -116.5 | 250.9 |
| **Total** | **7.1** | **367.4** | **-118.5** | **256.0** |

IKB AG:

| 31 Mar. 2014<br>in € million | Gross income | Deferred tax assets | Deferred tax liabilities | Restriction on distribution |
|---|---|---|---|---|
| Unrealised gains on plan assets | 6.4 | - | -2.0 | 4.4 |
| Recognition of deferred taxes | - | 281.5 | -27.8 | 253.7 |
| **Total** | **6.4** | **281.5** | **-29.8** | **258.1** |

## Notes on the income statement

### (40) Income by geographical market

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

| | Group | | IKB AG* | |
|---|---|---|---|---|
| **in € million** | **2013/14** | **2012/13** | **2013/14** | **2012/13** |
| Federal Republic of Germany | 2,314.5 | 2,755.3 | 1,724.7 | 2,150.4 |
| Europe not including Germany | 201.8 | 231.2 | 67.6 | 97.0 |
| **Total** | **2,516.3** | **2,986.5** | **1,792.3** | **2,247.4** |

*The income of IKB AG for the 2012/13 financial year was reduced by income from profit-pooling, profit transfer and partial profit transfer agreements (€ 71.7 million) and the breakdown was adjusted on account of an amended calculation system.

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

### (41) Administrative and brokerage services for third parties

IKB essentially performs administrative services for credit and custody business. The income from these activities is included in net commission income.

### (42) Other operating income

The “Other operating income” item essentially breaks down as follows:

| | Group | | IKB AG | |
|---|---|---|---|---|
| **in € million** | **2013/14** | **2012/13** | **2013/14** | **2012/13** |
| Income from currency translation | 29.1 | 40.3 | 0.6 | 0.1 |
| Income from the reversal of swap agreements | 353.6 | 387.9 | 353.8 | 396.0 |
| Reversal of provisions | 39.7 | 8.8 | 32.5 | 7.3 |
| Other operating income | 44.9 | 9.3 | 26.5 | 1.6 |
| Rental income | 7.9 | 8.1 | 2.3 | 2.0 |
| Income from cost allocation | 1.3 | 1.6 | 5.1 | 6.5 |
| Income from agency arrangements | 0.9 | 2.7 | - | - |
| Income from discounting provisions | 0.8 | 0.1 | 0.8 | 0.1 |

## (43) Other operating expenses

Other operating expenses essentially comprise:

| | Group | | IKB AG | |
|---|---|---|---|---|
| in € million | 2013/14 | 2012/13 | 2013/14 | 2012/13 |
| Expenses from the reversal of swap agreements | -205.7 | -436.7 | -210.3 | -442.8 |
| Addition to provisions | -12.2 | -51.7 | -13.5 | -38.3 |
| Expenses from currency conversion | -33.0 | -38.1 | - | -2.3 |
| Rent/upkeep (not for operational purposes) | -6.8 | -8.9 | -5.0 | -3.7 |
| Expenses of interest on provisions | -2.4 | -3.2 | -2.4 | -3.2 |

## (44) Income from profit and loss transfer agreements

The income from profit and loss transfer agreements at IKB AG of € 18.4 million (previous year: € 71.7 million) essentially relates to the profit transfer from IKB Beteiligungen GmbH of € 16.9 million (previous year: € 70.7 million).

## (45) Extraordinary income and expenses

Extraordinary income includes income from the reimbursement of legal costs to KfW in connection with the settlement of portfolio investments in the amount of € 1.8 million (previous year: € 2.6 million). Furthermore, income of € 1.4 million (previous year: € 1.5 million) from higher realisation proceeds on intragroup receivables transferred in restructuring activities is reported at IKB AG.

At € 4.1 million at IKB AG (previous year: € 4.1 million) and € 4.6 million in the Group (previous year: € 4.6 million), extraordinary expenses essentially relate to the distribution of the additional expenses from the remeasurement of pension provisions in accordance with the BilMoG (see note 35).

## (46) Income and expenses from leases

| | Group | |
|---|---|---|
| in € million | 2013/14 | 2012/13 |
| Depreciation and impairment losses on leasing assets | -392.2 | -413.0 |
| Other operating income from leasing business | 36.7 | 41.8 |

## (47) Income taxes

The item “Income taxes” includes current taxes of € 34.0 million (previous year: € -0.1 million) in the Group and € 35.2 million (previous year: € 0.7 million) at IKB AG. The change in the recognition of deferred tax assets of € 100.7 million (previous year: € -4.0 million) in the Group and € 101.0 million (previous year: € -0.9 million) at IKB AG is also reported in this item.

The income under the “Income taxes” item essentially results from the increase in deferred tax assets and the reversal of tax provisions for previous years.

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

## (48) Contingent liabilities and other obligations

On the balance sheet date, the item “Contingent liabilities” included CDSs (Bank as pledgor) under guarantees and warranties of € 1,101.3 million (previous year: € 702.0 million) both in the Group and at IKB AG. Here, IKB has assumed the default risk for a pre-defined credit event for specific credit portfolios. In addition, guarantees and warranties also include derivative components of structured products (embedded CDS) of € 258.1 million (previous year: € 698.3 million) in the Group and € 245.9 million (previous year: € 669.6 million) at IKB AG.

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

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

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

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

## (49) Other financial obligations

As at 31 March 2014, other financial obligations amount to a total of € 1,395.6 million (previous year: € 1,407.0 million) in the Group and € 1,375.5 million (previous year: € 1,390.5 million) at IKB AG.

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

In addition, there are payment obligations from long-term rental agreements over during their term of € 221.3 million (previous year: € 241.4 million) in the Group and € 209.3 million (previous year: € 219.4 million) at IKB AG. The Bank has concluded rental agreements for properties used for banking operations for the head office in Düsseldorf and its branches and for the maintenance of these properties. Provisions for expected losses from executory contracts have been recognised for the event that the expenses exceed the benefit of the rental agreement. The risk or opportunity lies in the fact that after the end of a limited rent agreement, the contract can be extended or a follow-up agreement can be concluded at less advantageous or more advantageous conditions.

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

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

As at the balance sheet date, the Group and IKB AG had no payment obligations from shares, GmbH shares and shares in non-consolidated subsidiaries not fully paid in, shareholdings held by IKB Invest GmbH or subordinated loans.

Of the total financial obligations of IKB AG, € 0.7 million (previous year: € 1.0 million) relates to affiliated companies.

### *Payment obligations to the Deposit Protection Fund*

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

### *Subsequent assessment of bank levy*

In the event that IKB AG generates net profits in future, it is possible for the bank levy to be subsequently reassessed with the result that the bank levy exceeds the minimum contribution already paid (subsequent assessment). This can result in the outflow of cash at IKB AG in future. The possible subsequent assessment contribution for the 2011 to 2014 periods amounts to € 14.3 million in total.

## (50) Off-balance sheet transactions

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

### *Special purpose entities in connection with securitisation transactions*

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

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

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

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

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

Various assets were sold in connection with the implementation of the EU conditions. Part of the implementation of the EU conditions related to the reduction of the credit portfolio in connection with sales of receivables. Guarantees were issued in some cases which are reported in the relevant off-balance sheet line items. The off-balance sheet risks lie in the liability for the legal validity of both this receivable and the collateral associated with it. Successful implementation was confirmed by the EU Commission in the 2012/13 financial year and ongoing monitoring was limited to individual matters and discontinued in the 2013/14 financial year.

### *Forward transactions*

As at the balance sheet date there are obligations from contingent and non-contingent forwards. These are essentially for hedging interest and currency risks and lead to future inflows or outflows of cash. Please also see the information on forwards (see note 59).

# Other disclosures

## (51) Consolidated group as at 31 March 2014

| | | | Equity interest in % |
|---|---|---|---|
| **A.** | **Consolidated subsidiaries** | | |
| **1.** | **German subsidiaries** | | |
| | Aleanta GmbH, Düsseldorf | | 100 |
| | Equity Fund GmbH, Düsseldorf | 1) | 100 |
| | IKB Leasing GmbH, Hamburg | 1) | 100 |
| | IKB Leasing Beteiligungsgesellschaft mbH, Düsseldorf | 1) | 100 |
| | IKB Beteiligungen GmbH, Düsseldorf | | 100 |
| | IKB Data GmbH, Düsseldorf | | 100 |
| | IKB Equity Capital Fund GmbH, Düsseldorf | 1) | 100 |
| | IKB Grundstücks GmbH & Co. Objekt Holzhausen KG, Düsseldorf | | 100 |
| | IKB Grundstücks GmbH, Düsseldorf | | 100 |
| | IKB Invest GmbH, Düsseldorf | 1) | 100 |
| | IKB Projektentwicklung GmbH & Co. KG i.L., Düsseldorf | 3) | 100 |
| | Istop 1 GmbH, Düsseldorf | | 100 |
| | Istop 2 GmbH, Düsseldorf | | 100 |
| | Istop 4 GmbH, Düsseldorf | | 100 |
| | Istop 5 GmbH, Düsseldorf | | 100 |
| | Istop 6 GmbH, Düsseldorf | | 100 |
| | IKB Struktur GmbH, Düsseldorf | 1) | 100 |
| | Projektbeteiligung TH GmbH & Co. KG, Düsseldorf | | 89.8 |
| | Tempelhofer Hafen GmbH & Co. KG, Düsseldorf | 1) | 94.9 |
| | MATRONA GmbH, Düsseldorf | 1) | 100 |
| | Zweite Equity Suporta GmbH, Düsseldorf | 1) | 100 |
| **2.** | **Foreign subsidiaries** | | |
| | IKB Capital Corporation i.L., New York, United States of America | 3) | 100 |
| | IKB Finance B.V., Amsterdam, Netherlands | | 100 |
| | IKB Funding LLC I, Wilmington, United States of America | | 100 |
| | IKB Funding LLC II, Wilmington, United States of America | | 100 |
| | IKB International S.A. i.L., Munsbach, Luxembourg | 2),3) | 100 |
| | IKB Leasing Austria GmbH, Vienna, Austria | 1) | 100 |
| | IKB Leasing CR s.r.o., Prague, Czech Republic | 1) | 100 |
| | IKB Leasing Finance IFN SA, Bucharest, Romania | 1) | 100 |
| | IKB Leasing France S.A.R.L., Marne La Vallée Cedex 4, France | 1) | 100 |
| | IKB Leasing Kft., Budapest, Hungary | 1) | 100 |
| | IKB Leasing Polska Sp.z.o.o, Poznan (Posen), Poland | 1) | 100 |
| | IKB Leasing SR, s.r.o., Bratislava, Slovakia | 1) | 100 |
| | IKB Leasing S.R.L., Bucharest, Romania | 1) | 100 |
| | IKB Lux Beteiligungen S.à.r.l, Luxembourg, Luxembourg | | 100 |
| | IKB Pénzügyi Lízing Zrt., Budapest, Hungary | 1) | 100 |
| | STILL LOCATION S.à.r.l., Marne La Vallee Cedex 4, France | 1) | 100 |
| | IKBL Renting and Service S.r.l., Lainate (MI), Italy | 1) | 100 |
| | IKB Leasing geschlossene Aktiengesellschaft, Moscow, Russia | 1) | 100 |
| **3.** | **Special-purpose entities in accordance with section 290(2) no. 4 HGB** | | |
| | Bacchus 2008-1 Plc, Dublin, Ireland | | |
| | Bacchus 2008-2 Plc, Dublin, Ireland | | |
| | German Mittelstand Equipment Finance No. 1 S.A., Luxembourg, Luxembourg | | |
| | RIO DEBT HOLDINGS (IRELAND) LIMITED, Dublin, Ireland | | |
| **B.** | **Associates** | | |
| | Linde Leasing GmbH, Wiesbaden | 1) | 30.0 |
| | European Liquid Bond S.A. SiCAV-FIS, Luxembourg, Luxembourg | 1) | 27.3 |

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

## (52) List of shareholdings as at 31 March 2014

| 31 Mar. 2014 | | Financial year | Letter of comfort | Equity interest in % | Equity € thou. | Result € thou. |
|---|---|---|---|---|---|---|
| **1. German subsidiaries (consolidated)** | | | | | | |
| Aleanta GmbH, Düsseldorf | | 1 Apr. - 31 Mar. | | 100.00 | 1,550 | 1 |
| Equity Fund GmbH, Düsseldorf | | 1 Apr. - 31 Dec. | | 100.00 | 13,525 | 0 |
| IKB Beteiligungen GmbH, Düsseldorf | | 1 Apr. - 31 Mar. | | 100.00 | 79,742 | 0 |
| IKB Data GmbH, Düsseldorf | | 1 Apr. - 31 Mar. | | 100.00 | 13,000 | 0 |
| IKB Equity Capital Fund GmbH, Düsseldorf | | 1 Apr. - 31 Mar. | X | 100.00 | 23,524 | 84 |
| IKB Grundstücks GmbH, Düsseldorf | | 1 Jan. - 31 Dec. | X | 100.00 | 107 | -4 |
| IKB Grundstücks GmbH & Co.Objekt Holzhausen KG, Düsseldorf | 3) | 1 Jan. - 31 Dec. | X | 100.00 | 6,842 | 1,110 |
| IKB Invest GmbH, Düsseldorf | | 1 Apr. - 31 Mar. | | 100.00 | 334,008 | 0 |
| IKB Leasing Beteiligungsgesellschaft mbH, Düsseldorf | | 1 Apr. - 31 Mar. | | 100.00 | 5,824 | 0 |
| IKB Leasing GmbH, Hamburg | | 1 Apr. - 31 Mar. | X | 100.00 | 178,294 | 0 |
| IKB Projektentwicklung GmbH & Co. KG i.L., Düsseldorf | 3),4) | 1 Jan. - 31 Dec. | X | 100.00 | 21,624 | 17,782 |
| IKB Struktur GmbH, Düsseldorf | | 1 Apr. - 31 Mar. | | 100.00 | 103,750 | 0 |
| Istop 1 GmbH, Düsseldorf | | 1 Apr. - 31 Dec. | | 100.00 | 122,525 | 0 |
| Istop 2 GmbH, Düsseldorf | | 1 Apr. - 31 Dec. | | 100.00 | 155,025 | 0 |
| Istop 4 GmbH, Düsseldorf | | 1 Apr. - 31 Dec. | | 100.00 | 100,325 | 0 |
| Istop 5 GmbH, Düsseldorf | | 1 Apr. - 31 Mar. | | 100.00 | 525 | 0 |
| Istop 6 GmbH, Düsseldorf | | 1 Apr. - 31 Dec. | | 100.00 | 119,025 | 0 |
| MATRONA GmbH, Düsseldorf | | 1 Apr. - 31 Mar. | | 100.00 | 525 | 0 |
| Projektbeteiligung TH GmbH & Co. KG, Düsseldorf | | 1 Jan. - 31 Dec. | | 89.80 | 8 | -7 |
| Tempelhofer Hafen GmbH & Co. KG, Düsseldorf | | 1 Jan. - 31 Dec. | | 94.90 | 0 | 3,936 |
| Zweite Equity Suporta GmbH, Düsseldorf | | 1 Apr. - 31 Dec. | | 100.00 | 34,761 | 0 |
| **2. Foreign subsidiaries (consolidated)** | | | | | | |
| IKB Leasing France S.A.R.L., Marne La Vallée Cedex 4, France | | 1 Jan. - 31 Dec. | | 100.00 | 2,154 | 478,7 |
| STILL LOCATION S.à.r.l., Marne La Vallee Cedex 4, France | | 1 Jan. - 31 Dec. | | 100.00 | 15,325 | 808 |
| IKB International S.A. i.L., Munsbach, Luxembourg | 4) | 1 Apr. - 31 Mar. | X | 100.00 | 27,813 | 484 |
| IKB Lux Beteiligungen S.à.r.l., Munsbach, Luxembourg | | 1 Apr. - 31 Mar. | X | 100.00 | 8,334 | -52 |
| IKB Finance B.V., Amsterdam, Netherlands | | 1 Apr. - 31 Mar. | X | 100.00 | -3,984 | -1,202 |
| IKB Leasing Austria GmbH, Vienna, Austria | | 1 Jan. - 31 Dec. | | 100.00 | 588 | 49 |
| IKB Leasing Polska Sp. z o.o., Poznan (Posen), Poland | | 1 Jan. - 31 Dec. | | 100.00 | 10,989 | 936 |
| IKB Leasing Finance IFN SA, Bucharest, Romania | | 1 Jan. - 31 Dec. | | 100.00 | 3,555 | -200 |
| IKB Leasing S.R.L., Bucharest, Romania | | 1 Jan. - 31 Dec. | | 100.00 | 983 | -34 |
| IKB Leasing geschlossene Aktiengesellschaft, Moscow, Russia | | 1 Jan. - 31 Dec. | | 100.00 | 4,302 | 446 |
| IKB Leasing SR, s.r.o., Bratislava, Slovakia | | 1 Jan. - 31 Dec. | | 100.00 | 1,114 | -117 |
| IKB Leasing CR s.r.o., Prague, Czech Republic | | 1 Jan. - 31 Dec. | | 100.00 | 3,794 | -1,659 |
| IKB Leasing Kft., Budapest, Hungary | | 1 Jan. - 31 Dec. | | 100.00 | 4,754 | 680 |
| IKB Pénzügyi Lízing Zrt., Budapest, Hungary | | 1 Jan. - 31 Dec. | | 100.00 | 2,605 | 817 |
| IKB Capital Corporation i.L., New York, United States of America | 4) | 1 Apr. - 31 Mar. | | 100.00 | 306 | -573 |
| IKB Funding LLC I, Wilmington, United States of America | 2) | 1 Apr. - 31 Mar. | X | 100.00 | 392 | 2 |
| IKB Funding LLC II, Wilmington, United States of America | 2) | 1 Apr. - 31 Mar. | X | 100.00 | 1,432 | 123 |
| IKBL Renting and Service S.r.l., Lainate (MI), Italy | | 1 Jan. - 31 Dec. | | 100.00 | 1,001 | 6 |
| **3. Special-purpose entities (special-purpose entities included in the consolidated financial statements in line with section 290(2) no. 4 HGB)** | | | | | | |
| Bacchus 2008-1 Plc, Dublin 2, Ireland | | | | | | |
| Bacchus 2008-2 Plc, Dublin 2, Ireland | | | | | | |
| RIO DEBT HOLDINGS (IRELAND) LIMITED, Dublin 2, Ireland | | | | | | |
| German Mittelstand Equipment Finance No. 1 S.A., Luxembourg, Luxembourg | | | | | | |

| 31 Mar. 2014 | | Financial year | Letter of comfort | Equity interest in % |
|---|---|---|---|---|
| **4. German subsidiaries (not included in consolidation due to immateriality)** | 1) | | | |
| Boxhagener Str. 76/78 Berlin GmbH i.L., Düsseldorf | 4) | 1 Jan. - 31 Dec. | | 100.00 |
| Brunnenstraße 105-109 Berlin Grundbesitz GmbH, Münster | | 1 Jan. - 31 Dec. | | 94.90 |
| Büroprojekt sechste Verwaltungsgesellschaft mbH i.L., Düsseldorf | 4) | 1 Jan. - 31 Dec. | | 100.00 |
| Büroprojekt vierte Verwaltungsgesellschaft mbH i.L., Düsseldorf | 4) | 1 Jan. - 31 Dec. | | 100.00 |
| Einsteinufer 63-65 Berlin GmbH i.L., Düsseldorf | 4) | 1 Jan. - 31 Dec. | | 100.00 |
| Erste Equity Suporta GmbH, Düsseldorf | | 1 Apr. - 31 Mar. | | 100.00 |
| Feldmühleplatz 1 Verwaltungsgesellschaft mbH, Düsseldorf | | 1 Jan. - 31 Dec. | | 100.00 |
| FRANA Grundstücks-Vermietungsgesellschaft mbH, Düsseldorf | | 1 Jan. - 31 Dec. | | 100.00 |
| GAP 15 GmbH, Düsseldorf | | 1 Jan. - 31 Dec. | | 92.80 |
| GARUMNA GmbH, Düsseldorf | | 1 Apr. - 31 Mar. | | 100.00 |
| HAUSTUS Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Yacht-zentrum Berlin KG, Düsseldorf | | 1 Jan. - 31 Dec. | | 94.67 |
| IKB Projektentwicklungsverwaltungsgesellschaft mbH i.L., Düsseldorf | 4) | 1 Jan. - 31 Dec. | X | 100.00 |
| IKB Beteiligungsgesellschaft 1 GmbH, Düsseldorf | | 1 Jan. - 31 Dec. | | 100.00 |
| IKB Beteiligungsgesellschaft 2 GmbH, Düsseldorf | | 1 Jan. - 31 Dec. | | 100.00 |
| IKB Beteiligungsgesellschaft 3 GmbH, Düsseldorf | | 1 Jan. - 31 Dec. | | 100.00 |
| IKB Beteiligungsgesellschaft 4 GmbH, Düsseldorf | | 1 Apr.-31 Mar. | | 100.00 |
| IKB Beteiligungsgesellschaft 5 GmbH, Düsseldorf | | 1 Apr.-31 Mar. | | 100.00 |
| IKB Beteiligungsgesellschaft 6 GmbH, Düsseldorf | | 1 Jan. - 31 Dec. | | 100.00 |
| IKB Beteiligungsgesellschaft 7 GmbH, Düsseldorf | | 1 Jan. - 31 Dec. | | 100.00 |
| IKB Beteiligungsgesellschaft 8 GmbH, Düsseldorf | | 1 Jan. - 31 Dec. | | 100.00 |
| IKB Beteiligungsgesellschaft 9 GmbH, Düsseldorf | | 1 Jan. - 31 Dec. | | 100.00 |
| IKB Beteiligungsgesellschaft 10 GmbH, Düsseldorf | | 1 Jan. - 31 Dec. | | 100.00 |
| ILF Immobilien-Leasing-Fonds Verwaltung GmbH & Co. Objekt Boxdorf KG, Düsseldorf | | 1 Jan. - 31 Dec. | | 94.26 |
| ilmenau center Verwaltungsgesellschaft mbH, Düsseldorf | 4) | 1 Jan. - 31 Dec. | | 100.00 |
| IMAS Grundstücks-Vermietungsgesellschaft mbH, Düsseldorf | | 1 Apr. - 31 Mar. | X | 100.00 |
| INCO Ingenieur Consult Geschäftsführungsgesellschaft mbH i.L., Düsseldorf | 4) | 1 Jan. - 31 Dec. | | 100.00 |
| INCO Ingenieur Consult GmbH & Co. KG i.L., Düsseldorf | 4) | 1 Jan. - 31 Dec. | | 100.00 |
| Istop 3 GmbH, Düsseldorf | | 1 Jan. - 31 Dec. | | 100.00 |
| ISTOS Beteiligungsverwaltungs- und Grundstücks-Vermietungsgesellschaft mbH, Düsseldorf | | 1 Jan. - 31 Dec. | | 100.00 |
| ISTOS Dritte Beteiligungsverwaltungs- und Grundstücks-Vermietungsgesellschaft mbH & Co. KG, Düsseldorf | | 1 Jan. - 31 Dec. | | 100.00 |
| ISTOS Erste Beteiligungsverwaltungs- und Grundstücks-Vermietungsgesellschaft mbH & Co. KG, Düsseldorf | | 1 Jan. - 31 Dec. | | 100.00 |
| ISTOS Zweite Beteiligungsverwaltungs- und Grundstücks-Vermietungsgesellschaft mbH & Co. KG, Düsseldorf | | 1 Jan. - 31 Dec. | | 100.00 |
| Ligera GmbH, Düsseldorf | | 1 Jan. - 31 Dec. | | 100.00 |
| MD Capital Solingen Verwaltungsgesellschaft mbH i.L., Düsseldorf | 4) | 1 Jan. - 31 Dec. | | 100.00 |
| MD Capital Stromstrasse Verwaltungsgesellschaft mbH i. L., Düsseldorf | 4) | 1 Jan. - 31 Dec. | | 100.00 |
| MD Capital Verwaltungs GmbH i.L., Düsseldorf | 4) | 1 Jan. - 31 Dec. | | 100.00 |
| MD Objekt Lorsch Verwaltungs GmbH i.L., Düsseldorf | 4) | 1 Jan. - 31 Dec. | | 100.00 |
| MD Objekt Solingen Verwaltungsgesellschaft mbH, Düsseldorf | 4) | 1 Jan. - 31 Dec. | | 100.00 |
| MD Objekt Stromstrasse Verwaltungsgesellschaft mbH i.L., Düsseldorf | 4) | 1 Jan. - 31 Dec. | | 100.00 |
| MFRSI Beteiligungsholding Verwaltungsgesellschaft mbH, Düsseldorf | | 1 Jan. - 31 Dec. | | 100.00 |
| Objekt Pankow Verwaltungsgesellschaft mbH i.L., Düsseldorf | 4) | 1 Jan. - 31 Dec. | | 100.00 |
| RAVENNA Vermögensverwaltungs AG, Berlin | | 1 Jan. - 31 Dec. | | 100.00 |
| Restruktur 2 GmbH i.L., Düsseldorf | 4) | 1 Apr. - 31 Mar. | | 100.00 |
| Restruktur 3 GmbH, Düsseldorf | | 1 Apr. - 31 Mar. | | 100.00 |

| 31 Mar. 2014 | | Financial year | Letter of comfort | Equity interest in % |
|---|---|---|---|---|
| Rhondana GmbH, Düsseldorf | | 1 Jan. - 31 Dec. | | 100.00 |
| Robert Adams Str. 12 London GmbH i.L., Norderfriedrichskoog | 4) | 1 Jan. - 31 Dec. | | 100.00 |
| SEQUANA GmbH, Düsseldorf | | 1 Apr. - 31 Mar. | | 100.00 |
| **5. Foreign subsidiaries (not included in consolidation due to section 296 HGB)** | 1) | | | |
| Valin Asset Management S.à.r.l., Luxembourg, Luxembourg | | 1 Apr. - 31 Mar. | | 100.00 |
| IKB Funding Trust I, Wilmington, United States of America | | 1 Apr. - 31 Mar. | | 100.00 |
| IKB Funding Trust II, Wilmington, United States of America | | 1 Apr. - 31 Mar. | | 100.00 |
| **6. German associates** | 1) | | | |
| Linde Leasing GmbH, Wiesbaden | | 1 Jan. - 31 Dec. | | 30.00 |
| **7. Foreign associates** | 1) | | | |
| European Liquid Bond S.A. SiCAV-FIS, Luxembourg, Luxembourg | | 1 Jan. - 31 Dec. | | 27.30 |
| **8. German associates/joint ventures (not accounted for using the equity method due to immateriality** | | | | |
| Argantis GmbH, Cologne | | 1 Jan. - 31 Dec. | | 50.00 |
| Argantis Private Equity Gründer GmbH & Co. KG, Cologne | | 1 Jan. - 31 Dec. | | 39.17 |
| AWEBA Werkzeugbau GmbH Aue, Aue | | 1 Jan. - 31 Dec. | | 25.10 |
| AxIT AG, Frankenthal/Pfalz | | 1 Jan. - 31 Dec. | | 29.88 |
| Chemtura Verwaltungs GmbH, Bergkamen | | 1 Jan. - 31 Dec. | | 50.00 |
| equiNotes Management GmbH, Düsseldorf | | 1 Jan. - 31 Dec. | | 50.00 |
| FMD Feinmechanik GmbH, Weilheim | | 1 Apr. - 31 Mar. | | 49.03 |
| FUNDIS Projektentwicklungsholding GmbH & Co. KG, Düsseldorf | | 1 Jan. - 31 Dec. | | 50.00 |
| FUNDIS Verwaltungsgesellschaft mbH, Düsseldorf | | 1 Jan. - 31 Dec. | | 50.00 |
| HABITO Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt EINS KG, Pullach i. Isartal | | 1 Jan. - 31 Dec. | | 6.00 |
| Hafenspitze Verwaltungsgesellschaft mbH, Hamburg | | 1 Jan. - 31 Dec. | | 25.00 |
| LOUDA SYSTEMS GmbH, Triptis | | 1 Jan. - 31 Dec. | | 45.00 |
| MD Capital Beteiligungsgesellschaft mbH i.L., Düsseldorf | 4) | 1 Jan. - 31 Dec. | | 50.00 |
| MFRSI Beteiligungsholding GmbH & Co. KG, Düsseldorf | | 1 Jan. - 31 Dec. | | 50.00 |
| microTEC Gesellschaft für Mikrotechnologie mbH, Duisburg | | 1 Jan. - 31 Dec. | | 48.18 |
| Mike's Sandwich GmbH, Hamburg | | 1 Jan. - 31 Dec. | | 35.59 |
| MOTORRAD-ECKE GmbH, Villingen-Schwennigen | | 1 Jan. - 31 Dec. | | 38.86 |
| ODS Business Services Group GmbH, Hamburg | | 1 Jan. - 31 Dec. | | 32.00 |
| Vermögensverwaltungsgesellschaft DVD Dassow GmbH, Dassow | | 1 Jan. - 31 Dec. | | 30.00 |
| **9. German equity investments in corporations and partnerships in which the interest exceeds 5% of voting rights** | 1) | | | |
| ae group ag, Gerstungen | | 1 Jan. - 31 Dec. | | 12.72 |
| AXA Immoselect Hauptverwaltungsgebäude GmbH & Co. Objekt Düsseldorf Uerdinger Straße KG, Cologne | | 1 Jan. - 31 Dec. | | 5.10 |
| CellGenix GmbH, Freiburg | | 1 Jan. - 31 Dec. | | 17.05 |
| CoBaLe Immobilien GmbH & Co. Objekt Stuttgart KG, Frankfurt/Main | | 1 Jan. - 31 Dec. | | 5.10 |
| GIP WestSite-Entwicklung GmbH & Co. KG | | 1 Jan. - 31 Dec. | | 5.10 |
| Global Safety Textiles HoldCo One GmbH i.L., Maulburg | 4) | 1 Jan. - 31 Dec. | | 8.80 |
| Industriedruck Krefeld Kurt Janssen, GmbH & Co., Krefeld | | 1 Jan. - 31 Dec. | | 12.00 |
| Janßen-Druck Gesellschaft mit beschränkter Haftung, Krefeld | | 1 Jan. - 31 Dec. | | 12.00 |
| Könemann Verlagsgesellschaft mbH, Cologne | | 1 Jan. - 31 Dec. | | 12.50 |
| Oechsler Aktiengesellschaft, Ansbach | | 1 Jan. - 31 Dec. | | 10.00 |
| **10. Foreign equity investments in large corporations in which the interest exceeds 5% of voting rights** | 1) | | | |
| EPL Acquisitions (SUB) N.V. in liquidatie, Amsterdam, Netherlands | 4) | 1 Jan. - 31 Dec. | | 5.70 |
| Ring International Holding AG, Vienna, Austria | | 1 Jan. - 31 Dec. | | 9.37 |
| Valin Funds S.A., SICAV-SIF, Luxembourg, Luxembourg | 5) | 1 Apr. - 31 Mar. | | 5.04 |

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

## (53) Special investments

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

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

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

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

### (54) Disclosure of auditor's fees

| | Group | | IKB AG | |
|---|---|---|---|---|
| **in € million** | **2013/14** | **2012/13** | **2013/14** | **2012/13** |
| Audit of financial statements | -2.6 | -3.9 | -2.0 | -3.2 |
| Other assurance services | -0.8 | -0.8 | -0.7 | -0.8 |
| Tax consultancy services | -0.1 | - | -0.1 | - |
| Other services | - | -0.5 | - | -0.5 |
| **Total** | **-3.5** | **-5.2** | **-2.8** | **-4.5** |

In particular, in addition to the statutory audit in accordance with section 36 WpHG, "Other assurance services" include assurance services in connection with the reviews of interim financial statements as at 30 September and 31 December 2013.

### (55) Related party transactions

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

### (56) Letters of comfort

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

The letters of comfort for IKB Beteiligungen GmbH, IKB Data GmbH, IKB Invest GmbH, ISTOS Beteiligungsverwaltungs- und Grundstücks-Vermietungsgesellschaft mbH and ISTOS Erste Beteiligungsverwaltungs- und Grundstücks-Vermietungsgesellschaft mbH & Co. KG were withdrawn. As there are profit and loss transfer agreements in place for IKB Beteiligungen GmbH, IKB Data GmbH and IKB Invest GmbH, the withdrawal of the letters of comfort will not give rise to any subsequent liability risks for IKB AG beyond its loss compensation obligations under the existing profit and loss transfer agreements.

The letters of comfort for the foreign subsidiaries of IKB Leasing GmbH, Hamburg, were withdrawn in 2012. Subsequent liability risks could still arise from existing liabilities to third parties of € 0.5 million.

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

### (57) Transfer of collateral for own liabilities and contingent liabilities

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

| 31 Mar. 2014<br>in € million | Group | IKB AG |
|---|---|---|
| Liabilities to banks | 11,686.7 | 11,226.9 |
| Liabilities to customers | - | 661.1 |
| Securitised liabilities | 78.1 | - |
| Other liabilities | - | 274.6 |
| Contingent liabilities | 11.2 | 10.6 |
| **Total** | **11,776.0** | **12,173.2** |

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

## (58) Forward transactions

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

The interest rate risks of securities, loans and the associated refinancing funds are managed in the investment portfolios and the credit refinancing portfolio. Derivatives are used to eliminate or reduce mismatched maturities and interest and exchange rate risks. The derivatives used are predominantly interest derivatives.

Please see note 59 for the fair values of interest-related derivatives in the Group and at IKB AG.

## (59) Derivative financial instruments not recognised at fair value

Group:

| | Nominal | Fair value | | Carrying amount | |
|---|---|---|---|---|---|
| 31 Mar. 2014<br>in € million | | positive | negative | Assets | Equity and liabilities |
| Interest-related derivatives | 41,679.9 | 1,269.0 | 2,683.7 | 36.6 | 111.2 |
| Credit-related derivatives | 1,253.4 | 15.2 | 45.6 | 19.1 | 65.1 |
| Currency-related derivatives | 1,286.9 | 10.4 | 13.2 | 9.1 | 10.8 |
| Derivatives assigned to several categories | 1,132.2 | 117.4 | 104.6 | 57.3 | 40.0 |
| **Total** | **45,352.4** | **1,412.0** | **2,847.1** | **122.1** | **227.1** |

| | Carrying amount | | | | |
|---|---|---|---|---|---|
| 31 Mar. 2014<br>in € million | Other intangible assets | Prepaid expenses | Provisions[1)] | Other liabilities | Deferred income |
| Interest-related derivatives | 1.3 | 35.3 | - | 97.8 | 13.4 |
| Credit-related derivatives | 0.3 | 18.8 | 40.6 | 6.9 | 17.6 |
| Currency-related derivatives | 9.1 | - | - | 10.8 | - |
| Derivatives assigned to several categories | 16.7 | 40.6 | - | 1.2 | 38.8 |
| **Total** | **27.4** | **94.7** | **40.6** | **116.7** | **69.8** |

1) relates to embedded derivatives

At Group level, the unrealised losses from derivatives business are offset by unrealised gains of € 554.4 million on bonds and other fixed-income securities and receivables from customers. Also, in addition to its net asset surplus included in the consolidated financial statements, the IKB Leasing Group has a net asset value (unrealised gains from leasing business) of € 161.0 million. The net asset value is calculated using the model of *Bundesverband Deutscher Leasingunternehmen e.V.*

Net unrealised gains are calculated by comparing the net carrying amount of receivables from customers (after specific and general allowances) and fair value. The carrying amount is taken as being equal to fair value for receivables repayable on demand and prepaid expenses/deferred income. The fair values of receivables from customers recognised at amortised cost as determined for reporting in the notes are calculated on the basis of the discounted cash flow method. Fair value is calculated using assumptions that would arise between independent business partners using similar parameters for their purchase price calculation. A risk-adjusted credit spread derived from IKB's internal risk measurement method is used for each loan. Discounting is carried out using term-differentiated risk-free swap rates and risk-adjusted credit spreads. The swap rate is based on the current market conditions as at the measurement date. The credit spread for the loan fluctuates according to changes in the measured standard risk costs, which are determined by the customer's rating, the collateral situation and the remaining term of the loan on the measurement date. In addition, administrative expenses, the yield receivables of third parties (central cooperative banks, *Landesbanke*n and *Genossenschaftszentralbanken*) observable on the market and the funding costs of banks with a rating of A or AA observable on the market are also taken into account.

IKB AG:

| | Nominal | Fair value | | Carrying amount | |
|---|---|---|---|---|---|
| **31 Mar. 2014 in € million** | | **positive** | **negative** | **Assets** | **Equity and liabilities** |
| Interest-related derivatives | 42,574.6 | 1,291.5 | 2,698.7 | 120.9 | 235.3 |
| Credit-related derivatives | 1,253.4 | 15.2 | 45.6 | 19.1 | 58.2 |
| Currency-related derivatives | 1,286.9 | 10.4 | 13.2 | 9.1 | 10.8 |
| Derivatives assigned to several categories | 1,132.2 | 117.4 | 104.6 | 59.7 | 42.1 |
| **Total** | **46,247.1** | **1,434.5** | **2,862.1** | **208.8** | **346.4** |

| | Carrying amount | | | | |
|---|---|---|---|---|---|
| **31 Mar. 2014 in € million** | **Other intangible assets** | **Prepaid expenses** | **Provisions[1)]** | **Other liabilities** | **Deferred income** |
| Interest-related derivatives | 3.7 | 117.2 | - | 119.7 | 115.6 |
| Credit-related derivatives | 0.3 | 18.8 | 40.6 | - | 17.6 |
| Currency-related derivatives | 9.1 | - | - | 10.8 | - |
| Derivatives assigned to several categories | 16.7 | 43.0 | - | 0.1 | 42.0 |
| **Total** | **29.8** | **179.0** | **40.6** | **130.6** | **175.2** |

1) relates to embedded derivatives

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

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

## (60) Remuneration of the Board of Managing Directors

Total remuneration of € 5.1 million (previous year: € 4.9 million) was incurred for members of the Board of Managing Directors in the 2013/14 financial year. This includes fixed salaries, variable performance-based remuneration, pension compensation for a pension not agreed and non-cash remuneration. The Supervisory Board regularly reviews the appropriateness of the respective total remuneration.

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

The total remuneration for former members of the Board of Managing Directors and their surviving dependents amounted to € 3.0 million (previous year: € 3.5 million). In the 2013/14 financial year, € 40.7 million was recognised for pension obligations to former members of the Board of Managing Directors and their surviving dependents (previous year: € 43.4 million).

## (61) Remuneration of the Supervisory Board

The total remuneration of the members of the Supervisory Board (including VAT) for the 2013/14 financial year amounted to € 203 thousand (previous year: € 226 thousand). This includes reimbursed expenses of € 6 thousand (€ 6 thousand).

## (62) Remuneration of the Advisory Board

The members of the Advisory Board received € 282 thousand (previous year: € 281 thousand), including VAT.

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

No loans were granted to members of the Board of Managing Directors or the Advisory Board. Loans of a total amount of € 18.9 thousand were extended to the members of the Supervisory Board (previous year: € 2 thousand).

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

| | Group | | IKB AG | |
|---|---|---|---|---|
| | **2013/14** | **2012/13** | **2013/14** | **2012/13** |
| Men | 905 | 925 | 655 | 667 |
| Women | 537 | 553 | 319 | 329 |
| **Total** | **1,442** | **1,478** | **974** | **996** |

## (65) Executive bodies

### *The Supervisory Board*

**Chairman**

Bruno Scherrer, London, UK
Senior Advisor of Lone Star Funds

**Deputy Chairman**

Dr Karsten von Köller, Frankfurt
Chairman of Lone Star Germany Acquisitions GmbH

**Members**

Stefan A. Baustert, Krefeld
Management consultant

Dr Karl-Gerhard Eick, London, UK (since 5 September 2013)
Director of KGE Asset Management and Consulting Ltd.

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

Ulrich Grillo, Mülheim an der Ruhr (until 5 September 2013)
Chairman of the Board of Managing Directors of Grillo-Werke Aktiengesellschaft

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

Bernd Klein, Mönchengladbach
Employee representative

Rainer Lenz, Norheim (since 5 September 2013)
Employee representative

Dr Claus Nolting, Munich
Lawyer

Nicole Riggers, Düsseldorf
Employee representative

Dr Carola Steingräber, Berlin (until 5 September 2013)
Employee representatives

Carmen Teufel, Neustetten
Employee representative

Dr Andreas Tuczka, Vienna, Austria
Managing Director of Aldridge Capital Partners GmbH

### *Board of Managing Directors*

Hans Jörg Schüttler
(Chairman)

Dr Dieter Glüder

Claus Momburg

Dr Michael H. Wiedmann

### *Offices held by employees*

As at 31 March 2014, the following employees were represented in the statutory supervisory boards of large corporations:

Dr Reiner Dietrich
Tricor Packaging & Logistics AG

Helmut Laux (until 31 March 2014)
Heinz-Glas Group Holding HGGH GmbH & Co.KGaA
Heinz-Glas Produktion GmbH & Co.KGaA
Heinz-Glas GmbH & Co. KGaA

Klaus Runzer (until 30 April 2013)
Oechsler AG

Dr Thomas Söhlke
ae group ag (since 19 August 2013)

Düsseldorf, 20 May 2014

IKB Deutsche Industriebank AG

The Board of Managing Directors

| | |
|---|---|
| Hans Jörg Schüttler | Dr. Dieter Glüder |
| Claus Momburg | Dr. Michael H. Wiedmann |

# Auditor‘s Reports

## Auditor’s Report of the auditor for the consolidated financial statements and the Group management report of IKB Deutsche Industriebank AG for the financial year from 1 April 2013 to 31 March 2014

We have audited the consolidated financial statements comprising the balance sheet, the income statement, cash flow statement, statement of changes in equity and the notes of the consolidated financial statements, which are combined with the notes of the annual financial statements of IKB Deutsche Industriebank Aktiengesellschaft, Düsseldorf, and the group management report, which is combined with the management report of IKB Deutsche Industriebank Aktiengesellschaft, Düsseldorf for the business year from 1 April 2013 to 31 March 2014. The preparation of the consolidated financial statements and the combined management report in accordance with German commercial law is the responsibility of the parent Company’s Board of Managing Directors. Our responsibility is to express an opinion on the consolidated financial statements and the combined management report based on our audit.

We conducted our audit of the consolidated financial statement in accordance with § 317 HGB (“Handelsgesetzbuch”: “German Commercial Code”) and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with (German) principles of proper accounting and in the combined management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the combined management report are examined primarily on the test basis within the framework of the audit. The audit includes assessing the annual financial statements of the companies included in consolidation, the determination of the companies to be included in consolidation, the accounting and consolidation principles used and significant estimated made by the Company’s Board of Managing Directors, as well as evaluating the overall presentation of the consolidated financial statements and the combined management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

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

Düsseldorf, June 2nd, 2014

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

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

## Auditor's Report of the audit for the annual financial statements and the Group management report of IKB Deutsche Industriebank AG for the financial year from 1 April 2013 to 31 March 2014

We have audited the annual financial statements comprising the balance sheet, the income statement and the notes to the financial statements, which are combined with the notes of the consolidated financial statements together with the bookkeeping system and the management report which is combined with the group management report of IKB Deutsche Industriebank Aktiengesellschaft, Düsseldorf, for the business year from 1 April 2013 to 31 March 2014. The maintenance of the books and records and the preparation of the annual financial statements and the combined management report in accordance with German commercial law are the responsibility of the Company's Board of Managing Directors. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system and the combined management report based on our audit.

We conducted our audit of the annual financial statements in accordance with § 317 HGB ("Handelsgesetzbuch": "German Commercial Code") and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with (German) principles of proper accounting and in the combined management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records, the annual financial statements and the combined management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by the Company's Board of Managing Directors as well as evaluating the overall presentation of the annual financial statements and the combined management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

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

Düsseldorf, June 2nd, 2014

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

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

## Note on forward-looking statements

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

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

IKB Deutsche Industriebank AG
Communications – COM
Wilhelm-Bötzkes-Str. 1
40474 Düsseldorf
Germany
Phone +49 211 8221-4511
Fax +49 211 8221-2511
E-mail: investor.relations@ikb.de