

Annual financial statements and  
management report of  
IKB Deutsche Industriebank AG  
2008/2009

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## Supervisory Board and Committees

### Supervisory Board

<b>Bruno Scherrer (Chairman)</b>	Head of European Investments, Senior Managing Director, Lone Star Management Europe Ltd., London
<b>Dr Karsten von Köller (Deputy Chairman)</b>	Chairman Lone Star Germany GmbH, Frankfurt am Main
<b>Stefan A. Baustert</b>	President and CEO SINGULUS TECHNOLOGIES AG, Bad Homburg
<b>Wolfgang Bouché*</b>	Düsseldorf
<b>Olivier Brahin</b>	Head of European Real Estate Investments, Lone Star Management Europe Ltd., London
<b>Dr Lutz-Christian Funke</b>	Director of Business Strategy/Head of Staff Division Board of Directors of KfW Bankengruppe, Frankfurt am Main
<b>Ulrich Grillo</b>	Chairman of the Board of Managing Directors of Grillo-Werke AG, Mülheim an der Ruhr
<b>Arndt G. Kirchhoff</b>	Managing Partner of KIRCHHOFF Automotive GmbH, Attendorn
<b>Jürgen Metzger*</b>	Hamburg
<b>Dr Claus Nolting</b>	CEO of COREALCREDIT BANK AG, Munich
<b>Dr Thomas Rabe</b>	Member of the Board of Managing Directors of Bertelsmann AG, Berlin
<b>Dr Carola Steingräber*</b>	Berlin
<b>Dr Andreas Tuczka</b>	Head of European Financial Institutions, Lone Star Management Europe Ltd., London
<b>Ulrich Wernecke*</b>	Düsseldorf
<b>Andreas Wittmann*</b>	Munich

\* Employee representative

## Executive Committee

**Bruno Scherrer** Chairman

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**Dr Karsten von Köller**

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**Dr Andreas Tuczka**

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**Ulrich Wernecke**

## Finance and Audit Committee

**Dr Karsten von Köller** Chairman

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**Wolfgang Bouché**

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**Dr Claus Nolting**

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**Bruno Scherrer**

## Nomination Committee

**Bruno Scherrer** Chairman

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**Dr Karsten von Köller**

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**Dr Claus Nolting**

## Advisory Board

<b>Jürgen R. Thumann (Chairman)</b>	Chairman of the Shareholders Committee of Heitkamp & Thumann KG, Düsseldorf
<b>Professor Dr Hermut Kormann (Deputy Chairman)</b>	Heidenheim
<b>Dipl.-Ing. Norbert Basler</b>	Chairman of the Supervisory Board of Basler AG, Ahrensburg
<b>Dr h.c. Josef Beutelmann</b>	Chairman of the Board of Managing Directors of Barmenia Versicherungs-Gesellschaften, Wuppertal
<b>Dipl.-Ing. Jan-Frederic Bierbaum</b>	Managing Partner of Bierbaum Unternehmensgruppe GmbH & Co. KG, Borken
<b>Dipl.-Kfm. Martin Dreier</b>	Managing Partner of Dreier-Werk GmbH Dach und Wand + Dreier Immobilien, Dortmund
<b>Professor Dr phil. Hans-Heinrich Driftmann</b>	General and Managing Partner of Peter Kölln KGaA, Elmshorn
<b>Dr Hugo Fiege</b>	Chairman of the Board of Managing Directors of Fiege Holding Stiftung & Co. KG, Greven
<b>Hans-Michael Gallenkamp</b>	Managing Director of Felix Schoeller Holding GmbH & Co. KG, Osnabrück
<b>Wolfgang Gutberlet</b>	Chairman of the Board of Managing Directors of tegut... Gutberlet Stiftung & Co., Fulda
<b>Dipl.-Kfm. Dietmar Harting</b>	General Partner of Harting KGaA, Espelkamp
<b>Dr Hannes Hesse</b>	Managing Director of the German Engineering Industry Association (Verband Deutscher Maschinen- und Anlagenbau e.V. – VDMA), Frankfurt am Main

<b>Dr Stephan J. Holthoff-Pförtner</b>	Attorney and Notary, Essen
<b>Martin Kannegiesser</b>	Managing Partner of Herbert Kannegiesser GmbH & Co., Vlotho
<b>Dr Michael Kaschke</b>	Member of the Board of Managing Directors of Carl Zeiss AG, Oberkochen
<b>Dr Jochen Klein</b>	Chairman of the Advisory Board of Döhler GmbH, Darmstadt
<b>Professor Dr-Ing. Eckart Kottkamp</b>	Großhansdorf
<b>Matthias Graf von Krockow</b>	Chairman of the personally liable Partners Sal. Oppenheim jr. & Cie. KGaA, Cologne
<b>Andreas Langenscheidt</b>	Managing Partner of Langenscheidt KG, Munich
<b>Dr-Ing. Wolfhard Lechnitz</b>	Essen
<b>Axel Oberwelland</b>	General Partner and Chairman of the Management Board of August Storck KG, Berlin
<b>Olivier Schatz</b>	Paris
<b>Hartmut Schauerte</b>	Parliamentary State Secretary at the German Federal Ministry of Economics and Technology, Berlin
<b>Dr Ingeborg von Schubert</b>	Chairman of the Advisory Board of Gundlach Holding GmbH & Co. KG, Bielefeld
<b>Reinhold Schulte</b>	Chairman of the Board of Managing Directors of SIGNAL IDUNA Gruppe, Dortmund
<b>Dr Eric Schweitzer</b>	Member of the Board of Managing Directors of ALBA AG, Berlin

<b>Dr-Ing. Hans-Jochem Steim</b>	Managing Partner of Hugo Kern und Liebers GmbH & Co. KG, Schramberg
<b>Dipl.-Kfm. Rainer Thiele</b>	Managing Partner of KATHI Rainer Thiele GmbH, Halle/Saale
<b>Dr Martin Wansleben</b>	Managing Director of the Federation of German Chambers of Industry and Commerce, Berlin
<b>Dr Ludolf v. Wartenberg</b>	Berlin
<b>Clemens Freiherr von Weichs</b>	Président du Directoire Euler Hermes, Paris



## Board of Managing Directors

**Hans Jörg Schüttler** (from 1 November 2008)

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**Dr Günther Bräunig** (until 31 October 2008)

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**Dr Dieter Glüder**

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**Dr Reinhard Grzesik** (until 3 July 2009)

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**Dr Andreas Leimbach** (until 31 January 2009)

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**Claus Momburg**

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**Dr Michael H. Wiedmann** (from 1 March 2009)

# Management Report of IKB Deutsche Industriebank AG

- 1. Business and general conditions
- 2. Significant events in the reporting period
- 3. Net assets, financial position and results of operations
- 4. Risk report
- 5. Events after 31 March 2009  
(Supplementary report)
- 6. Outlook
- 7. Remuneration report
- 8. Other financial information

# 1. Business and general conditions

The financial year 2008/09 of IKB Deutsche Industriebank AG (IKB AG) and the IKB Group (IKB) was heavily influenced by the severe and lasting financial market crisis and its impact on international capital and credit markets. The crisis increased in intensity over the course of the financial year, finally spreading to the real economy. Germany experienced its worst economic slump for a long time. For the core business of IKB, the most important general conditions are overall economic development, the business performance of small and medium-sized manufacturers and the commercial property market in Germany.

## General conditions for the core business

Overall economic conditions for the domestic and foreign lending business deteriorated considerably in the period under review. The global economy saw a significant slump in the course of 2008. A slight recovery is not expected until the second half of 2009 at the earliest.

During IKB's 2008/09 financial year, the German economy experienced its most severe recession since the Federal Republic of Germany was created. Growth of 1.3% was achieved in the GDP in the 2008 calendar year. Exports, which are important to the overall economy, grew slightly by 2.7%, while investment in equipment, which is important to IKB's business, recorded significant growth of 5.9%. In the course of 2008, however, there was a dramatic reversal in the positive growth trend. In the fourth quarter, overall economic output saw its sharpest ever decline. In particular, exports fell by a double-digit percentage, while the drop in investment in equipment was also extremely pronounced.

The first quarter of 2009 continued to be marked by extremely negative development: exports fell by over 20% year-on-year, and the manufacturing industry experienced a decline of more than 20%, its sharpest drop in production since reunification.

The countries of importance to IKB's lending business also experienced a downturn. France, Spain and the UK each recorded slight growth of around 1% in GDP for the 2008 calendar year. In contrast, Italy's economy saw a slight decline. As in Germany, the economic downturn intensified considerably in other Western European countries in the final quarter of 2008 and spread to Central and Eastern European countries, whose economic expansion had until then appeared relatively unimpeded. The extent of the economic turbulence varies significantly between individual countries; it depends on burdens from the financial market crisis and adjustments on regional property markets.

The financial market crisis reached a provisional peak with the insolvency of US investment bank Lehman Brothers: further deterioration was prevented only through large-scale intervention by governments around the world. Trust in banks was deeply shaken and the capital markets virtually came to a standstill. This resulted in massive disruptions to price determination and the valuation of securities, even for institutions of impeccable credit standing. With the exception of a few selected government bonds, almost all bonds declined in value significantly. The volatility of prices was also extremely high on all markets, even those that had previously been very liquid. This development also placed a considerable burden on the Bank's asset positions in the period under review.

### IKB's strategic positioning

IKB AG is a specialist bank for corporate lending in Germany and Europe. Its target groups are small and medium-sized companies, along with international companies and project partners. As at 31 March 2009, the Bank had a share of almost 8% in the market for long-term corporate loans to German manufacturers. The strongest competitors of IKB AG in Germany are large universal banks and some larger institutions from the public banking sector.

In October 2008, the European Commission approved state aid for IKB under strict conditions. The conditions include a drastic reduction of IKB's business activities, the discontinuation of the Real Estate Finance segment and closing certain international offices. After the implementation of the EU decision, the offices in London, Madrid, Milan and Paris will remain as major operational sites abroad, while IKB Leasing GmbH and IKB Private Equity GmbH will remain as major subsidiaries within the Group. The total assets of the IKB Group are to be reduced to € 33.5 billion by September 2011.

The EU conditions and the expanding financial and economic crisis led to the review and realignment of the Bank's business model. In addition to the provision of loans, the business model is to be expanded to include innovative, customer-oriented financing solutions and consultancy services.

## Segments

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

The Structured Finance products include acquisition and project financing in the European Economic Area. IKB acts as an arranger or participates in appropriate financing. The activities of IKB Capital Corporation, New York, (IKB CC) are to be discontinued in accordance with the EU conditions.

The Real Estate Clients segment is to be discontinued as part of the EU conditions concerning the state aid received. In the Real Estate Finance segment, IKB offered its customers financing and consultancy services relating to commercial property. The real estate leasing business, which comes under the umbrella of Movesta Lease and Finance GmbH – a joint venture between KfW IPEX Bank and IKB – is in the process of being sold to third parties, owing to the EU conditions.

The reduction of the portfolio investments was continued in the financial year 2008/09. In December 2008, the majority of the remaining portfolio investments were transferred to a special purpose entity in which IKB AG holds the first loss position and has thus limited its risks to this amount. In addition, there are still positions in portfolio investments with a nominal value of € 0.7 billion, which have not contained any subprime risks since May 2009.

At the end of the period under review, the Board of Managing Directors decided to discontinue the division of the segments used until then. IKB's new market presence allows for the separation of customer responsibility and product management. The new segmentation resulting from this is to be implemented in the financial year 2009/10.

## 2. Significant events in the reporting period

### Reduction and transfer of portfolio investments

In its Portfolio Investments segment, IKB AG achieved a further significant reduction in its securities portfolio compared to 31 March 2008. In several individual transactions with various market participants, a nominal volume of approximately € 1.0 billion was sold. In addition, a portfolio with a nominal value of € 1.4 billion was sold to KfW.

On 31 July 2008, as part of an auction, the total assets of the Rhinebridge special purpose entity with a nominal volume of US\$ 947 million were partly sold at an average price of around 37%, while the remaining assets were paid out to holders of commercial papers. IKB AG acquired securities in connection with this in exchange for its commercial papers (nominal value of € 0.2 billion). Almost all of these securities were then sold to third parties at a profit.

IKB AG acquired portfolio investments with a nominal value of US\$ 1.5 billion from IKB International S.A., Luxembourg, (IKB S.A.) at the end of November 2008 for a purchase price of US\$ 0.57 billion and transferred € 1.2 billion of those investments together with portfolio investments previously held by IKB AG to the special purpose entity Rio Debt Holdings (Ireland) Limited at the beginning of December 2008. For some of the portfolio investments, the transfer was carried out on a synthetic basis via total return agreements. This involved a nominal volume of € 1 billion, although only € 82 million of the total purchase price of € 903 million related to this sale. The senior funding of the special purpose entity is provided by KfW and amounted to € 565 million on the date of transfer of the assets as at 4 December 2008. The mezzanine financing for the special purpose entity amounted to € 145 million as at 4 December 2008 and was assumed by LSF Aggregated Lendings S.A.R.L., Luxembourg, a company in the Lone Star Group. The first loss position with respect to the special purpose entity amounted to € 193 million as at 4 December 2008 and was provided by IKB AG within the framework of a junior loan. The book value (HGB) amounts to € 118 million as at 31 March 2009 and represents the maximum loss risk remaining for IKB AG in the HGB financial statements with respect to this special purpose entity. Most of the reversal opportunities remain at IKB. The special purpose entity Rio Debt Holdings (Ireland) Limited is included in the consolidated financial statements of IKB.

In addition, there are still positions in structured securities with a nominal value of € 0.7 billion (book value € 0.7 billion as at 31 March 2009), which no longer contain any subprime risks.

### Settlement of risk shielding measures

In 2007, IKB AG and KfW entered into an agreement according to which KfW secured default risks from portfolio investments on the IKB AG and IKB S.A. balance sheets up to a maximum level of € 1 billion. This risk shield was implemented on a contractual basis partly on the basis of CDSs, partly by means of a guarantee.

Furthermore, in May 2008, IKB and KfW also entered into and implemented an agreement according to which the risk shielding measures were partly formally settled early for those securities that were essentially permanently in default and that had a book value of zero but could not yet be settled according to the wording of the risk shielding (settlement amount: US\$ 321 million and € 57 million).

In addition, first loss positions (with a nominal volume of € 86 million) based on securitised IKB corporate and real estate loan transactions have been removed from of the rescue package risk shield, as these transactions relate to IKB's core business. As it was foreseeable that the maximum amount of the shield would be utilised by expected losses on other hedged securitisation transactions, this did not result in a reduction of the shielding effect for IKB.

On 24 July 2008, IKB AG and KfW entered into an agreement on the early settlement of the remaining risk shield for portfolio investments on the IKB AG and IKB S.A. balance sheets. As a result, the related CDS and the guarantee were settled and revoked in full. Under the terms of the agreement, KfW made a payment of € 358 million to IKB, while IKB paid KfW a residual fee of € 1 million and US\$ 5 million.

IKB AG and IKB S.A. also assumed first loss risks arising from the Havenrock entities at the rate of 25% (of a nominal value of € 4.4 billion). These risks were also almost completely covered by the KfW risk shield. This reduced the risk for IKB AG and IKB S.A. to US\$ 79 million, which was fully included in the income statements of the previous years.

This Havenrock risk shield agreement with KfW was terminated early at the end of October 2008. To settle its outstanding payment obligations, KfW paid IKB a total of US\$ 1,189 million at the beginning of November 2008.

### Approval of rescue measures by the European Commission with conditions

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

The approval of the rescue measures made possible the continued existence of IKB AG as a bank focusing on small and medium-sized enterprises. The radical conditions include a drastic reduction of IKB's business activities, the discontinuation of the Real Estate Finance segment, the closure of certain international offices and the partial discontinuation of new business. By 30 September 2011, total group assets are to be reduced to € 33.5 billion (from € 63.5 billion on 31 March 2007, before the start of the IKB crisis).

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

In detail the conditions are as follows:

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

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



Reporting takes place once a year to the European Commission on 31 July at the latest on the progress made in implementing the restructuring plan and the conditions.

Internal projects have been initiated to implement the EU conditions. New business in the Real Estate Finance segment and in IKB CC was discontinued. Preparations for transferring the internal functions from the Luxembourg subsidiary which is to be closed to the Group headquarters in Düsseldorf have been initiated.

Around 230 jobs in the relevant units and subsidiaries are directly affected by the conditions. Moreover, as a consequence of the restructuring, further jobs can be affected in other units of the Group.

The direct economic burden resulting from implementing the European Commission's decision depends to a large extent on the development of the markets for the assets which are to be scaled back. At the current moment in time, it is difficult to make a forecast on the matter.

In February 2009, the Board of Managing Directors decided on the main features of the future focus of IKB's business policy. By separating products and sales, the focus on customers is to be strengthened and the product range expanded, positioning IKB on the market for lasting success. At the same time, costs are to be reduced in loan processing by optimising processes and structures in the middle and back office and the organisation is to be streamlined, so that the profitability of IKB can be restored. Around 140 jobs will be affected by the reorganisation. Once the adjustments have been made, the expansion of the product range will lead to new jobs.

The implementation of the necessary reorganisation measures was commenced in March 2009 and is to lead to a new organisational structure in September 2009. The new product/sales organisation was implemented as early as mid-May 2009.

Towards the end of the last financial year, IKB AG, the affected German subsidiaries and employee representatives negotiated a reconciliation of interests and a redundancy scheme for the implementation of the necessary staff adjustment measures. The redundancy scheme that has been negotiated provides regulations on transfers between sites and compensation terms for compulsory redundancies, including an additional option to switch to a transfer company with advice on outplacement. There is also the possibility of early retirement and annulment agreements, which can be initiated by the employer.

A redundancy scheme has also been negotiated and approved for IKB S.A.

## Capital increase

The cash capital increase resolved at the Annual General Meeting of IKB AG for the 2006/07 financial year on 27 March 2008 was concluded with the entry into the commercial register on 24 October 2008.

The challenges to the resolution on the capital increase were previously withdrawn following a settlement with the petitioning shareholders.

IKB AG received € 1.25 billion (before costs) from the capital increase, almost exclusively from KfW. With the entry of the implemented capital increase, the share capital of the company increased from € 247,794,332.16 to € 1,250,000,000.00 to € 1,497,794,332.16. Respectively 488,281,250 new shares were issued.

On the basis of a stock exchange issue prospectus, the new shares were authorised for stock exchange trading on 13 November 2008. Listing commenced on 14 November 2008.

## Sale of the KfW IKB shares to Lone Star

According to the information provided by the parties, the agreement on the sale of the IKB shares held by KfW to LSF6 Europe Financial Holdings L.P., a company of US financial investor Lone Star, was signed on 21 August 2008 and implemented on 29 October 2008. The conditions precedent had been fulfilled (including a decision by the European Commission in the state aid proceedings, registering the implementation of the capital increase at the Düsseldorf local court, BaFin's exemption from the obligation to make a mandatory offer in line with the Securities Acquisition and Takeover Act).

The 90.8% stake in IKB AG held by KfW was thus transferred to LSF6 Europe Financial Holdings L.P. The indirect controlling shareholder of LSF6 Europe Financial Holdings L.P. is John Grayken, USA.

As part of the sale transaction, the rights arising from compensation from future profits in connection with debt waivers relating to loans of € 1,050 million granted by KfW to IKB in the 2007/08 financial year were also transferred and then assigned to the company LSF6 Rio (Ireland) Limited, Dublin, another company in the Lone Star Group.

## Capital strengthened with Lone Star

On the basis of the resolution of the Annual General Meeting of 28 August 2008, the IKB AG Board of Managing Directors decided to issue subordinate bonds with a contingent conversion privilege and a contingent conversion obligation at a nominal amount of € 123.7 million and at an issue price of 100%. Conditions for the existence of a conversion obligation and conversion privilege are that the recessionary actions against this resolution are settled and the contingent capital is entered as final into the commercial register. Unless these conditions have occurred by 11 April 2012, the final mandatory conversion date, conversion obligation and conversion privilege no longer apply. In this case, the bond would have to be repaid on 11 April 2014. The conditions for the existence of a conversion obligation and a conversion privilege have since been fulfilled, and LSF6 Rio S.à.r.l. has issued a conversion declaration regarding the shares it has purchased.

After the conditions are fulfilled, investors in the convertible bond have a conversion right that they can exercise at any time until the 25th day of trading before the final mandatory conversion date at the nominal amount. A conversion obligation exists on the final mandatory conversion date at the latest, or earlier if IKB falls below specific regulatory ratios.

Until maturity, the interest rate of the convertible bond is 9.5% p.a. In the case of conversion on the final mandatory conversion date, the interest rate increases by a further 12.5% p.a. for the period from the issue date to the final mandatory conversion date; in the case of an optional conversion before the final mandatory conversion date or an early mandatory conversion as a result of specific Tier I and overall capital ratios not being achieved, in addition to the interest rate of 9.5% an additional amount shall be granted equivalent to the interest amount which would have accrued at an interest rate of 1.25% p.a. for the period between the issue date and the final mandatory conversion date.

The subscription price is € 23.04 and the conversion price is € 2.56 per share.

In a public offer for subscription, IKB AG shareholders were offered these bonds at a ratio of 109 shares to 1 bond. One bond carried the authorisation to subscribe to 9 new shares at a conversion price of € 2.56 per share.

IKB received proceeds of € 123.7 million as a result of the bond issue on 11 December 2008. A company of the Lone Star group, LSF6 Rio S.à.r.l., Luxembourg, has taken up all convertible bonds not subscribed to by other IKB AG shareholders (€ 123.5 million). Should there be no change in the share capital, the new share capital of IKB AG after implementation of the full conversion would total up to € 1,621 million (previously: € 1,498 million), divided into up to 633,384,923 non-par shares (previously: 585,075,911).

In addition to the convertible bond, LSF6 Rio S.à.r.l., Luxembourg, purchased an IKB AG subordinate registered bond totalling € 101.3 million on 27 November 2008. The subordinate registered bond has a duration to 27 November 2018 and a coupon of 12% p.a. On 16 December 2008, LSF6 Rio S.à.r.l., Luxembourg, also took up a further IKB AG subordinate bond totalling € 150,000 with the same conditions as the subordinate registered bond totalling € 101.3 million from 27 November 2008.

With the purchase of the convertible bond and subordinate bonds, Lone Star has implemented the announced increase of IKB equity in the amount of € 225 million in line with the conditions of BaFin in the notification on the exemption from the obligation to publish the assumption of control and a mandatory offer for IKB AG shares.

### SoFFin guarantees

In December 2008, the Financial Market Stabilisation Fund (SoFFin) granted IKB AG a guarantee framework for new bonds of up to € 5 billion. The guarantees have been approved by the European Commission.

The IKB Board of Managing Directors made an application for guarantees because the situation on the money and capital markets since the insolvency of US investment bank Lehman Brothers in September 2008 deteriorated in such a radical fashion that trading has virtually ground to a halt. In general, obtaining adequate refinancing was virtually impossible. IKB has not requested support from SoFFin for recapitalisation or the assumption of risks.

In the context of the guarantee agreement with SoFFin, the IKB AG Board of Managing Directors, with the approval of the Supervisory Board, undertook to carry out the measures stipulated by the European Commission in the state aid proceedings. In addition, IKB AG must adhere to a Tier I ratio of 8% and is subject to extensive reporting obligations.

The first state-guaranteed issues were placed on the market in January and March 2009 with an issue volume of € 2 billion each (maturity to 27 January 2012 and 13 March 2012 respectively). With a state-guaranteed issue of € 1 billion in April 2009 (maturity to 29 April 2011), the guarantees from SoFFin of € 5 billion from December 2008 have now been fully utilised.

## Other transactions

To generate liquidity, IKB AG sold receivables to the special purpose company REPV-DS Finance 2008-1 GmbH at a purchase price of their nominal value of € 215 million in September 2008. The special purpose company was financed on the basis of a loan from another bank amounting to € 163 million and a subordinate loan of IKB AG amounting to € 52 million.

IKB also uses the securitisation platform Bacchus for collateralised loan obligations (CLOs) to securitise receivables from acquisition and project financing, in order to generate liquidity. The transactions Bacchus 2008-1 and Bacchus 2008-2 implemented in 2008 were to create collateral for ECB refinancing.

Bacchus 2008-1 is a true-sale securitisation of senior secured loans acquisition financing with a total volume of € 626 million divided into two tranches, € 500 million in the first and € 126 million in the second. In respect to the first tranche, the transaction was concluded on 10 October 2008. The closing for the second tranche occurred on 20 November 2008.

Bacchus 2008-2 is a true-sale securitisation of European infrastructure financing and financing of wind and solar parks. Closing (volume € 454 million) took place on 3 December 2008. The risk from the securities fully acquired by IKB AG is that of the credit risk of the securitised receivables.

The companies Bacchus 2008-1 Plc, Bacchus 2008-2 Plc and REPV-DS Finance 2008-1 GmbH are included in the IFRS consolidated financial statements by means of consolidation.

By agreement dated 22/23 September 2008, IKB Beteiligungen GmbH acquired 100% of IVG Kavernen GmbH, Bonn, a subsidiary of its Bonn-based corporate client IVG Immobilien AG. IKB is thus supporting IVG in structuring a sales transaction and reorganising its Caverns division. The purchase agreement was completed on 28 November 2008. IKB achieved a profit of € 186 million from the transaction.

### Further changes in the Group

IKB Credit Asset Management GmbH (IKB CAM) was merged with IKB AG with retroactive effect from 1 April 2008, following its restructuring and the resignation of the shareholder.

On 1 October 2008, IKB Leasing Finance IFN SA was founded in addition to the existing Romanian company, IKB Leasing SRL in Bucharest, as part of the further expansion of leasing activities in Central and Eastern Europe. The purpose of IKB Leasing Finance IFN SA is to enter the market for finance leases in Romania. It was necessary to establish a new company due to the fact that in Romania finance leasing is subject to approval and supervision by the National Bank. The new company will be included in the scope of consolidation from 1 October 2008.

With a notarial purchase agreement dated 23 December 2008, Movesta Lease and Finance GmbH acquired all shares in AIVG Allgemeine Verwaltungsgesellschaft mbH from IKB AG for € 4.2 million with effect from the same day.

### Deposit insurance

In its capacity as service provider for the Deposit Protection Fund of the private banks, in line with its articles the Auditing Association of German Banks imposed conditions for IKB AG for maintaining its deposit protection. It has stipulated conditions above and beyond the conditions of the European Commission – primarily that the Tier I ratio of the IKB Group in line with the German Commercial Code may not move below 8% to the accounting dates until 31 March 2011 (including the mandatory convertible bonds). In addition, the level of client deposits protected is limited (see supplementary report). The conditions and their fulfilment have no effect on the protection of existing deposits at IKB AG.

### Impact of the financial market crisis

After the insolvency of the US investment bank Lehman Brothers in September 2008, the financial market crisis intensified considerably. Money and capital markets are even less available than was previously the case. Volatilities for many products, especially for interest rates, reached all-time highs.

Model valuations of portfolio investments based on market indicators show fair values still declining. Due to the high volatility, IKB option issuer positions in long-term structured interest products have experienced sharp losses in terms of market value.

Currently a full estimate can not be given with respect to the impact of the global economic crisis on the credit business. Negative trends have already begun in certain industries, particularly in the automotive sector. Many industries are already experiencing a considerable decline in sales and production, a trend which is likely to accelerate in 2009/10. For this reason, we are expecting a considerable increase in the number of insolvencies in 2009/10, and thus an upturn in non-performing loans and defaults.

In the bond market and the secondary market for credits – to the extent that there is still liquidity – the lasting financial market crisis, the economic slump and further economic development are already having a tangible impact in the form of remeasurement losses through higher volatilities and risk premiums for counterparty risks (credit spreads). In particular, this has also impacted, and is continuing to impact, securitised credit risks.

In addition, IKB is currently unable to estimate the extent to which the economic difficulties affecting member banks of the Deposit Protection Fund will trigger payments from the other member banks.

### Annual General Meeting on 28 August 2008

The Annual General Meeting of IKB AG for the 2007/08 financial year was held in Düsseldorf on 28 August 2008. The Annual General Meeting adopted all of the resolutions proposed by the Bank's management by a large majority. The results of the individual votes can be found on the Bank's website at [www.ikb.de](http://www.ikb.de). Among other points, a reduction in the number of Supervisory Board members from 21 to 15 was resolved.

### Extraordinary General Meeting on 25 March 2009

Following a request from the majority shareholder, LSF6 Europe Financial Holdings L.P., the Board of Managing Directors of IKB AG invited shareholders on 13 February 2009 to an extraordinary general meeting on 25 March 2009 in Düsseldorf.

The General Meeting adopted all of the resolutions proposed by the Bank's management and the application of LSF6 Europe Financial Holdings L.P. by a large majority. The results of the individual votes can be found on the Bank's website under [www.ikb.de](http://www.ikb.de).

Following the resolution proposal from LSF6 Europe Financial Holdings L.P., the resolutions passed by the General Meeting on 27 March 2008 regarding the conduction of a special audit of potential violations of duty by members of the Board of Managing Directors and the Supervisory Board of IKB AG were cancelled and the appointment of the special auditor was revoked. In the opinion of LSF6 Europe Financial Holdings L.P., there is no reason to doubt that the Board of Managing Directors and the Supervisory Board will examine, in line with their duties, whether former members of executive bodies have violated their duty. As it is believed that it is possible to deal with such matters in an appropriate manner internally whilst maintaining confidentiality, it is not thought to be in the interests of the company to allow internal information to become accessible to the public through a special audit.

## Personnel changes in the Supervisory Board

Mr Jörg Asmussen stepped down from the Supervisory Board of IKB AG on 27 May 2008.

The Annual General Meeting on 28 August 2008 reappointed Dr Jens Baganz, Detlef Leinberger, Roland Oetker and Dr Martin Viessmann to the Supervisory Board and elected Dr Christopher Pleister and Werner Möller as new members. The Supervisory Board mandate of Dr Michael Rogowski expired at the end of the Annual General Meeting on 28 August 2008.

Detlef Leinberger stepped down from the Supervisory Board with effect from 6 October 2008.

On 30 October 2008, the Supervisory Board elected as its Chairman Bruno Scherrer, Head of European Investments, Senior Managing Director of the US investor Lone Star. In line with the application of the IKB AG Board of Managing Directors in accordance with section 104 of the German Stock Corporation Act, the Düsseldorf local court previously appointed Bruno Scherrer as a member of the IKB AG Supervisory Board. Werner Oerter had already stepped down as Chairman of the Supervisory Board at the end of the Supervisory Board meeting on 30 October 2008.

The resolution to reduce the number of members in the Supervisory Board to 15 passed by the Annual General Meeting on 28 August 2008 became effective on 15 December 2008. On 18 November 2008, Werner Möller resigned his mandate with immediate effect. Subsequently Dieter Ammer, Dr Jens Baganz, Roland Oetker and Jochen Schametat as well as Rita Röbel stepped down from the Supervisory Board with effect from 30 November 2008 and Randolph Rodenstock on 3 December 2008 with immediate effect.

By decision of the Düsseldorf local court, Dr Karsten von Köller was appointed as a member of the IKB AG Supervisory Board with effect from 16 December 2008.

Hermann Franzen, Werner Oerter, Dieter Pfundt and Dr Alfred Tacke stepped down from the Supervisory Board on 31 December 2008.

Dr Christoph Pleister stepped down from the Supervisory Board with effect from 1 February 2009.

By order of the Düsseldorf local court dated 20 January 2009, Olivier Brahin, Dr Lutz-Christian Funke, Dr Claus Nolting and Dr Andreas Tuczka were appointed as members of the Supervisory Board of IKB AG with effect from 22 January 2009. At the General Meeting on 25 March 2009, the members previously appointed by the Düsseldorf local court were elected as new members of the Supervisory Board. Arndt G. Kirchhoff, the CEO of the Kirchhoff Group, Attendorn, and Stefan A. Baustert, President and CEO of Singulus Technologies AG, Bad Homburg, were also elected to the Supervisory Board. Dr Martin Viessmann stepped down from his position with effect from the end of the General Meeting on 25 March 2009.



## Personnel changes in the Board of Managing Directors

With effect from 1 April 2008, Dr Andreas Leimbach was appointed as the member of the Board of Managing Directors responsible for Corporate Clients within Germany.

At its meeting on 8 October 2008, the Supervisory Board of IKB AG extended the mandates of Dr Günther Bräunig, the Chairman of the Board of Managing Directors, until 31 October 2008 and Dr Dieter Glüder, a member of the Board of Managing Directors, until 15 October 2011, after the Supervisory Board meeting on 11 July 2008 decided to extend the appointments until 15 October 2008. As of 31 October 2008, the Chairman of the Board of Managing Directors, Dr Günther Bräunig, retired as scheduled from the Board of Managing Directors.

At its meeting on 30 October 2008, the Supervisory Board appointed Hans Jörg Schüttler as Chairman of the IKB AG Board of Managing Directors with effect from 1 November 2008.

On 31 January 2009, Dr Andreas Leimbach, a member of the Board of Managing Directors, left the company of his own accord.

At its meeting on 5 February 2009, the Supervisory Board of the Bank appointed Dr Michael H. Wiedmann as a member of the Board of Managing Directors of IKB AG with effect from 1 March 2009.

## Stock exchange listing of IKB shares

IKB shares were removed from the SDAX on 22 December 2008. The reason for this decision by Deutsche Börse AG was that the free float of IKB AG was too small. At the request of IKB AG, the shares also left the Prime Standard of the Frankfurt stock exchange at the end of 26 February 2009 and since then have been listed on the General Standard.

## Current rating situation

Following the signature of the purchase agreement between KfW and LSF6 Europe Financial Holdings L.P. on 21 August 2008, Moody's revised its outlook to "Review for possible downgrade" and Fitch Ratings announced the downgrade of IKB AG's long-term rating to BBB-.

IKB Rating		Long-Term	Short-Term	Financial Strength individual rating	Outlook
Moody's	1 April 2008	Baa3	P-3	E	Negative
	21 August 2008	Baa3	P-3	E	Review for possible downgrade
Fitch	21 December 2007	A+	F1	E	Stable
	22 August 2008	BBB-	F3	D/E	Negative

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

### Business development

Unless otherwise noted, the comments below on business development refer to the activities of the IKB Group, as the activities of IKB AG and the subsidiaries are closely interlinked.

The new business volume amounted to € 5.9 billion in the financial year 2008/09 (previous year: € 11.8 billion), with the emphasis on corporate clients (€ 3.5 billion) and structured finance (€ 1.8 billion). In detail, the following business developments are of significance:

In the **Corporate Clients** segment, which includes domestic corporate lending, private equity activities and equipment leasing, IKB paid out € 3.5 billion (previous year: € 4.6 billion) in the period under review. Of this figure, € 2.5 billion (previous year: € 3.6 billion) related to the domestic lending business. The new business margin in the domestic lending business remained virtually constant at 1.03% (previous year: 1.02%) in terms of the Bank's average refinancing costs. The majority of new business in the domestic lending business (65%) related to companies with sales of between € 25 million and € 1 billion. Of the new payments, 26% were for large clients with annual sales of more than € 1 billion. 9% went to companies with annual sales of under € 25 million. In the financial year 2008/09, long-term loans from public development programmes accounted for 60% (previous year: 47%) of the new credit volume.

The IKB Leasing Group, which operates nationally and internationally in the field of equipment leasing, recorded a new business volume of € 1 billion, maintaining the previous year's level. Around two thirds of this new business comes from Germany. The IKB Leasing Group has now grown to include 14 leasing companies in nine countries (Germany, France, Austria, Poland, Romania, Russia, Slovakia, Czech Republic, Hungary).

In the **Structured Finance** segment, i.e. in acquisition and project financing and export financing, the new business volume was reduced again to € 1.8 billion in the financial year 2008/09 (previous year: € 3.8 billion). Both IKB-specific liquidity and equity restrictions and the development of the market played a decisive role in this decline. Activities involving company acquisitions in Europe virtually came to a standstill, which meant that almost no new acquisition financing was awarded. IKB was extremely cautious in business with project financing, owing to the lengthy terms involved. In particular, transactions were carried out with the use of development funds and with Hermes cover for existing customer relationships. In the USA, leveraged loans were reduced through sales.

The **Real Estate Clients** segment, which, in accordance with the EU conditions from October 2008, discontinued new business in the period under review, reported a new business volume of € 0.6 billion in the financial year 2008/09 (previous year: € 1.4 billion), mainly due to the utilisation of loan commitments from previous years.

The operating results of all market segments were negative, largely as a result of the sharp increase in risk provisions.

## Earnings performance

The income statement of IKB AG in the 2008/09 financial year was strongly impacted by the crisis at the Bank and the general financial market and economic crisis. The following table shows the major special factors in terms of the amounts, together with their impact on the various income statement items:

	One-off factors			Adjusted income statement 2008/09	Non-adjusted income statement 2008/09	Non-adjusted income statement 2007/08
	Portfolio investments	Restructuring	Other			
Net interest income (without current income from shares, investments etc.)			23	196	219	236
Net fee and commission income				87	87	90
Net income from financial instruments				2	2	-4
Current income from shares, equity participations and shares in affiliated companies and income from profit transfer agreements		-22	186	-20	144	58
Personnel expenses				-145	-145	-155
Other administrative expenses		-57		-117	-174	-166
Write-downs and value adjustments on receivables and additions to provisions in the lending business	-800			-408	-1 208	-289
Write-downs/write-ups on securities in the liquidity reserve	-45		65	-4	16	-1 204
Write-downs and losses on/income from securities held as fixed assets	-362		-22	-12	-396	-693
Write-downs, value adjustments and write-ups of equity participations and shares in affiliated companies	-109	-147			-256	-589
Net other operating income		-95	-5	20	-80	-9
<b>Result from ordinary business activities</b>	<b>-1 316</b>	<b>-321</b>	<b>247</b>	<b>-401</b>	<b>-1 791</b>	<b>-2 725</b>
Extraordinary result	901	-51			850	943
Current taxes				-7	-7	21
Deferred taxes			87		87	
<b>Net loss</b>	<b>-415</b>	<b>-372</b>	<b>334</b>	<b>-408</b>	<b>-861</b>	<b>-1 761</b>
Loss participations of profit-participation certificates and silent partnership contributions					255	485
Dissolution of revenue reserves					502	-
Loss carryforward from previous year					-1 276	-
<b>Loss carryforward</b>					<b>-1 380</b>	<b>-1 276</b>

On the expenses side, there were once again losses from [portfolio investments](#) amounting to € 415 million (previous year: € 1,416 million):

- The receivables from the Havenrock entities in the amount of € 905 million were written off in full.
- The settlement of the risk shielding for the Havenrock entities resulted in one-off income of € 905 million and net expenses for premium payments and from measurement effects totalling € 4 million, resulting in net income of € 901 million.
- In the first half of the financial year, a portfolio was sold to KfW with losses of € 160 million.
- The equity kicker contained in the junior loan (first loss piece) to the special purpose entity Rio Debt Holdings (Ireland) Limited was written off at € 47 million and the junior loan at € 19 million.
- Before the securities portfolio was transferred to the special purpose entity, however, valuation losses had already accrued in the amount of € 201 million at IKB AG and € 109 million at the subsidiary IKB S.A., Luxembourg. The latter had an impact on the investment valuation of IKB S.A.
- The other portfolio investments led in net terms to income of € 124 million.

Expenses for [restructuring](#), particularly owing to EU conditions, amounted to € 372 million:

- The 50% indirect interest to be sold in Movesta Lease and Finance GmbH was written down by € 22 million.
- Other administrative expenses were burdened by € 57 million from the sustained high level of external costs for managing the crisis and the sharp rise in deposit insurance premiums for the current and past financial years.
- At IKB S.A., a write-down of € 54 million was necessary in addition to the losses from the sale of portfolio investments.
- A write-down of € 93 million related to IKB CC, which is to be wound up in accordance with the EU conditions, which gives a total of € 147 million including write-downs relating to other matters at IKB S.A. Other operating income also included an addition of € 95 million to provisions for expected further loss offsetting payments from IKB AG to IKB CC.
- The need to adjust the workforce of IKB AG to the lower business volume in future has led to costs for a redundancy scheme and restructuring in the amount of € 34 million and vacancy costs for buildings amounting to € 9 million. One-off write-downs of € 8 million also had to be carried out on two buildings used for banking operations. One-off expenses therefore amounted to € 51 million in total.

Other one-off effects also accrued in the amount of € +334 million:

- The fact that the IKB Group did not have to make interest payments of € 23 million on certain hybrid capital instruments (trust preferred shares) because of the losses at IKB AG had a positive impact on the net interest income.
- In September 2008, IKB Beteiligungen GmbH acquired 100% of shares in IVG Kavernen GmbH, Bonn. The merger of IVG Kavernen GmbH and IKB Beteiligungen GmbH led to a profit of € 186 million, which had an impact on the income statement through the profit transfer agreement with IKB Beteiligungen GmbH.
- The write-downs and reversals on securities in the liquidity reserve of € 65 million show income from the buy-back and recall of own bonds that were acquired for considerably less than the nominal value.
- The sale of long-term, highly structured securities held as fixed assets led to a loss of € 22 million.
- A provision of € 5 million was allocated for the possible utilisation of an undertaking to take up an issue of real estate tax burdens of Movesta Lease and Finance GmbH.
- The Bank formed deferred tax assets for the first time. The option was exercised in accordance with Section 274 (2) HGB and an amount of € 87 million was capitalised for tax benefits expected in future from provisions for anticipated losses that are not yet tax effective in the amount of € 0.9 billion.

Adjusted for these one-off factors, the income statement showed a loss of € 408 million, mainly owing to high risk provisions and high administrative expenses:

The adjusted net interest income (before current earnings from securities and investments) fell by € 40 million to € 196 million in the period under review. The portfolio investments reduced the net interest income by € 42 million compared with the previous year through their drastic reduction and interest losses, which led to a net interest expense of € 17 million. A portfolio of non-performing loans had placed a significant burden on the net interest income in the previous year, owing to lost interest payments. Further considerable reductions were made in this portfolio, which improved the net interest income by € 13 million. The positive impact of the equity increase on 24 October 2008 on the net interest income was more than offset by increased refinancing costs and the interest expense for the subordinated capital issued during the financial year.

Net fee and commission income was down € 3 million to € 87 million (previous year: € 90 million) owing to the sharp drop in new business.

Current earnings from investments were significantly burdened by losses of € 43 million that IKB Beteiligungen GmbH took over from IKB Private Equity GmbH. These stand in contrast to income from other subsidiaries, particularly IKB Projektentwicklung GmbH & Co. KG and IKB Finance B.V. (€ 17 million).

The net provisions for possible loan losses increased from € 289 million to € 408 million. This included € 362 million in net additions to individual loan loss provisions and write-downs, compared with € 218 million in the previous year. In anticipation of the impact of the economic slump on our loan portfolio, the global valuation allowance, to which an additional € 71 million had already been allocated in the previous year, was increased by a further € 46 million.

The drop in personnel expenses by € 10 million to € 145 million is essentially due to a smaller workforce.

The other operating income of € 20 million includes mainly profits from the early liquidation of derivatives amounting to € 8 million and income of € 7 million from the reversal of provisions for interest on tax liabilities.

In the financial year 2008/09, profit participation certificates and silent partnership contributions of IKB in the amount of € 255 million shared in the losses, which led to a loss after loss participation of € 606 million. An amount of € 502 million was withdrawn from the retained earnings, which led to a balance sheet loss of € 1,380 million for IKB AG, taking into account the loss carryforward of € 1,276 million.

## Net assets

Total assets amounted to € 45.2 billion on 31 March 2009 (previous year: € 50.0 billion).

The gross credit volume (after value adjustments) stood at € 32.4 billion on 31 March 2009, € 2.6 billion lower than on the previous year's reporting date (€ 35.0 billion). The credit volume on the reporting date includes medium-term and long-term loans to banks, loans to customers, the securitised lending business in the form of bonds and guarantees. The portfolio investments sold to the special purpose entity Rio Debt Holdings (Ireland) Limited are still taken into account in the credit volume, as no reduction was made in the carrying amount because of accounting regulations.

Loans and advances to customers fell by € 1.6 billion to € 24.5 billion compared with 31 March 2008. The reduction is essentially due to the derecognition of the Havenrock receivables and the reduced new business volume of IKB.

Loans and advances to banks dropped by € 2.0 billion to € 6.3 billion, as IKB significantly reduced investments on the interbank market during the crisis.

Bonds and other fixed-income securities stood at € 12.4 billion on the reporting date, virtually unchanged from the previous year's level (€ 12.3 billion).

Equity participations and shares in affiliated companies dropped from € 991 million at the end of the 2007/08 financial year to € 906 million at the end of the 2008/09 financial year. This development was due to additions of € 325 million on the one hand and to disposals and write-downs totalling € 410 million on the other. One significant change here was the equity participation carrying amount for IKB S.A., where capital increases of € 264 million stood in contrast to write-downs of € 163 million. At IKB CC, New York, a capital injection of € 60 million stood in contrast to a write-down of € 93 million. The equity participation carrying amount of IKB Beteiligungen GmbH fell by € 97 million due to withdrawals from the capital reserve. IKB Credit Asset Management GmbH was also merged with IKB AG with retroactive effect from 1 April 2008, which led to a reduction in the equity participation carrying amount of € 40 million.

Other assets amounted to € 0.7 billion (previous year: € 1.7 billion). The decline was essentially due to the settlement of the risk shielding by KfW.

On the liabilities side of the balance sheet, liabilities to banks fell by € 2.9 billion to € 16.0 billion. This decline reflects the liquidity crisis clearly. Borrowing on the interbank market fell by € 3.3 billion. Long-term liabilities rose by € 0.4 billion, largely due to borrowing from development institutions.

Liabilities to customers remained constant compared with the previous year, at a level of € 6.9 billion.

The crisis imposed severe restrictions on the issuing of bonds; accordingly, the securitised liabilities item dropped from € 18.4 billion to € 14.3 billion. While the issue volume totalled € 4.0 billion and the effects of foreign currency and the compounding of interest amounted to € 0.5 billion, repayments and early buy-backs totalled € 8.6 billion. The new issues involved placements of € 4 billion guaranteed by SoFFin.

Other liabilities rose by € 2.0 billion compared with the previous year to € 2.5 billion. This change is almost entirely due to securitisation transactions in which the majority of opportunities and risks remained with IKB. The assets transferred to special purpose entities are therefore still in the IKB accounts. A corresponding liability is reported under other liabilities in the amount of the purchase prices of the assets.

Provisions were reduced by € 0.2 billion to € 1.3 billion, essentially due to utilisation owing to the realisation of losses through the sale of credit derivatives.

Subordinated liabilities were virtually unchanged from the previous year at € 1.8 billion. Profit participation certificates dropped from € 0.3 billion to € 0.2 billion, owing to the loss participation. The fund for general banking risks remained constant at € 0.2 billion.

Despite the losses for the financial year, the equity rose from € 1.34 billion in 2007/08 to € 1.84 billion as a result of the capital increase in October 2008. With the entry of the implemented capital increase, the subscribed capital of the company increased from € 0.25 billion by € 1.25 billion to € 1.50 billion. The capital reserve was reported at the previous year's level of € 1.65 billion. Other retained earnings were reversed and offset against the annual net loss.

In accordance with the notification submitted to the supervisory authorities on the reporting date, the regulatory equity amounted to a total of € 3.2 billion (previous year: € 2.5 billion). The calculation of equity based on the final carrying amounts gives a figure of € 3.0 billion.

Hidden charges, amounting in net terms to € –785 million at the reporting date, have arisen in the last few financial years from interest rate positions in the banking book in the form of long-term securities, from derivatives and from the refinancing of the loan book without matching maturities, as a result of changes in market interest rates and changes in interest rate volatilities. This will lead, at least to a considerable extent, to burdens on the net interest income or to losses on disposal in future financial years.

### Financial position

The liquidity situation of IKB AG was difficult as at 31 March 2009. Borrowing on the money and capital markets was virtually impossible other than on a short-term basis and in collateralised form, except through state-guaranteed bonds. For further details, please refer to the disclosures in the risk report.

### Overall assessment

Overall, the Bank's business development and situation in the 2008/09 financial year were heavily influenced by the crisis at the Bank and the general financial market and economic crisis, as well as the EU conditions. In the past financial year, IKB succeeded in stabilising its position as a result of the capital increase subscribed by KfW, the extensive reduction of portfolio investments and the guarantees provided by SoFFin.



## 4. Risk report

### Risk management organisation

Individual tasks and areas of responsibility are outlined and documented in risk management rules and regulations, which specify the principles of the risk management system at IKB, taking into consideration statutory requirements and specific organisational instructions. With regard to the new strategic focus of business activities at IKB, both the business strategy and associated risk strategies are being revised.

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

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

The departmental responsibility for risk management functions in the lending business, particularly transaction-related risk monitoring, intensive support and problem exposure processing, for portfolio-related credit risk controlling, market price risk controlling, securitisation commitments and operational risk monitoring lies with the Chief Risk Officer. The Chief Financial Officer is responsible for monitoring earnings management and capital resources. The responsibility for legal and compliance risks lies with the Chairman of the Board of Managing Directors. The entire Board of Managing Directors is responsible for managing risks associated with the strategic business focus and reputational risks.

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

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

**Credit risk monitoring.** At the start of the 2008/09 financial year, the areas of responsibility for individual transaction and portfolio-related risk monitoring were consolidated in the Credit Risk Management and Controlling Central Division in order to combine risk analysis and risk reporting activities, including portfolio-related aspects, and to manage these consistently. The key tasks of the Credit Risk Management and Controlling Central Division include activities associated with the credit approval process to be carried out independent of the front office, as well as developing and monitoring Group-wide standards for the lending business. Furthermore, this Central Division is responsible for assisting in credit portfolio management as well as managing and improving the rating systems used.

Exposures with an increased risk as well as restructuring and settlement cases are managed in special management units within the Credit Risk Management and Controlling Central Division. The prompt and continuous monitoring, analysis and reporting of credit risks at portfolio level and the validation of models used for risk quantification and credit assessments are also carried out in special units.

**Monitoring risks from securitisation and structured credit products.** IKB AG exposures in all securitisations, portfolio investments and other structured credit products are monitored centrally, consistently and independent of the front office by the back office Central Division, "Securitisation Structure Management", which was founded on 1 December 2008. This Division was established in the back office in the form of securitisation risk management under the responsibility of the Chief Risk Officer in order to provide comprehensive support for these complex products. The main responsibilities of this Central Division include implementing the credit approval process independent of the front office for exposures in structured credit products as well as the impairment process for the Bank's remaining portfolio investments, for the first loss position on portfolio investments sold to Rio Debt Holdings (Ireland) Limited and for all other own securitisation positions of IKB AG. Moreover, this Central Division is responsible for administering the assets of Rio Debt Holdings (Ireland) Limited, as well as meeting the extensive contractual commitments of IKB in connection with the Rhineland Funding conduit ("Rhineland Funding")<sup>1</sup> and the Havenrock Limited and Havenrock II Limited special purpose entities<sup>2</sup>. This Central Division is also responsible for reporting on these transactions in the context of overall risk management at IKB.

<sup>1</sup> This refers to Rhineland Funding Capital Corporation LLC, Delaware, ("RFCC") and various purchasing companies based in Jersey and Delaware. These legally-independent special purpose entities invested in similar securitised financial instruments both in terms of the underlying credit portfolios and the ratings. IKB served in an advisory capacity for RFCC and the purchasing companies.

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

**Market price risk and liquidity monitoring.** The Market Price Risk Controlling and Operations Central Division is responsible for calculating and analysing market price risks in the non-trading and trading book on a daily basis, monitoring compliance with the limits for market price and liquidity risks prescribed by the Board of Managing Directors and reporting on market price risk positions. Moreover, the examination and improvement of models and procedures used to measure financial instruments as well as ongoing monitoring and reporting in terms of liquidity risk is also carried out by the Market Price Risk Controlling and Operations Central Division.

**Monitoring earnings development and capital resources.** The Financial Controlling Central Division prepares monthly performance analyses for existing and new business in the context of performance controlling, where deviations in the net assets and results of operations from the projected figures are identified and analysed. This ensures that business risk is continually monitored and reported.

In addition, the Financial Controlling Central Division is responsible for capital controlling as well as integrated capital planning and monitoring within IKB, taking into consideration regulatory and economic aspects.

**Operational Risk Management.** Operational Risk Management is responsible for Group-wide monitoring of operational risk. In addition to identifying, analysing and reporting on operational risk, this also includes developing and establishing methods for measuring operational risk in the IKB Group. Central Operational Risk Management is supported by local Operational Risk managers in the segments, subsidiaries and Central Divisions.

Compliance activities are integrated into the Legal Central Division. These activities are coordinated by the newly appointed Chief Compliance Officer, who will carry out these activities in addition to his responsibilities as Head of the Office of the Board of Managing Directors and Corporate Governance Officer.

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

## Regulatory capital resources and risk-bearing capacity

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

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

### At a Bank Group level (Section 10a KWG)

	As at 31 March 2009 in € million	As at 31 March 2008 in € million	As at 31 March 2007 in € million
<b>Regulatory capital situation</b>			
Risk-weighted assets	24 718	30 269	32 747
Market risk equivalent	613	795	750
Operational risk	1 324	1 330	0
<b>Risk position</b>	<b>26 655</b>	<b>32 394</b>	<b>33 497</b>
Tier I capital	2 276	1 941	2 435
Tier II capital	1 245	1 191	1 726
Tier III capital	35	45	9
Deductions <sup>1)</sup>	-236	-18	-88
<b>Equity capital</b>	<b>3 320</b>	<b>3 159</b>	<b>4 082</b>
Tier I ratio in %	8.1	6.0	7.1
Overall capital ratio in %	12.5	9.8	12.2

<sup>1)</sup> Deductions as at 31 March 2009 were predominantly made up of securitisation positions, which are included in risk-weighted assets at a risk weighting of 1,250% in accordance with SolvV (German Solvency Regulation), and participations in accordance with Section 10 (6) Sentence 1 No. 1 KWG.

### At an individual Bank level (Section 10 KWG)

	As at 31 March 2009 in € million	As at 31 March 2008 in € million	As at 31 March 2007 in € million
<b>Regulatory capital situation</b>			
Risk-weighted assets	21 656	27 243	31 138
Market risk equivalent	355	94	433
Operational risk	956	976	0
<b>Risk position</b>	<b>22 968</b>	<b>28 313</b>	<b>31 571</b>
Tier I capital	2 021	1 510	1 869
Tier II capital	1 152	1 003	1 458
Tier III capital	20	5	25
Deductions <sup>1)</sup>	-209	0	-68
<b>Equity capital</b>	<b>2 984</b>	<b>2 518</b>	<b>3 284</b>
Tier I ratio in %	8.3	5.3	5.8
Overall capital ratio in %	13.0	8.9	10.4

<sup>1)</sup> Deductions as at 31 March 2009 were exclusively made up of securitisation positions, which are included in risk-weighted assets at a risk weighting of 1,250% in accordance with SolvV (German Solvency Regulation).

At 8.3% at an individual Bank level and 8.1% at Group level, the Tier I ratio at Group level is higher than the regulatory minimum of 4.0%. At 13.0% at an individual Bank level and 12.5% at Group level, the overall capital ratio is also higher than the regulatory minimum of 8.0%.

As a result of the capital increase of € 1.25 billion which was entered into the commercial register on 24 October 2008 and has been included in Tier I capital since this date, the Tier I ratio and the overall capital ratio have significantly increased. The Board of Managing Directors expects it to be possible to meet both statutory minimum requirements and the minimum requirements imposed by SoFFin and the Auditing Association of German Banks (including Tier I ratio of 8%) in the future.

The decline in risk-weighted assets as at 31 March 2009 is the result of the sale of portfolio investments on the one hand, and scheduled repayments at the same time as limiting new business on the other.

**Risk-bearing capacity.** Risk-bearing capacity and the use of capital resources with the aim of creating an adequate risk-yield ratio at Group level form the basis of risk management. In order to monitor risk-bearing capacity, as well as monitoring regulatory minimum capital resources and targeted ratios for regulatory capital resources, the level of risk cover available is compared with overall Bank risk (economic capital requirements) measured according to business methods both from an equity capital provider perspective (going concern approach) and from a lender perspective (liquidation approach). In so doing, systematic improvements have been carried out in comparison to the previous year, both for calculating the level of risk cover and quantifying risk.

From an equity capital provider perspective, only capital components which exceed a benchmark specified by the Bank subject to risk-weighted assets (benchmark capital) can be used as risk cover. Hybrid capital components such as profit participation certificates and silent partnership contributions are only included proportionately depending on the respective eligibility for cover. Added to this is the operating pre-tax result expected for the next twelve months. Interest-driven hidden charges from closed positions are deducted from the risk cover; all other interest and volatility-driven hidden charges, which may be realised in the next five years according to the Bank's assessment, are also deducted from the risk cover. Here, the five-year horizon has been selected in accordance with the medium-term earnings planning horizon of the Bank. Spread-driven hidden charges for securities held as fixed assets have to a large extent not been taken into consideration as these are intended to be held in the long term. If hidden charges are attributable to securities to be sold in connection with the implementation of EU requirements, these hidden charges are deducted from risk cover.

From the perspective of a non-subordinated lender (liquidation approach), the expected pre-tax result, all capital components, including silent partnership contributions, profit participation certificates and subordinated liabilities are available as risk cover. However, almost all interest, volatility and credit spread-driven hidden charges in the securities portfolios are deducted from the risk cover here. It is only credit spread-driven hidden charges from structures similar to the credit book, such as promissory note loans, which are not taken into consideration.

### Risk cover components<sup>1)</sup>

Equity capital provider perspective in € million		Lender perspective in € million	
Share capital, reserves <sup>2)</sup>	3 386	Share capital, reserves <sup>2)</sup>	3 386
+/- Net retained profits/loss carryforward	-1 380	+/- Net retained profits/loss carryforward	-1 380
+ Section 340g special reserve	190	+ Section 340g special reserve	190
+/- Planned operating result	-185	+/- Planned operating result	-185
- Hidden charges <sup>3)</sup>	-377	- Hidden charges <sup>4)</sup>	-1 188
= "Tier I capital"	1 634	= "Tier I capital"	823
+ Pro rata profit participation certificates and silent partnership contributions	386	+ Profit participation certificates and silent partnership contributions	621
		+ Subordinated capital	535
<b>- Benchmark capital</b>	<b>-1 333</b>		
<b>= Risk cover</b>	<b>687</b>	<b>= Risk cover</b>	<b>1 979</b>

<sup>1)</sup> Information gained and market development up to 19 June 2009 taken into consideration

<sup>2)</sup> Including € 225 million former subordinated capital which has since been converted into Tier I capital

<sup>3)</sup> All interest-driven hidden charges from closed positions and interest and volatility-driven hidden charges which are expected to be recognised in the income statement in the next 5 years. Credit spread-driven hidden charges only to be expected to the extent of realisation in the next 5 years. No hidden charges from loan refinancing

<sup>4)</sup> All hidden charges (interest, volatility and credit spread-driven) included with the exception of hidden charges in loan refinancing

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

In order to calculate "unexpected" counterparty default risk ("expected" counterparty risk is accounted for in risk provisioning planning), the Bank applies a self-developed credit portfolio model (see also "Quantifying the credit risk"). Compared with the previous method, which was based solely on stressed variables (particularly higher probabilities of default, forecast losses and assumptions on correlation) as a result of the Bank's crisis, statistical parameters adjusted if necessary by means of appropriate mark-ups or deductions in line with the risks involved to take into consideration changes to be expected (e.g. economic factors) have been applied in calculating counterparty default risk since mid-2008. Against the backdrop of the current economic situation, the Bank has almost doubled the statistically calculated probabilities of default, for example, on the basis of economic analyses.

**Market price risk** is calculated as the integrated value at risk (VaR) assuming a holding period of one year (previous method: 10 days plus a separate fair value performance limit in the form of a discount in risk cover for management interventions) for the entire portfolio of the Bank, taking into account all relevant risk factors (interest, exchange rates, credit spread, volatility).

The value at risk (VaR) in the market price risk is calculated using historical simulation. IKB regards market development between the Lehman insolvency in September 2008 and the end of the 2008 calendar year as an extraordinary stress scenario. As IKB assumes that there will not be another bank failure of a similar magnitude and therefore that there will not be comparable market trends, IKB calculates the VaR of the market price risk for the risk-bearing capacity excluding the above period of time on the basis of 430 working days.

A 20% discount on the value at risk calculated is applied for the option of management interventions. Credit spread risks from loans and corporate promissory note loans in fixed assets are generally excluded from market risk calculations for risk-bearing capacity based on the fact that these assets are similar to loans and the Bank's intentions to hold these in the long term.

Furthermore, while credit spread risks from fixed assets securities are not included from an equity capital provider perspective, since the Bank generally intends to retain these positions beyond one year, these are included in full from a lender perspective.

As at 31 March 2008, **operational risk** was still calculated using a simplified basic indicator approach in conjunction with an additional stress factor (+200%). Under the new method, VaR quantification is also performed using a Monte Carlo simulation based on loss allocation.

There were no changes to the method applied in calculating **business risk**. It is based on an historical observation of the quarterly deviations between the targeted and actual interest and fee/commission income and the observed deviations in administrative expenses.

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

## Equity capital provider perspective

### Economic capital requirements at a confidence level of 90%

	31 March 2009		31 March 2008	
	in € million	in %	in € million	in %
Counterparty default risk	321	60	177	36
Market price risk <sup>1)</sup>	115	22	227	46
Operational risk	30	6	29	6
Business risk	67	12	62	12
<b>Total</b>	<b>533</b>	<b>100</b>	<b>495</b>	<b>100</b>
Minus diversification effects	-121		-138	
<b>Overall risk position</b>	<b>412</b>		<b>357</b>	
<b>Risk cover</b>	<b>687</b>		<b>1 058</b>	

<sup>1)</sup> Information gained, market developments and total sales from 1 April to 19 June 2009 are included in the above table; market risk not including extreme market development from mid-September 2008 to the end of 2008 and credit spread risks for fixed asset securities.

If market development in the period of time between the Lehman insolvency in September 2008 and the end of the 2008 calendar year is included, the market price risk increases from € 115 million to € 145 million. By also including credit spread risks for fixed asset securities, the aforementioned figures would increase to € 133 million and € 223 million respectively.

This increase in total risk by € 55 million is primarily attributable to counterparty default risk, which has increased from € 177 million to € 321 million as a result of probabilities of default having almost doubled.

It was only possible to offset this with the decline in market price risk to a certain extent. The fall in market price risk has resulted from the reduction in the interest rate risk by means of concluding hedge swaps and selling a structured security position, which until now has contributed significantly to the volatility risk of the Bank.

At the same time, the available risk cover has also considerably declined, primarily as a result of the loss incurred in the 2008/09 financial year.



## Lender perspective

The following table shows economic capital requirements from the perspective of a non-subordinated lender. As at 31 March 2008, the Bank still used a confidence level of 99.96% as a basis (2008 old method). The selection of this confidence level resulted from the Bank's then target rating of "A" (single A). However, once the financial crisis began, the rating of the Bank dropped to "BBB-".

As the Bank assumes that it will not be possible to achieve an external rating of "A" due to the uncertainty as to the extent, duration and effects of the current financial market crisis, risk has been quantified at a confidence level appropriate to the current "BBB" rating of 99.76%.

### Lender perspective – Economic capital requirements

	31 March 2009		31 March 2008			
	New method		New method		Old method <sup>1)</sup>	
	in € million	in %	in € million	in %	in € million	in %
Counterparty default risk	1 141	58	726	48	1 206	67
Market price risk <sup>2)</sup>	609	31	559	37	169 <sup>3)</sup>	9
Operational risk	84	4	84	6	277	15
Business risk	129	7	136	9	156	9
<b>Total</b>	<b>1 964</b>	<b>100</b>	<b>1 505</b>	<b>100</b>	<b>1 808</b>	<b>100</b>
Minus diversification effects	-243		-202		Complete intercorrelation assumed	
<b>Overall risk position</b>	<b>1 720</b>		<b>1 303</b>		<b>1 808</b>	
<b>Risk cover</b>	<b>1 979</b>		<b>3 837</b>			

<sup>1)</sup> 99.96% at stressed parameters

<sup>2)</sup> Information gained, market developments and total sales from 1 April to 19 June 2009 are included in the above table.

<sup>3)</sup> 10-day VaR without credit spread risks

If the full market history was applied (stress scenario), the market price risk would increase from € 609 million to € 1,053 million.

The increase in counterparty default risk as at 31 March 2009 compared with 31 March 2008 (new method) is the result of probabilities of default having almost doubled in view of the current recession. Therefore, counterparty default risk is now around the level of the scenario regarded to date as a "stress case".

The year-on-year increase in market price risk is based on the fact that credit spread risks are now fully included and that historical simulation has been introduced to measure risk for the portfolio as a whole.

The available risk cover has also considerably declined, primarily as a result of the loss incurred in the 2008/09 financial year and the increase in credit spread-driven hidden charges.

As a result, the Bank has prepared various forecast calculations for the next three financial years. The basis for these forecast calculations is various stress scenarios as well as the business plan for the Bank. As a result of this, it must be ensured that when the business plan is effective, the risk-bearing capacity for the next three financial years is in place without qualification. Analysis of stress scenarios shows that even if business performance is below that given in the business plan, the risk-bearing capacity will be unchanged due to the risk cover which will have diminished as a result of this. However, there is no further buffer available to cushion further risks. In the event of a significant expansion of the current recession beyond 2010 and yet another severe impact on the capital market such as it was forced to witness after the collapse of the Lehman Brothers Bank, there would no longer be available risk-bearing capacity.

### Counterparty default risk

In the case of counterparty default risk, IKB makes a distinction 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 interest rate and foreign currency derivatives which can result from the default of a contracting party. Issuer risk reflects the potential loss in the event of the default of the issuer of a security held by IKB, while settlement risk constitutes the risk of non-performance of the counterparty following advance payment of IKB in the context of the settlement process. Owing to the particular significance of the lending business as a core business of the Bank, credit risk is of central concern.

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

**Credit risk strategy.** The credit risk strategy provides the framework for the focus of the lending business at IKB. In the current financial year, the credit risk strategy has been revised in view of the compensatory measures resolved upon by the EU and the altered economic situation. New business has been significantly restricted in consideration of the EU decision. For example, new business in Real Estate Finance and on the US market is only permitted within limits approved by the EU. Portfolio investments are not permitted, with the exception of restructuring the existing portfolio.

In order to accommodate the management of concentration and cluster risks, it is particularly important to maintain a diverse range of target groups and products.

The provisions included in the credit risk strategy are put into operation by means of “Guidelines on the management of individual credit risks”.

**Credit approval process and individual exposure monitoring.** Key tasks within the scope of the credit approval process (front office-independent credit analysis, loan approval, intensive support, problem exposure processing) are carried out by the Credit Risk Management and Controlling Central Division and in so doing, are separated from front office functions (acquisition and business initiation) in accordance with regulatory requirements.

Following voting by the front office, all credit decisions – with the exception of minor decisions concerning existing exposures – are made either centrally by the person holding powers of approval within the Credit Management and Controlling Central Division or by the Board of Managing Directors within the scope of approval power regulations. This is subject to the size of the Group's existing credit exposure, the credit rating of the borrower, the collateral, the term and, not least, the existing and planned portfolio structure. The dual-control principle is always observed in this process.

Loan disbursement and contract implementation are also carried out by Legal employees of the Legal Division who operate independently of the front office.

The basis for every credit decision is a detailed credit analysis which shows and evaluates all information relevant to the decision, and documents this clearly in a decision paper. In this regard, a self-developed instrument, the "Portfolio Adviser", is used for portfolio management in the decision-making process, both at an individual transaction level and an exposure level. Various risk factors are calculated on the basis of the customer credit rating and transaction-specific features, such as the term and collateral, as well as portfolio-related ratios in order to provide important stimulus in the context of portfolio management as soon as new business is acquired. At the same time, a great deal of importance is attached to the mobility of loans, i.e. their eligibility for outplacement, as the synthetic securitisation of loan receivables plays an important role in portfolio management.

Credit decisions regarding securitisation, portfolio investments and other structured loan products are made either by the person holding powers of approval in the Securitisation Structure Management Central Division or by the Board of Managing Directors within the scope of existing approval power regulations. The dual-control principle is also always observed in this process.

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

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

IKB uses IT-supported rating procedures which are tailor-made to the respective customer segment or the specific finance type to carry out credit assessments. In each procedure, the model-specific risk parameters are consolidated in the result. In this way, each customer is assigned to a rating class within an 11-tier internal scale ranging from 1.0 (best rating) to 6.0 in increments of 0.5. The individual rating classes are assigned probabilities of default based on the analysis of historical defaults and economic expectations. Therefore, in the 2008/09 financial year, the Bank has adjusted its industry ratings taking into account its own economic analysis regarding the potential effects of the current recession. It has also set probabilities of default for all rating classes at almost twice as high as they have been observed on average over the past few years.

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

Specific features for **project and special financing** are accommodated by means of special rating procedures. Since the focus here is on the amount and sustainability of the cash flow for servicing interest payments and repayments which arise during the project duration, IKB applies models which allow an assertion to be made as to the debt service capacity by means of various scenarios and simulations. This quantitative assessment is supplemented by additional qualitative consideration of sponsors, operators, sales and procurement markets as well transaction specifics. The Bank uses an enhanced procedure based on the “*IKB-Mittelstandsrating*” for acquisition financing.

The real estate rating procedure applied in the context of **commercial real estate financing** rates creditworthiness on the basis of a variety of specific property data and investor information. This includes not only detailed information on the location and nature of the property, but also information on the tenant structure and creditworthiness, the property’s financial capacity to repay the loan from the cash flow generated as well the individual credit rating of the investor taking into consideration assets and liquidity.

**Country risks.** Country ratings are determined using economic data and ratios regarding the economic development of the country and its solvency in conjunction with a qualitative assessment of the political and social situation in the country. International databases, country reports and other external sources are used as sources of information.

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

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

**Portfolio monitoring and management.** When monitoring portfolios, the central focus is on examining the entire credit portfolio. The Economic Research Central Division is responsible for promptly observing sector and market changes. This Central Division's extensive sector expertise is an important component of the cluster analyses carried out in the context of risk management. The aim here is to recognise and limit sector risks in the lending business as early as possible, taking into consideration expected developments.

Regular monitoring by the Limit Committee, which comprises representatives from the Economic Research and Credit Risk Management and Controlling Central Divisions and the segments, is the starting point for determining concentration limits, which are oriented towards business policy target figures and risk policy guidelines. Volume and risk contribution limits are determined for individual economic sectors based on existing structures and in due consideration of identified sector risks and economic influences. In addition, upper limits for individual loans and loans to company groups are defined in order to avoid concentration risks.

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 by means of a real-time reporting system and reports on this are regularly prepared.

As a result of the current situation on the financial markets, a white list of counterparties with whom transactions may still be carried out has been prepared, in particular to limit the risk of default. This list is currently monitored on a daily basis and adjusted if necessary. Payments to banks may only be executed following the approval of the Credit Risk Management and Controlling Central Division.

**Structure of counterparty default risk.** For internal reporting purposes, the Bank has calculated the credit volumes as of 31 March 2009 and 31 March 2008 as follows:

<b>Credit volume</b>	31 March 2009 in € million	31 March 2008 in € million	Change in € million
Loans to banks	268	259	+9
Loans to customers	24 463	26 065	-1 602
Portfolio investments, corporate and government bonds	4 456	4 509	-53
Contingent liabilities, CDS and guarantees	2 276	3 006	-729
<b>Net credit volume</b>	<b>31 464</b>	<b>33 839</b>	<b>-2 375</b>
Total loan loss provisions <sup>1)</sup>	923	1 169	-246
<b>Gross credit volume</b>	<b>32 386</b>	<b>35 009</b>	<b>-2 623</b>
Other significant counterparty default risks outside the gross credit volume			
Loans and advances to banks	6 035	8 018	-1 983
Bonds, shares and other securities (without own bonds)	7 844	7 785	+59
Committed credit facilities	2 751	4 101	-1 350

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

<sup>1)</sup> Without risk provisioning for embedded credit derivatives (31 March 2009: € 720 million, 31 March 2008: € 821 million)

The decline in contingent liabilities, CDS and guarantees is predominantly due to the disposal of CDS.

The credit volume for the Portfolio Investments segment of € 1,858 million is included in the “Portfolio investments, corporate and government bonds” position in the amount of € 1,515 million and in the “Contingent liabilities, CDS and guarantees” position in the amount of € 343 million.

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

Size <sup>1)</sup> in € million	31 March 2009			31 March 2008	
	Credit volume		Number <sup>1)</sup>	Credit volume	
Under € 5 million	3 095	10%	3 357	3 547	10%
Between € 5 million and € 10 million	2 838	9%	399	2 750	8%
Between € 10 million and € 20 million	4 372	13%	335	4 388	13%
Between € 20 million and € 50 million	4 118	13%	151	4 270	12%
Over € 50 million	2 984	9%	30	2 446	7%
<b>Total</b>	<b>17 407</b>	<b>54%</b>	<b>4 272</b>	<b>17 401</b>	<b>50%</b>
Risk transfers <sup>2)</sup>	9 091	28%	160	9 022	26%
<b>Market segments AG as a whole</b>	<b>26 498</b>	<b>82%</b>	<b>4 432</b>	<b>26 423</b>	<b>88%</b>
Under € 50 million	300	1%		1 925	5%
Between € 50 million and € 100 million	473	1%		873	2%
Over € 100 million	1 085	3%		1 562	4%
<b>Portfolio Investments segment</b>	<b>1 858</b>	<b>6%</b>		<b>4 360</b>	<b>12%</b>
<b>Internal transactions</b>	<b>4 030</b>	<b>12%</b>		<b>4 226</b>	<b>12%</b>
<b>AG as a whole</b>	<b>32 386</b>	<b>100%</b>		<b>35 009</b>	<b>100%</b>

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

<sup>1)</sup> Borrower groups in accordance with section 19 KWG; number of borrower groups

<sup>2)</sup> Hermes guarantees, indemnifications, risks transferred

The size group “Under € 5 million” has declined as a result of loan repayments.

The average exposure amount in the size group “Over € 50 million” is € 99.5 million. The year-on-year increase is due to public sector borrowers.

The credit volume in the Portfolio Investments segment, which has decreased from € 4.4 billion to almost € 1.9 billion since the start of the financial year, consists of

- € 0.8 billion in assets transferred to the special purpose entity Rio Debt Holdings (Ireland) Limited with a residual risk for IKB of € 0.1 billion,
- € 0.7 billion in portfolio investments not sold to Rio Debt Holdings (Ireland) Limited which are predominantly being wound up, and which no longer contain any subprime risks, and
- € 0.3 billion in risks covered by KfW.

Internal transactions in the amount of € 4,030 million are loans to and contingent liabilities due to companies in the scope of consolidation of IKB in accordance with IFRS.

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

Collateral in € million	31 March 2009		31 March 2008	
	Credit volume		Credit volume	
Property liens and charges	6 459	20%	7 326	21%
Transfers of ownership	454	1%	503	1%
Other collateral <sup>1)</sup>	6 127	19%	5 739	16%
Without collateral	4 367	13%	3 832	11%
<b>Total</b>	<b>17 407</b>	<b>54%</b>	<b>17 400</b>	<b>50%</b>
Risk transfers <sup>2)</sup>	9 091	28%	9 022	26%
<b>Market segments AG as a whole</b>	<b>26 498</b>	<b>82%</b>	<b>26 423</b>	<b>75%</b>
Portfolio Investments segment	1 858	6%	4 360	12%
Internal transactions	4 030	12%	4 226	12%
<b>AG as a whole</b>	<b>32 386</b>	<b>100%</b>	<b>35 009</b>	<b>100%</b>

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

<sup>1)</sup> e.g. assignment of receivables, participation rights, assignment of shares, ownership rights, subordinations, fixed and floating charges, mortgage over shares

<sup>2)</sup> Hermes guarantees, indemnifications, risks transferred

Not least as a result of the decrease in real estate financing, the credit volume secured by property liens and charges decreased since the beginning of the financial year by approximately € 0.9 billion. The approximately € 0.4 billion increase in volume backed by other collateral is the result of expanded volume in the Structured Finance segment.

Risk limitation is supported by the collateral provided by risk transfer. In total, approximately € 22 billion has been transferred by means of synthetic securitisation since 2001. Risks currently transferred to third parties, which total € 9.1 billion, include loans for which the default risk has been assumed by other banks or public authorities, as well as the synthetic transfer of loan receivables. The Bank is secured against counterparty default risks by means of synthetic securitisations, although these are still reported in the balance sheet and continue to be managed by IKB. At the reporting date, the utilisation of these loans totalled € 6.2 billion, of which € 5.0 billion accounts for loans for which the Bank has only retained first loss risks of € 14 million. Loans with a volume of € 1.2 billion relate to risk transfers, for which only the expected, and parts of the unexpected, loss in the amount of € 39 million have been transferred. This subordination is currently still seen as sufficient on the basis of expected values, even under recession conditions.



**Geographical structure.** As at 31 March 2009, the total credit volume can be broken down by regions as follows:

Regions in € million	31 March 2009 Credit volume		31 March 2008 Credit volume	
	€ million	%	€ million	%
Germany	10 703	33%	11 934	34%
Western Germany	9 036	28%	9 855	28%
Eastern Germany	1 667	5%	2 079	6%
Outside Germany	6 704	21%	5 466	16%
Western Europe	5 789	18%	4 732	14%
North America	252	1%	203	1%
Other	664	2%	531	2%
<b>Total</b>	<b>17 407</b>	<b>54%</b>	<b>17 400</b>	<b>50%</b>
Risk transfers <sup>1)</sup>	9 091	28%	9 022	26%
<b>Market segments AG as a whole</b>	<b>26 498</b>	<b>82%</b>	<b>26 423</b>	<b>75%</b>
Portfolio Investments segment	1 858	6%	4 360	12%
Internal transactions	4 030	12%	4 226	12%
<b>AG as a whole</b>	<b>32 386</b>	<b>100%</b>	<b>35 009</b>	<b>100%</b>

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

<sup>1)</sup> Hermes guarantees, indemnifications, risks transferred

The approximately € 1.2 billion increase in credit volume outside Germany took place primarily in Western Europe (€ +1.1 billion) with a focus in Italy, France and Spain. Approximately € 0.4 billion applies to Central and Eastern Europe, of which 75% was for corporate and export financing.

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

Country ratings <sup>1)</sup> Credit volume in € million	31 March 2009 Total <sup>2)</sup>	Rating				
		1–1.5	2–2.5	3–3.5	4–4.5	5–6
Outside Germany	6 704	6 102	394	151	54	4
Western Europe	5 789	5 589	200	0	0	0
North America	252	252	0	0	0	0
Other	664	261	194	151	54	4

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

<sup>1)</sup> Excluding risks transferred to third parties; higher credit ratings reflect higher risk levels

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

91% of the credit volume attributed to countries outside Germany were to be assigned to the two best country risk classes, 1 and 1.5. In addition, risk transfers (e.g. secured by Hermes) of € 0.4 billion accounted for borrowers outside Germany.

The utilisation of loans and advances reported under risk classes 5.0 to 6.0 relates almost exclusively to Iran. IKB was impacted by the Iceland crisis with only a single-digit loss in millions.

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

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

Sectors in € million	31 March 2009		31 March 2008	
	Credit volume		Credit volume	
Industrial sector	11 716	36%	12 349	35%
Energy supply	1 214	4%	1 022	3%
Mechanical engineering	853	3%	859	2%
Retail	698	2%	760	2%
Logistics, infrastructure operators	693	2%	687	2%
Chemicals	678	2%	635	2%
Other (under € 0.65 billion)	7 579	23%	8 386	24%
Real estate	2 708	8%	3 133	9%
Financial sector	813	3%	837	2%
Public sector/banks	2 170	7%	1 082	3%
<b>Total</b>	<b>17 407</b>	<b>54%</b>	<b>17 400</b>	<b>50%</b>
Risk transfers <sup>1)</sup>	9 091	28%	9 022	26%
<b>Market segments AG as a whole</b>	<b>26 498</b>	<b>82%</b>	<b>26 423</b>	<b>75%</b>
Portfolio Investments segment	1 858	6%	4 360	12%
Internal transactions	4 030	12%	4 226	12%
<b>AG as a whole</b>	<b>32 386</b>	<b>100%</b>	<b>35 009</b>	<b>100%</b>

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

<sup>1)</sup> Hermes guarantees, indemnifications, risks transferred

The Bank continues to demonstrate a high degree of diversity in terms of industrial sectors, with no single sector representing more than 5% of its total lending portfolio. Half of real estate financing is attributable to office property. The rest is distributed almost equally between the other property types.

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

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

Credit rating structure <sup>1)</sup> in € million	31 March 2009 Credit volume		31 March 2008 Credit volume	
	1–1.5	4 168	16%	4 008
2–2.5	5 616	21%	6 012	23%
3–3.5	3 996	15%	4 230	16%
4–4.5	1 230	5%	1 208	5%
5 and above <sup>2)</sup>	289	1%	396	1%
Problem exposures <sup>3)</sup>	2 108	8%	1 546	6%
<b>Total</b>	<b>17 407</b>	<b>66%</b>	<b>17 400</b>	<b>66%</b>
Risk transfers <sup>4)</sup>	9 091	34%	9 022	34%
<b>Market segments AG as a whole</b>	<b>26 498</b>	<b>100%</b>	<b>26 423</b>	<b>100%</b>

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

<sup>1)</sup> Higher rating classes reflect lower creditworthiness

<sup>2)</sup> Adjustment of previous year figure (€ 647 million), as € 305 million of this was to be attributed to the problem exposures category. Structured securities in the amount of € 143 million (as at March 2008) are now also included in the table, of which € 54 million was attributed to rating 5 and above. € 89 million in structured securities were to be assigned to problem exposures.

<sup>3)</sup> Carrying amounts, i.e. after deducting losses from impaired financial assets

<sup>4)</sup> Hermes guarantees, indemnifications, risks transferred

The Bank expects there to be a noticeable deterioration in the credit rating structure in the 2009/10 financial year as a result of the recession.

**Identification and management of problem exposures.** All credit risk-carrying positions are constantly monitored. The management of problem exposures is carried out in specialised management units. The aim of this special management is to take viable action in good time by means of close monitoring, in order to maintain the company's ability to survive or, in the event that these endeavours fail, to reduce the economic damage. In view of current economic development, the Bank has again expanded its monitoring by not only placing a particular focus on non-performing loans<sup>3)</sup>, but also by flagging as problem exposures all exposures for which ongoing impairments are not expected, but which require special management by the units specialising in settlement or restructuring on the basis of available information. In addition, the criteria for classification as a (non-impaired) problem exposure have been expanded in the course of the reporting year.

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

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

Problem exposures <sup>1)</sup> Market segments	31 March 2009 Credit volume in € million	31 March 2008 Credit volume in € million	Change	
			in € million	in %
Impaired (non-performing loans)	1 603	1 241	362	29
Non-impaired	505	305	200	66
<b>Total</b>	<b>2 108</b>	<b>1 546</b>	<b>562</b>	<b>36</b>
As % of market segments credit volume	7.9%	5.9%		

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

<sup>1)</sup> Carrying amounts, i.e. after deducting losses from impaired financial assets.

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

Non-performing loans Market segments	31 March 2009 Credit volume in € million	31 March 2008 Credit volume in € million	Change	
			in € million	in %
<b>Germany</b>	<b>1 035</b>	<b>1 072</b>	<b>-37</b>	<b>-3</b>
Western Germany	634	558	76	14
Eastern Germany	401	514	-113	-22
<b>Outside Germany</b>	<b>337</b>	<b>80</b>	<b>257</b>	<b>321</b>
<b>Impaired (non-performing) loans</b>	<b>1 372</b>	<b>1 152</b>	<b>220</b>	<b>19</b>
Securities (impaired financial assets) <sup>1)</sup>	<b>231</b>	<b>89</b>	<b>142</b>	<b>160</b>
<b>Non-performing loans (total)</b>	<b>1 603</b>	<b>1 241</b>	<b>362</b>	<b>29</b>
As % of market segments credit volume	6.1%	4.7%		

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

<sup>1)</sup> Carrying amounts, i.e. after deducting losses from impaired financial assets. Securities (impaired financial assets).  
Nominal volume 31 March 2009: € 316 million; 31 March 2008: € 111 million

The increase in non-performing loans is particularly attributable to acquisition financing outside Germany and an increase in permanently impaired financial assets in the market segments. The main reason for the latter are first-to-default securities at a country level, which have been classified as permanently impaired based on the current market spreads in the wake of worsened country ratings.

The decline in non-performing loans in Germany is due exclusively to the ongoing reduction in problem exposures in Eastern Germany, whereas there has been an increase in Western Germany.

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

When measuring the value adjustment required, IKB takes into consideration both expectations with regard to future cash flows and the value of the respective collateral. The Credit Risk Management and Controlling Central Division is responsible for setting value adjustments, which judges each case on an individual basis, assesses the restructuring strategy and carries out an estimate of the expected incoming payments.

In addition, loans and advances to banks and customers as well as contingent assets are analysed in terms of deferred credit risks. If necessary, a risk provision is recognised on a global basis. Global valuation allowances are calculated in accordance with the letter from the Federal Ministry of Finance dated 10 January 1994. In so doing, historical credit losses are taken as a basis and multiplied by a cyclical factor in order to accommodate the general economic situation. This factor has been increased from 100% to 155%. The amount of global valuation allowances is € 159 million after € 113 million in the previous year.

At € 1,208 million as at 31 March 2009, the net provision for possible loan losses was € 140 million less than in the previous year (€ 1,348 million). This includes write-downs on receivables due from the Havenrock companies in the amount of € 905 million. On the other hand this is income in the same amount from the risk shield provided by KfW. Without taking this effect into account, this results in a decline in net risk provisions for possible loan losses in the amount of € 1,045 million. After allocating a large sum to reserves for CDS transactions as part of net risk provisioning in the last financial year, € 49 million was still needed in reserves in 2008/09. This decline is mainly the result of lower allocations for CDS transactions at the same time as slightly increased net risk provisioning expenditure in the traditional lending business.

**Risk reporting and risk communication.** All relevant information from lending transactions are prepared in detail by the Credit Risk Management and 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.

### Portfolio investments.

As at 31 March 2009, portfolio investments at IKB AG with a nominal value of € 3.5 billion consisted of:

- Securities with a nominal volume of € 2.7 billion were transferred to the fully consolidated special purpose entity Rio Debt Holdings (Ireland) Limited. However, these securities must continue to be recognised in the balance sheet of IKB AG based on contractual agreements on risk transfer in connection with the junior loan granted to Rio Debt Holdings (Ireland) Limited by IKB.
- Four synthetic transactions with seven tranches and a volume of € 0.46 billion are being wound up as a result of the Lehman insolvency.
- Two synthetic transactions with six tranches and mixed reference assets (Corporates and ABS) with a total nominal volume of € 0.20 billion are held. These were restructured as reference assets in May 2009 to become credit-linked notes with companies and governments.
- As well as a principal protected note with a nominal value of € 0.08 billion, securitisation positions in the amount of € 0.16 billion from the market segments are still on the balance sheet which belong to the core strategic business of the Bank.

### Portfolio investments of IKB AG

#### Credit rating structure\* for portfolio investments of IKB AG

	As at 31 March 2009* Nominal amount in € billion	As at 31 March 2008* Nominal amount in € billion
Aaa	0.3	1.3
Aa	0.1	1.6
A	0.2	0.9
Baa	0.6	0.3
Ba/B	0.3	0.2
Sub B/NR	2.1	0.5
<b>Total</b>	<b>3.5</b>	<b>4.9</b>

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

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

#### Underlying asset structure of structured credit products at IKB AG

Underlying portfolios	31 March 2009		31 March 2008	
	Nominal amount in € billion	in %	Nominal amount in € billion	in %
Corporates	1.1	30	2.6	53
ABS	2.3	64	1.6	32
thereof with sub-prime content	1.7	49	1.5	31
ABS/Corporates mixed	0.2	6	0.7	15
thereof with sub-prime content	0.2	6	0.2	5
<b>Total</b>	<b>3.5</b>	<b>100</b>	<b>4.9</b>	<b>100</b>

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

The following tables show the external rating structure for corporate CDO investments, ABS investments and investments with mixed underlying assets.

<b>Corporate CDO investments</b> <b>Rating structure*</b>	31 March 2009 Nominal amount in € billion	31 March 2008 Nominal amount in € billion
Aaa	0.1	0.7
Aa	0.0	1.3
A	0.2	0.5
Baa	0.4	0.1
Ba/B	0.1	–
Sub B/NR	0.4	0.0
<b>Total</b>	<b>1.1</b>	<b>2.6</b>

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

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

<b>ABS investments</b> <b>Credit rating structure*</b>	31 March 2009 Nominal amount in € billion	31 March 2008 Nominal amount in € billion
Aaa	0.2	0.3
Aa	0.1	0.1
A	0.1	0.2
Baa	0.2	0.2
Ba/B	0.2	0.2
Sub B	1.5	0.5
<b>Total</b>	<b>2.3</b>	<b>1.6</b>

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

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

<b>Corporates/ABS mixed</b> <b>Credit rating structure*</b>	31 March 2009 Nominal amount in € billion	31 March 2008 Nominal amount in € billion
Aaa	–	0.4
Aa	–	0.1
A	–	0.2
Baa	–	–
Ba/B	–	–
Sub B	0.2	–
<b>Total</b>	<b>0.2</b>	<b>0.7</b>

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

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

## Liquidity and market price risk

### *Liquidity risk*

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

In the reporting period, the Bank has primarily covered its liquidity requirements by means of secured money market borrowing (cash and term deposits), carrying out securitisation transactions with its own lending business to generate ECB-eligible securities, participating in ECB tenders, selling liquid securities investments and promissory note loans and accepting customer deposits on a promissory note basis (see also “Significant events in the reporting period/other transactions”). Furthermore, the Bank received funds from the capital increase in October 2008.

Two secured liquidity facilities from KfW limited to March 2011 will also allow the Bank to raise up to € 3 billion. Part of these facilities has currently been utilised. In December 2008, the Bank received approved guarantees from the Special Fund for the Stabilisation of the Financial Market (*Sonderfonds Finanzmarktstabilisierung* – SoFFin) with a volume of € 5 billion in order to secure liquidity. The duration of the bonds issued here is limited to three years. On the basis of these guarantees, IKB issued two bonds each with a volume of € 2 billion and a duration of three years in January and March 2009, and a bond in the amount of € 1 billion in April 2009. On 3 July 2009, SoFFin declared its intention to IKB AG to make an additional guarantee volume of € 7 billion available, including the option to issue bonds with a duration of up to five years for a partial amount from this of € 3 billion. The Bank plans to use this guarantee gradually to issue corresponding securities. The Bank also receives funds from public assistance programmes initiated by KfW and regional development authorities, which it uses to provide financing to its small and medium-sized corporate clients.

The volume of new client deposits taken on has also developed positively in the reporting period. The Bank intends to make use of this opportunity both now and in the future to refinance by means of liabilities guaranteed by the Deposit Protection Fund.

Depending on the development of its new business, the Bank expects its liquidity requirements to amount to between € 11 billion and € 12 billion over the next twelve months. In order to refinance these requirements, the main available options are SoFFin guarantees, drawing options at the ECB and within the KfW liquidity facilities as well as taking on liabilities guaranteed by the Deposit Protection Fund and selling assets within the scope of EU requirements.

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 risks. A market development may come into question here, for example, which allows neither assets to be sold, nor liabilities guaranteed by the Deposit Protection Fund to be extended.



### *Market price risk*

Market price risk constitutes the risk of value changes resulting from fluctuations of parameters observable on the market (risk factors). The relevant risk factors for IKB include foreign currency, interest rate, credit spread, volatility (option price) and share price risk. Market price risks are managed at Group level.

IKB differentiates between the portfolios for own account trading, the investment portfolio (proprietary trading and liquidity reserve) and loan refinancing. The liquidity reserve constitutes investments which can be utilised at the Central Bank or in interbank business in order to generate liquidity at short notice. Loan refinancing covers the lending business, the credit substitute business (e.g. corporate bond and promissory note loan investments) and the non-subordinated refinancing instruments of the Bank.

**Interest rate risk.** Interest rate risks exist in potential changes in value for open asset or liability positions in the event of shifts in the risk-free interest rate curve. IKB applies a variety of instruments to manage and hedge this interest rate risk. It concludes transactions using these instruments, both in its trading book and non-trading book. Risks in the trading and non-trading book are measured and monitored using comparable methods.

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

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

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

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

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

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

In the previous year, a confidence level of 99.8% was still used for operating management, which corresponded to the worst scenario result. The changeover to the 99% confidence level was carried out in order to stabilise VaR development and to implement alignment with the prevalent selection in the sector.

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

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

in € million	31 March 2009	31 March 2008	
			Previous year values (VaR) at 99.8% confidence level
Basis point value	0.1	-1.9	
Vega	-17.1	-23.2	
VaR – foreign currency	-9.3	-11.3	-14.0
VaR – interest rate and volatility	-126.1	-104.6	-129.4
VaR – spread*	-123.8	–	–
Correlation effect*	54.7	–	–
<b>VaR total</b>	<b>-204.5</b>	<b>-115.9</b>	<b>-143.4</b>

\* Not calculated in previous year

The change in BPV is the result of the Bank strategy implemented in the 2008/09 financial year to secure the portfolio to a large extent against small changes in interest rates. The vega decline resulted from the reduction in option writer positions in the investment portfolio. Based on these risk reduction measures, the interest rate and volatility value at risk has only increased slightly year-on-year, despite the considerably lower interest rate level and the huge increase in interest rate volatility in the wake of the financial crisis.

Furthermore, the Bank has integrated credit spread risks into market risk measurement by means of value at risk in the 2008/09 financial year. The widening of credit spreads and credit spread volatility, particularly as a consequence of the Lehman insolvency in September 2008, has led to a considerable increase in the credit spread risk in the portfolio of the Bank. The credit spread risk is largely the result of government bonds, mortgage bonds, corporate bonds and promissory note loans. The credit spread risk for IKB resulting from portfolio investments is only of minor significance due to the loans granted by KfW and Lone Star (LSF Aggregated Lendings S.A.R.L.) to Rio Debt Holdings (Ireland) Limited and the risk that was transferred as a result.

By changing methods, the Bank has calculated a diversification effect for the first time in the amount of € 54 million or 20%, in relation to the total of individual risks.

**Limiting.** Limiting consists of a value at risk limit, based on a 99% confidence level and assuming a holding period of 10 days. The value at risk limit is aligned towards the limit amount for the risk-bearing capacity of the Bank. Furthermore, currency risks in aggregate holdings are restricted by way of a volume limit for the open positions.

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

## Operational risk

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

Operational Risk Management (ORM) 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.

Here, the focus is on not only regular analysis and identifying weak points and improvement approaches for all business workflows and processes, but also on expanding the security organisation and underlying processes. Annual business impact analyses are carried out for this purpose, under the management of ORM, which not only reflect the specific risk profiles for the individual segments and Central Divisions, but also highlight potential risks.

A risk assessment is carried out once every quarter for the OpRisk areas of activity HR, processes, infrastructure, legal risks and projects in cooperation with the head of the Central Division responsible. Information gained is added to the risk report.

All business units are required to report loss events which have occurred or almost occurred to Operational Risk Management. Loss events are brought together in a central loss database and examined for how they were caused and the impacts they had. Ideas for improvement can be derived from this and implemented.

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

The quality of the contingency plans is ensured by means of regular emergency drills in all Central Divisions, front office units and subsidiaries.

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

### Legal risk

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

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

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

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

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

In legal proceedings, the Legal Central Division ensures that the legal positions of the Company are maintained and that general legal conditions are observed by deploying specialised resources which obtain access to information available in the Company using a specific method. The following legal proceedings are particularly relevant to risk.

[Legal proceedings due to alleged incorrect capital market information](#). As of 6 July 2009, a total of 134 claims have been asserted against the Bank by investors in IKB securities since the start of the crisis in summer 2007. These claims primarily relate to the alleged incorrect content of the press release issued on 20 July 2007, but also in individual cases 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.

In the press release dated 20 July 2007 which formed the focus of the legal proceedings, the Bank issued a profit forecast of € 280 million for the 2007/08 financial year. It also referred to two analyses by Moody's and Standard & Poor's stating that it would only be affected by the sub-prime crisis to a limited extent. These forecasts subsequently proved to be incorrect.

The legal proceedings detailed above have a (preliminary) total value in dispute of around € 8.3 million. The possibility that additional investors will assert claims for damages against the Bank cannot be ruled out. The success of these claims could increase the overall risk to which the Bank is exposed.

In the meantime, 51 of these claims asserted by investors have already been rejected in the first instance by the Düsseldorf district court; these decisions are legally binding in at least 27 of these cases. However, this does not mean that conclusions can be drawn as to the outcome of the other legal proceedings or any decisions by higher courts. However, the 22nd and 9th civil divisions of the Düsseldorf higher regional court have already dismissed appeals in five cases by means of judgements made on 19 June 2009 and 29 June 2009. Both civil divisions declared these cases to be not subject to review.

IKB considers the outstanding claims by investors to be unfounded. At the time, IKB did not identify any material risks in relation to the liquidity facility extended to the Rhineland Funding Capital Corporation conduit, as it did not appear feasible that the entire asset-backed commercial paper market would collapse and that refinancing would not be possible in the long term. In its press release issued on 20 July 2007, IKB therefore focussed on the risks contained in its own balance sheet at that date. Even before this time, IKB was of the opinion that there was no incorrect capital market information which would substantiate relevant claims.

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

[Legal proceedings by FGIC and those potentially arising from other parties.](#) On 10 March 2008, the U.S.-based Financial Guaranty Insurance Company (FGIC) and its British subsidiary (together FGIC) filed claims against IKB, its (then) subsidiary IKB Credit Asset Management GmbH, Havenrock II Limited and Calyon with a New York court. In the first instance, the plaintiffs have applied to be released from contractual obligations in respect of Havenrock II and Calyon totalling up to US\$ 1.875 billion. Claims for an unspecified amount of damages have also been made against IKB. IKB held and continues to hold the view that the accusations set out in the court submission are unfounded.

In late August 2008, FGIC Corporation (FGIC's parent company) announced that FGIC and the Calyon had agreed a separate settlement, under the terms of which FGIC paid US\$ 200 million to Calyon.

The New York court dismissed the claim filed by FGIC in late December for procedural reasons. Consequently, at the start of February 2009, FGIC filed an application at the court in New York which dismissed the claim to be able to negotiate the case again. At the same time, FGIC lodged an appeal against the dismissal at the New York Court of Appeals. FGIC needs to have fully substantiated this appeal by the start of November 2009.

At the end of May 2009, the very same first instance court also dismissed FGIC's application to review the judgement made in December. This decision is legally binding, and the proceedings in New York are therefore classed as no longer pending before the court of first instance, despite the appeal lodged at the Court of Appeals. FGIC can also appeal against this decision made in late May 2009 by 13 July 2009.

According to New York procedural law, a decision made by the court of first instance is classed as a legally binding court ruling, and this applies until it is revoked by means of an appeal.

The dismissals to date in New York have been of a procedural nature. For this reason, FGIC can still bring the claim before other courts outside New York.

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

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

If IKB culpably violates a concrete obligation in the indemnification agreement in connection with a concrete 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. 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 AG or insolvency proceedings have been instituted against the assets of IKB AG.

[Investigation by the public prosecutors.](#) In July 2009, the Düsseldorf Department of Public Prosecution brought an action against the former Chairman of the Board of Managing Directors, Mr Ortseifen, as a result of market manipulation and breach of trust. The charge of breach of trust relates to the construction of a property in which Mr Ortseifen lived, but which the Bank owned.

In this respect, an application was also filed at the Düsseldorf local court for penalty orders against two further former members of the Board of Managing Directors. Preliminary proceedings against all other defendants (also in terms of proceedings for breach of trust concerning irresponsible investments) were suspended due to a lack of adequate suspicion. Additional investigations are still ongoing beyond this reporting period regarding the suspicion of false representation.

The Bank is the potentially aggrieved party in this case. The Board of Managing Directors is supporting the Department of Public Prosecution in its work and cooperating with it in every respect in order to ensure that the matters concerned are resolved in full as soon as possible.

[State aid proceedings](#). In connection with the rescue measures taken by KfW with the support of the banking associations for the benefit of IKB, the European Commission qualified the measures as aid and approved them in October 2008 under strict conditions. The Bank must deploy considerable resources to implement these conditions. If it is unable to do so, the Bank may be significantly disadvantaged, both legally and economically.

[Recessionary actions against resolutions from General Meetings](#). A recessionary and revocation claim against resolutions made at the General Meeting held on 28 August 2008 under item 6 of the agenda (election of the Supervisory Board) is currently still pending.

The following claims against resolutions made at the Extraordinary General Meeting held on 25 March 2009 are currently (as at 7 July 2009) still pending:

- 11 recessionary and revocation claims regarding agenda item 1 (authorised capital),
- 9 recessionary and revocation claims regarding agenda item 2 (contingent capital increase),
- 25 recessionary and revocation claims regarding agenda items 3 and 4 (cancelling the special audit with regard to the Board of Managing Directors and the Supervisory Board),
- 9 recessionary and revocation claims regarding agenda item 5 (election of the Supervisory Board),
- 1 recessionary and revocation claim regarding agenda item 8 (amendment of the Articles of Association with regard to the election of the Chairman of the General Meeting) and
- 4 claims against the resolution to refuse the motion brought forward in the General Meeting to vote out the Chairman of the General Meeting.



### Risks in connection with SoFFin conditions

As well as other conditions, one condition of the Special Fund for the Stabilisation of the Financial Market (SoFFin) requires IKB to prepare monthly, quarterly, half-yearly and annual reports presenting the financial and economic situation of IKB. If these obligations are not adhered to, this will result in certain legal repercussions, including punitive sanctions in the amount of € 1 million per infringement. For this reason, processes have been implemented to minimise operational risks of non-compliance.

IKB AG must continue to ensure that it is sufficiently capitalised, i.e. that it has a definite Tier I ratio available in accordance with Section 10 (2a) KWG of at least 8% of the denominator of the overall capital ratio given in Section 2 (6) Sentence 2 SolvV. If the Tier I capital of the Bank in accordance with Section 10 (2a) KWG declines during the term of the guarantee agreement to less than 8% of the denominator of the overall capital ratio given in Section 2 (6) Sentence 2 SolvV, then IKB must inform SoFFin of this immediately and take all necessary action without delay to return to the required Tier I ratio of at least 8% of the denominator of the overall capital ratio given in Section 2 (6) Sentence 2 SolvV (see supplementary report for the conditions for the extended SoFFin guarantee dated 3 July 2009).

### IT risk

In the area of IT risks, the focus is on measures to improve Bank-wide business continuity management, the security of IT systems and the security of the database. As well as continually improving information security management (ISMS) based on the international standards ISO 27001:2005, ISO 27002:2005 and the standards of the Federal Office for Information Security (BSI), this also includes bringing system and network security in line with ever increasing external threats. Commissioning a backup computer centre (in a separate building) has considerably reduced operational risks. Staff training is also an integral element of putting in place provisions. These measures are supported by regular checks and emergency drills. The implementation of a suitable management system for IT security in accordance with ISO 27001 was again certified by TÜV Rheinland.

By carrying out various tests, it has been noticed that applications developed in specialist areas (IDP applications) are not sufficiently documented. The IT Central Division is currently coordinating the preparation of corresponding documentation and will provide training to specialist areas on request. However, the responsibility for preparing documentation and reporting the IDP application to IT still rests within the specialist areas.

## Compliance risk

As a bank, IKB is subject to specific legal standards. These include regulations on avoiding conflicts of interest, market manipulation as well as insider trading and money laundering. The regulations on money laundering prevention are contained in special organisational instructions for IKB as well as in specific handbooks at each of the affected sites abroad.

Furthermore, IKB has implemented a compliance concept in which conduct requirements with regard to securities compliance are specified as binding for all employees. This is supplemented by the Group guideline on handling conflicts of interest. Location-specific compliance concepts have been issued for each of the sites in London, Luxembourg and New York.

IKB has also formulated a Code of Conduct which describes the moral concepts and beliefs of IKB. The principles given in the IKB Code of Conduct include requirements for the conduct of all employees at all locations of the IKB Group. These provide a binding frame of reference for day-to-day business.

To begin with, a preparatory analysis was carried out in the reporting year, in which risks from external/internal fraudulent acts were brought to light for the purpose of further preparation. The first stage of this analysis (status November 2008) was to identify any abstract areas of exposure to fraud risks. Due to a lack of any completed findings in the case of external fraud at IKB, an average threat situation had to be assumed, which corresponded to that of other banks of a similar size and with a comparable business model. In order to validate and verify findings acquired at that time, a further, more in-depth threat analysis is scheduled. In December 2008, compliance activities were integrated into the Legal Central Division, setting up a direct specialist reporting line to the Chairman of the Board of Managing Directors. As such, these activities are now coordinated by the newly appointed Chief Compliance Officer. In the 2009/10 financial year, the new Chief Compliance Officer has been assigned the task of further developing the measures already introduced in the reporting year and implementing an expansion of compliance functions. This includes preparing a more detailed Code of Conduct, particularly with regard to the introduction of benefit value limits, and establishing an external whistleblower system.

In March 2008, IKB prepared a threat analysis in terms of money laundering risk, covering all companies belonging to the Group and branches in Germany and abroad. New business at IKB was examined for the reporting year using an evaluation as of March 2009. This did not bring up any significant changes. If there had been significant changes, this would have necessitated a re-evaluation of the threat situation.

A process modification was only carried out with regard to the higher requirements for duty of care in lending transactions abroad. This stipulates that a money laundering official must be involved in the case of loans in specified risk countries.

In terms of internal risks (procedural and structural organisation), a re-evaluation was not carried out in the reporting year, as the Bank resolved upon a new business model in January 2009 which is to be implemented over the course of the 2009/10 financial year. In this regard, a fundamental re-evaluation of the threat analysis and the organisation of money laundering prevention must be carried out without delay.

Risks specific to customers, products and transactions are recorded, identified and categorised accordingly in the threat analysis. Indicators have been derived from the risks identified, which form the basis of monitoring as search criteria and parameters. In the results of the analysis it can be seen that, based on its specific business activities, the IKB Group is subject to a considerably lower money laundering risk than banks with over-the-counter business and current account payment transactions.

### Personnel risk

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

Since the start of the Bank crisis in July 2007, IKB has posted a considerably higher reduction in the number of employees across all Central Divisions, which has not been completely offset by acquiring new qualified staff as a result of the current situation of the Bank. The adverse effects of this situation are currently being managed via the use of internal transfers and the intensive deployment of external consultants. Over the last two quarters, the number of resignations received has considerably declined, which could be attributed on the one hand to the situation on the job market, and on the other, to a general inclination to wait and see the effects of the reconciliation of interests and the redundancy scheme.

As a result of the extensive reorganisation project, this will lead to a reorganisation of the workplace and a reduction in the number of jobs. Existing structures and deeply-rooted processes will be changed and job descriptions modified. This may lead to inefficiencies and an increased proneness to error in the transition phase. Furthermore, there may also be incongruities between individual employees' need for protection based on social measures and the interests of the Bank, IKB S.A. and IKB CC. By means of clear regulations, including those in the reconciliation of interests and the redundancy scheme, as well as management structures which are still stable, we do not anticipate operating risks when implementing the above regulations.

### Strategic risk and reputational risk

Strategic risks refer to the threat to the long-term successful position of the Bank. These can come about as a result of changes in the legal or social environment, but may also emanate from aspects of market or competitive conditions for customers or refinancing partners.

Due to the fact that there are no regularities as regards strategic risks, it is difficult to capture these as special risks in an integrated system. They are therefore under the close observation of the Board of Managing Directors and the Strategic Planning department and are continually monitored. This also includes regularly examining the altered business strategy (once it has been conclusively adopted), even in the context of the strategic planning process, as well as implementing strategic initiatives and restructuring measures as a result of this. The current business model of IKB has been restricted in individual Central Divisions (primarily Real Estate Clients) as a result of the conditions of the European Commission. By means of the new strategic focus of the business model of IKB, including measures involving an expansion of the product range for SME customers (range of consulting products) and more intensive leverage of customer potential, the objective is to offset the effects of the European Commission conditions with regard to income.

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

A key aim of IKB over the course of the new strategic focus is to improve its reputation once more, which has been damaged as a result of the crisis. The management of reputational risks at IKB is carried out by the Board of Managing Directors directly.

### Business risk

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

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

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

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

### Overall assessment of the risk situation

In a market still characterised by extreme levels of uncertainty and volatility and in a deep recession, IKB remains exposed to considerable default, interest, liquidity and legal risks.

It is currently very difficult to give an estimate in respect to the impact of the global economic downturn on counterparty default risks in the credit business. The risk of a further deterioration in the economy is still very high. Negative trends are already clearly evident in certain industries, particularly in the automotive sector. In the past financial year, the effects of the recession have left a noticeable mark on acquisition financing, which accounted for more than half of all value adjustments.

As well as the ongoing financial market crisis, the abrupt economic slump is also having an impact on all capital markets in the form of yet another strong increase in volatility and credit spreads, which will at the very least contribute to severe remeasurement losses. In particular, this has also impacted, and is continuing to impact, securitised credit risks.

In the past financial year, there were further valuation losses on structured securities and thus additional charges in the income statement. After the transfer of a large part of the portfolio investments to the fully consolidated special-purpose company Rio Debt Holdings (Ireland) Limited in December 2008, the risk at IKB is now limited to

- portfolio investments with a nominal value of € 0.5 billion being wound up but not sold. The risks for IKB resulting from these transactions are largely limited to the value of the collateral provided and other legal risks with regard to the enforcement of claims to proceeds from the collateral during settlement,
- two transactions with a nominal volume of € 0.2 billion which were restructured in May 2009 with companies and governments as reference assets,
- the structured securities resulting from business activities in the front office units and predominantly in connection with the risk transfer of IKB's own financing
- the subordinate loan (first loss risk) granted by IKB AG to the special-purpose company Rio Debt Holdings (Ireland) Limited.

In view of market jitters, despite all the measures initiated with a view to reducing interest rate risk, the Bank still has a relatively high exposure to increases in the volatility of interest rates (volatility risk, vega) due to the optional elements used in proprietary trading.

Liquidity risk has been cushioned thanks to the support of SoFFin, to the extent that IKB will be able to implement its own planned measures to procure liquidity in peace and in a market environment returning to normality.

As at 31 March 2009, there is risk-bearing capacity from both an equity capital provider and a lender perspective, yet this is strained. The level of risk cover has considerably declined as a result of losses, while at the same time, economic equity capital requirements to cover risks have risen as a result of the crisis. In the event of a significant expansion of the current recession beyond 2010 and yet another severe impact on the capital market such as it was forced to witness after the collapse of the Lehman Brothers Bank, there would no longer be available risk-bearing capacity.

For this reason, the Bank is making use of all economically viable opportunities to lower its risk position further. This relates to both counterparty default risks, which are set to decrease not least as a result of the reduction in the real estate portfolio, and market price risks. As such, the Bank will press ahead with the policy of structured decrease of the interest position it decided upon as early as start of the crisis.

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

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

and the European Commission's approval of the extended SoFFin guarantees.

To do this, it is of paramount importance that

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

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

IKB has not only taken these provisions into consideration into its planning, but has also set up processes and executive bodies for the sustainable balance sheet structure management which this will require. As well as the sale of certain risk assets which no longer belong to the Bank's core business to institutional investors, this also includes changing the refinancing structure.

In addition to the time element regarding the implementation of the EU requirements, effects on key economic indicators such as Tier I capital, ongoing impacts on earnings, and liquidity will also be monitored on an ongoing basis.

In the event that the financial and economic crisis continues for longer than expected, there is still scope to carry out any necessary adjustments for the implementation of these measures. Depending on the length of the market jitters, the sale of assets will not need to be carried out at any price, for example, in order to meet the EU requirements. Even if the Bank temporarily falls below the minimum Tier I ratio required by SoFFin, appropriate measures can be agreed with SoFFin.

However, the Board of Managing Directors is assuming that the requirements will be implemented on time and that the economic specifications will be complied with at the same time.

## 5. Events after 31 March 2009 (Supplementary report)

The following new developments have arisen since 31 March 2009.

### Tier I capital strengthened with Lone Star

The subordinated bonds of IKB AG with a total nominal value of € 101.5 million that were taken up by LSF6 Rio. S.à.r.l. in November and December 2008 were transferred to LSF6 Europe Financial Holding L.P. on 4 June 2009. Through a waiver and agreement on compensation from future profits between LSF6 Europe Financial Holdings L.P. and IKB AG dated 5 June 2009, LSF6 Europe Financial Holdings L.P., as the holder of subordinated bonds of IKB AG with a total nominal value of € 101.5 million, has waived its repayment claim and future interest payment claims against IKB AG arising from these bonds, suspensively dissolving conditional on improvement, and has thus made an additional payment to the capital reserve of € 101.5 million in accordance with Section 272 (2) No. 4 HGB. An improvement occurs if IKB AG achieves an annual net profit and meets the regulatory equity ratio of at least 9.0% at an individual Bank level.

In addition, the Bank's share capital will increase by € 123.5 million on 14 July 2009 with the issue of shares to LSF6 Rio S.à.r.l., Luxembourg, following the conversion of the bonds purchased on 11 December 2008 with a contingent conversion obligation and a contingent conversion privilege of IKB AG in the amount of € 123.5 million. IKB AG's share capital will amount to € 1,621 million from 14 July 2009 (previously: € 1,498 million), comprising 633,326,261 notional no-par value bearer shares (previously: 585,075,911). After the delivery of the shares, Lone Star's stake in the share capital of IKB AG will increase to 91.5%.

### Expansion of the guarantee framework provided by SoFFin

With a state-guaranteed issue of € 1 billion in April 2009, the guarantees from SoFFin of € 5 billion from December 2008 have been fully utilised.

SoFFin informed IKB AG on 3 July 2009 of its intention to extend the guarantee for new bonds to be issued by IKB in future by € 7 billion. Following the contractual implementation of this decision and the pending approval by the European Commission – notification has already been given – IKB will have total guarantees of € 12 billion, € 5 billion of which was previously used to issue state-guaranteed bonds.

One of the conditions of the guarantee agreement is that IKB continues to maintain a Tier I capital ratio of at least 8%.



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

The members of the Board of Managing Directors of IKB AG are to voluntarily waive payments exceeding € 500 thousand p.a. from 3 July 2009 to 31 December 2010. Fringe benefits (e.g. company cars, insurance, pension instalments, use of the telephone) remain unaffected by this. Additional payments are permitted only after the SoFFin guarantees have expired.

For a maximum of € 4 billion, the state-guaranteed bonds from the expanded framework may have a maturity of up to 36 months and for a maximum of € 3 billion a maturity of up to 60 months. However, they must expire by 31 December 2014 at the latest. In addition to the guarantee fees agreed, IKB AG will pay 2% on the amount of the SoFFin-guaranteed IKB bonds still outstanding on 30 June 2013 to SoFFin on maturity.

With the expansion of the guarantee framework, IKB is using the guarantee instrument provided by the government, as the situation on the money and capital markets remains so difficult, particularly for banks, that it is all but impossible for IKB to receive adequate refinancing at this time.

With the issue of state-guaranteed securities, IKB intends to maintain its liquidity and stabilise its business with SMEs. IKB has not requested support from SoFFin for recapitalisation or the assumption of risks.

The first state-guaranteed issue within this guarantee framework is scheduled for the end of July 2009.

### Status of implementation of EU conditions

The status of implementation of the EU conditions was as follows at the end of June 2009:

- Real Estate Finance segment: the credit volume in this segment has already been reduced by 10% (interim target by 30 September 2010: reduction of 20%); the winding up/sale of affected subsidiaries has been initiated.
- Movesta Lease and Finance GmbH: considerable progress has already been made with the sale process for the 50% stake held by IKB AG in Movesta Lease and Finance GmbH. Now that the due diligence process has largely been concluded, further analyses and contractual negotiations are currently taking place on an exclusive basis with prospective buyers. The purchase agreement is expected to be signed in August 2009.

- IKB CC, New York: the interim target “reduction of 25% in the loan portfolio by 30 September 2010” – starting with a loan portfolio with a nominal value of € 1.2 billion as at 31 March 2007 – has already been largely achieved, with a current nominal value of € 0.9 billion as at 31 March 2009. This target had already been implemented by 30 June 2009, as the loan portfolio now contains only around € 0.61 billion.
- IKB S.A.: the conceptual and practical preparations are currently underway for winding up IKB S.A. and the assumption of certain duties by the parent company.
- The business activities of IKB in Amsterdam have already been discontinued.
- Considerable progress has already been made with the sale of non-strategic asset positions; the credit volume as at 31 March 2009 has dropped from € 1.7 billion to € 0.6 billion compared with 31 March 2007.

### Personnel changes

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

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

## 6. Outlook

### Future general economic conditions

The Board of Managing Directors expects general conditions for the Bank's core business to become even more difficult during the rest of 2009 and 2010:

The global downturn has intensified dramatically as a result of the aggravation of the international financial crisis in autumn 2008. Almost all countries in the world are affected directly or indirectly by the consequences, such as the liquidity squeeze on the interbank markets, the loss of confidence on the capital markets, slumps in demand in global trade and falling commodity prices. The financial crisis has thus expanded into a global crisis in the real economy.

Germany's export sector – the driving force behind the previous upturn – was hit particularly hard by the worldwide slump in demand for capital goods. The crisis has also gradually spread to the overall economy. This means that, since autumn 2008, Germany has been in the worst recession since the Federal Republic was founded.

In their spring reports, the leading economic research institutions estimate that GDP will fall by 6% in 2009. A significant recovery is not expected in 2010. Exports will see a substantial drop of over 20% in 2009 as a result of the slump in global trade and will register only a slight increase of 2% in the following year.

Investment by companies in equipment, the most important overall economic determinant for the Bank's lending business, is also set to be drastically reduced in the wake of the worldwide crisis and in view of uncertainty about the further development of the economy. Research institutions are anticipating a drop of 16% for 2009 and a further decline of 2% in 2010. On the other hand, investment in construction is expected to rise, as public sector investment programmes will come to fruition. Consumer spending is also expected to provide support initially. With the increasing threat to jobs, however, consumer trends are set to worsen, which means that consumer spending will fall significantly at the end of 2009.

An important factor in further development is that trust must be restored in banks all over the world as soon as possible. This will not be possible without effective state support. Only then will lending adapt again fully to the needs of an economic recovery.

In Europe (EU 27), economic output will fall by 4% in 2009 and 0.5% in 2010 as a result of the global recession, following growth of 0.9% in 2008.

Prospects have also become gloomier for countries in Central and Eastern Europe. The effects of the financial crisis can also be keenly felt here. In the region as a whole, there has been a slowdown in economic development since the third quarter of 2008, although developments have varied considerably in individual countries. Overall, the region is expected to see a drop in the gross domestic product of 1.7% in 2009 and a slight recovery of 0.8% in 2010.

### Opportunities presented by future developments

The conditions imposed by the European Commission necessitate a radical revision of the business activities pursued by IKB. Among other points, the real estate financing business is to be discontinued, while by 30 September 2011, total Group assets are to be reduced to € 33.5 billion. IKB will therefore focus its customer business more strongly on services not impacting the balance sheet.

Business relations with corporate clients are to be expanded through improved market penetration (better leverage of existing customer relationships and gaining more new customers) and the introduction and sale of new products. Long-term corporate loans and structured financing forms will remain key products which can be supplemented by consultancy and services which generate no or little credit risk or balance sheet charges. The more intensive leverage of customer potential is also reflected in the reorganisation of sales and product management. Customer responsibility and product management are to be separated.

The provision of innovative financial solutions to the Bank's customers will remain an integral part of the business model. Through securitisation, growth in the assets under management is to be reconciled with adherence to the EU condition on the limitation of total Group assets, the available equity and liquidity.

The interbank market is in turmoil. As a result, it is not possible to say much at present about the future structure of the market. Margins in the Corporate Clients business are expected to rise. A quick (re)focus on the role of a bank that provides innovative services and products to small and medium-sized companies in particular is advisable and promising in this climate. Companies need to adapt to and in the recession and require a partner to advise them on this.

Regulatory changes and restrictions with regard to higher equity and liquidity buffers in the banking sector are also emerging, and it is possible to manage adherence to these in a targeted way through securitisation.

## Net assets

IKB's net assets were stabilised in the last financial year through the capital increase. The solvency ratios of IKB have improved considerably and, despite the losses incurred in the last financial year, are much higher than at the beginning of the financial year.

Although the economic environment remains difficult, IKB expects its solvency ratios to continue to fulfil all legal requirements in future. IKB also believes that its solvency ratios will continue to exceed certain minimum figures to which it has committed itself by contract. In particular, this includes adherence by IKB AG to a Tier I ratio of at least 8%. To secure these and other minimum ratios, IKB will take further measures to strengthen its capital base if necessary, particularly if the economic downturn continues.

## Liquidity situation

With SoFFin approving a further guarantee for € 7 billion and the planned closure of a contract shortly, the subsequently planned issues and asset sales in the amount of € 3.9 billion can help to safeguard IKB's liquidity at the planned level for a period of about two years. In connection with the guarantees of € 5 billion approved in December 2008 and already utilised, IKB has made certain undertakings to SoFFin. These include regular extensive reporting, the implementation of the EU conditions and the maintenance of a Tier I ratio of 8%. These requirements also apply to the extended guarantee of € 7 billion from 3 July 2009, among other things.

Collateralised borrowing and the lending of securities or loan assets with the Central Bank have become important sources of refinancing for all banks, and IKB is no exception. In its interbank business, the Bank also uses collateralised borrowing as an instrument to cover its liquidity requirements. A prerequisite for refinancing in an unsecured form is that the international capital markets must return to normal. In addition, IKB will refinance a larger portion of its lending business than in the past by borrowing from government development banks.

The plans also include a liquidity effect of € 3.9 billion from asset sales, which are necessary to fulfil the EU conditions regarding a reduction in total assets. The planned asset sales are therefore also an important component in the provision of liquidity.

The Bank is also taking advantage of opportunities for borrowing through money market transactions and promissory note loans secured through deposit insurance. Since the fourth calendar quarter of 2008, the Bank has gained more than € 1 billion in new customer deposits, with a focus on term deposits. Promissory note loans have also been placed with institutional investors and companies in a few cases.

In view of the current rating (Baa3/BBB-), it will be possible to issue unsecured bearer bonds on the capital market only very selectively and in small parts, if at all. This may improve in the longer term through a change in investor behaviour and/or positive changes in the rating.

The future liquidity situation will continue to depend on the development of new business and the extent to which customers draw on existing loan commitments. Both factors have been included in plans for liquidity requirements at sufficiently conservative levels.

Collateral requirements of banking partners, particularly in the derivatives business, can also influence the Bank's liquidity. Potential risks from this are also reflected in liquidity planning.

### Earnings performance

Once restructuring is complete, the Bank is expected to have a substantially different earnings structure and a lower overall earnings level than in the financial years prior to 2007/08 as the income from portfolio investments will decline considerably. The financial years 2009/10 and 2010/11 will be significantly impaired by the consequences of the financial market crisis and its spread to the real economy and thereby the corporate sector. The main negative factors will be the restriction of new business, greater allowances for losses on loans and advances and the sharp rise in refinancing costs. Furthermore, IKB will reduce its costs significantly by lowering operating expenses by 30% year-on-year and shedding an anticipated 370 jobs in the Group. In the medium term, the Bank is aiming to achieve a reasonable return on the capital employed in its operating activities. This means that additional fee and commission income will have to be achieved from the planned expansion of consultancy services.

The Bank's continued development also depends on its ability to obtain adequate refinancing. In addition to the expanded guarantee framework of SoFFin, this means that the capital markets will have to return to normal, at least for collateralised borrowing, and that trust will have to be restored in banks in general, resulting in more favourable refinancing costs than under the SoFFin guarantees.

The need to service the compensation agreements relating to the provision of € 1,050 million of regulatory core capital by KfW Bankengruppe in the 2007/08 financial year, the compensation agreement relating to the waiver by LSF6 Europe Financial Holdings L.P. of its repayment claim and future interest payment claims arising from the subordinated bonds of IKB AG taken up in November and December 2008 and the value recovery rights of hybrid investors means that the Group and IKB AG are unlikely to record more than a negligible profit for several years.

## 7. Remuneration report

This remuneration report relates to the remuneration of members of the Board of Managing Directors and the Supervisory Board in and for the 2008/09 financial year and presents the organisation of the remuneration systems in and for this financial year. It takes into account the regulations of the German Commercial Code and the principles of the German Corporate Governance Code.

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

The composition of the Board of Managing Directors changed considerably in the 2008/09 financial year, as in the previous financial year. The following members belonged to the Board of Managing Directors in the period to which this remuneration report relates:

- Hans Jörg Schüttler (member and Chairman of the Board of Managing Directors from 1 November 2008),
- Dr Günther Bräunig (member and Chairman of the Board of Managing Directors until 31 October 2008),
- Dr Dieter Glüder,
- Dr Reinhard Grzesik,
- Dr Andreas Leimbach (1 April 2008 to 31 January 2009),
- Claus Momburg,
- Dr Michael H. Wiedmann (from 1 March 2009).

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

A new remuneration structure has not been developed as yet, in view of the Bank's current economic situation. The Executive Committee is responsible for determining the remuneration of individual members of the Board of Managing Directors.

Criteria for the adequacy of remuneration include, in particular, the duties of the relevant member of the Board of Managing Directors, his personal performance, the performance of the Board of Managing Directors as a whole and the particular situation of the Bank. The Executive Committee regularly reviews the adequacy of the respective total remunerations. Any remuneration from Group mandates is included.

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

The non-performance-related basic annual salary is paid as a monthly salary. Members of the Board of Managing Directors also receive fringe benefits in the form of remuneration in kind, consisting mainly of insurance premiums and use of a company car. As these fringe benefits are a remuneration component, tax is to be paid on them by the individual member of the Board of Managing Directors. The exact amount will vary among the individual members of the Board of Managing Directors, depending on their personal situation. No loans or advances were granted to members of the Board of Managing Directors in the reporting year.

#### *Performance-related remuneration components*

In accordance with the recommendations of the German Corporate Governance Code, the monetary remuneration components of the total remuneration include fixed and variable components. The variable remuneration component involves a risk element, which means that this remuneration is not secured, apart from a minimum share of 30% or 60% in the target management bonus. In principle, it is not possible to make subsequent changes to the performance targets agreed.

The basis of the variable remuneration will initially be the achievement of the targets agreed in writing with each active member of the Board of Managing Directors for the relevant financial year at the beginning of that year. The amount of variable remuneration obtained will then be determined according to the extent to which the targets have been achieved. A maximum bonus of 200% and a minimum of 30% is possible, in one case 50% and in another case 60% of the target management bonus is achieved. In addition, the Executive Committee may take into account other aspects in determining variable remuneration at its discretion. This may result in a higher or lower bonus within the set limits. For the 2008/09 financial year, the Supervisory Board has agreed only targets with members of the Board of Managing Directors for the stabilisation of the Bank. The variable remuneration for the 2008/09 financial year was agreed by the Executive Committee in a meeting held on 11 May 2009. As a result of the financial situation of the Bank and in recognition of their extraordinary commitment in the context of restructuring, the members of the Board of Managing Directors Dr Glüder, Mr Momburg, Mr Schüttler and Dr Wiedmann shall receive their target bonus.

In the event of a change of control, Dr Grzesik shall receive a minimum bonus of 150%. A change of control is deemed to exist if a third party, alone or through the voting rights attributed to it in accordance with Section 2 WpHG, obtains a share of the voting rights that would have given a share of the voting rights in an Annual General Meeting of IKB AG of at least half of the present share capital conveying voting rights. In the 2008/09 financial year, this condition occurred with the acquisition of the stake in KfW by LSF6 Europe Financial Holdings L.P.

For Dr Bräunig, the minimum bonus was determined at his request. The Supervisory Board was prepared to pay Dr Bräunig a higher bonus.



### Change of control

The members of the Board of Managing Directors in office as at 31 March 2009 do not have a change of control clause in their contracts of employment, or have subsequently waived any clause originally agreed.

### Payments from third parties

In the last financial year, no member of the Board of Managing Directors received payments or promises to such from a third party with the exception of emoluments from subsidiaries of IKB in respect of their function as a member of Board of Managing Directors.

Details on the remuneration of the Supervisory Board for the 2008/09 financial year are presented in the table below in accordance with contractual agreements and the resolutions of the Executive Committee:

	Yearly remuneration (in € thousand)				Total
	Fixed remuneration	Variable remuneration	Pension compensation	Value of fringe benefits*	
Hans Jörg Schüttler (from 1 November 2008)	312	313	50	8	683
Dr Günther Bräunig (until 31 October 2008)	321	125		15	461
Dr Dieter Glüder	442	650		43	1 135
Dr Reinhard Grzesik	480	975	120	17	1 592
Dr Andreas Leimbach (1 April 2008 until 31 January 2009)	375	458	100	1 135	2 068
Claus Momburg	410	550		72	1 032
Dr Michael H. Wiedmann (from 1 March 2009)	40	46	10	1	97
<b>Total</b>	<b>2 380</b>	<b>3 117</b>	<b>280</b>	<b>1 291</b>	<b>7 068</b>

\* Including remuneration received for carrying out functions on executive bodies of subsidiaries totalling € 67 thousand (Dr Glüder: € 20 thousand; Mr Momburg: € 47 thousand) and payment of compensation totalling € 1,120 to Dr Leimbach.

For the 2007/08 financial year, the yearly remuneration of the Board of Managing Directors as a whole amounted to € 4,264 thousand, of which € 1,967 thousand related to fixed remuneration, € 2,044 thousand to variable remuneration, € 56 thousand to pension compensation payments and € 197 thousand to fringe benefits.

In the context of the “Expansion of the guarantee framework provided by SoFFin” (see supplementary report), the members of the Board of Managing Directors of IKB AG are to voluntarily waive payments exceeding € 500 thousand p.a. from 3 July 2009 to 31 December 2010. Fringe benefits (e.g. company cars, insurance, pension instalments, use of the telephone) remain unaffected by this. Additional payments are permitted only after the SoFFin guarantees have expired.

### *Payments in the event of termination of employment*

The retired member of the Board of Managing Directors Dr Leimbach, in accordance with agreements made with him, had the right to request early termination of his contract of employment in the event of new participation ratios among the shareholders. The agreement of this clause was necessary at the time of the IKB's existential crisis with the pending change of the main shareholder to enable it to attract high-quality management. At his own request and for personal reasons, Dr Leimbach terminated his contract of employment with effect from 31 January 2009. To settle the claims resulting from this contract of employment, Dr Leimbach received a payment of € 1,120 thousand contractually agreed for the event of resignation following a change in the participation ratio among the shareholders (one year's salary plus pension compensation benefits plus a bonus of 100% of the target bonus for the 2008/09 financial year).

### *Repayment claims of the Company*

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

With the former member of the Board of Managing Directors Mr Braunsfeld, in relation to the repayment of bonuses for the 2006/07 financial year, an annulment agreement was concluded for his contract of employment in the context of which the repayment claim (€ 25 thousand) was offset.

The claims to management bonuses between IKB and the former members of the Board of Managing Directors, Dr Doberanzke and Dr Guthoff, were settled in December 2008. Voluntarily and without prejudice, Dr Doberanzke and Dr Guthoff repaid the management bonuses demanded by the Bank (€ 583 thousand and € 600 thousand respectively) in an amount of € 494 thousand and € 499 thousand respectively in October and December 2008. The repayments were made by common consent. The differences to the gross amounts represent the level of the tax disadvantage which resulted because the repayments of the management bonuses paid in 2007 were first made in 2008. In addition, the difference in the case of Dr Doberanzke is due to the fact that, in the 2006/07 financial year, he was a member of the Board of Managing Directors for only ten months. In the context of the repayment agreements with Dr Doberanzke and Dr Guthoff, it was agreed with both parties to pay the remuneration previously withheld for their role on the Advisory Council in companies of the IKB group in the financial year 2006/07 (€ 24 thousand and € 50 thousand respectively). The remuneration was paid in January 2009.

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

Since May 2008, in relation to the former member of the Board of Managing Directors Mr Neupel, IKB has offset the repayment claim for the overpaid bonus for the 2006/07 financial year (€ 451 thousand) monthly against his pension claims towards the IKB, to the extent permitted by law. Mr Neupel instituted legal proceedings leading to a judgement on payment of his pension benefits for the months from May to July 2008. The provisional judgement issued in December 2008 was decided in Mr Neupel's favour. On the basis of the reservation requested by the Company, subsequent proceedings are now being implemented. In addition, the Company is claiming compensation from Mr Neupel for non-approved expenses reimbursed by the Company in the residential property rented by Mr Neupel from the Company and expenses for which he was liable in the residential property rented by Mr Ortseifen.

The repayment of the overpaid bonus (€ 805 thousand) by Mr Ortseifen is the subject of ongoing legal proceedings. The Company has also filed an action against Mr Ortseifen and his wife for payment of rental payments in arrears and clearance of the residential property rented by the Company. The Company is also claiming compensation from Mr Ortseifen for non-approved expenses reimbursed by the Company in the residential property rented by Mr Ortseifen from the Company and expenses for which he was liable in the residential property rented by Mr Ortseifen.

#### *Retirement benefits*

The members of the Board of Managing Directors Dr Glüder and Mr Momburg are entitled to pension benefits on ceasing employment with the Company in the event of reaching the legal retirement age (currently 63), permanent incapacity for work and early termination or non-renewal of their contract of employment. In the latter case, members of the Board of Managing Directors shall receive a reduced pension until the end of the 63rd year of age as a transitional payment if the reason for early termination or non-renewal of the contract of employment is not the employer's own fault (due to intent or gross negligence) or refusal of a similar or better offer for renewal of the contract of employment. This regulation applies to Dr Glüder from 16 October 2008 onwards. Until this date, a retirement benefit commitment existed in the context of an employment contract with KfW which was in place before he joined IKB. For this commitment, IKB paid KfW the relevant transfer amounts of € 72 thousand due for the continuation of the commitment from 1 April 2008 until 15 October 2008. By agreement, Mr Momburg waived his contractual entitlement to transitional payments. However, this agreement was made under the condition precedent that a court determines personal liability (intent or gross negligence) in a final and absolute judgement in connection with the crisis of the Bank. No other member of the Board of Managing Directors is entitled to receipt of transitional payments in the event of ceasing employment with the Company.

The pension benefit to be paid depends on the length of service on the Board of Managing Directors. The basic entitlement for Dr Glüder amounts to 35% and for Mr Momburg 50% of the pensionable income. The amount of the transitional payment depends on the age of the member of the Board of Managing Directors and amounts to between 5% and 75% of the basic yearly pay for the last year. Other pension entitlements and other income from employment shall be offset against the Company's pension benefits to a specific extent. Current pensions shall be adjusted annually in accordance with the development of the consumer price index for Germany.

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

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

<b>in € thousand</b>	Annual benefits in the event of a pension claim as at 31 March 2009	Addition to pension provisions as at 31 March 2009
Dr Dieter Glüder	360*	644
Claus Momburg	308*	132

\* Based on employment until the end of the 63rd year of age

Due to different pension regulations, the members of the Board of Managing Directors Dr Grzesik, Mr Schüttler and Dr Wiedmann are not entitled to pension benefits from IKB or are only entitled to claim pension benefits from IKB in the event of permanent incapacity for work. The retired member of the Board of Managing Directors Dr Leimbach also has no entitlement to pension benefits. The retired member of the Board of Managing Directors Dr Bräunig has a retirement benefit commitment in the context of an employment contract with KfW which existed before he joined IKB. For this commitment, IKB paid KfW the additional amount of € 82 thousand incurred to continue the commitment from 1 April 2008 until his departure from the Company on 31 October 2008.

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

The total remuneration for former members of the Board of Managing Directors and their surviving dependents amounted to € 3,097 thousand (previous year: € 3,882 thousand). In addition, in the financial year 2008/09, in addition to the compensation of € 1,120 thousand paid to Dr Leimbach, payments of € 1,313 thousand were made to two former members of the Board of Managing Directors in the context of settlement agreements. For one of these settlement payments, a provision of € 800 thousand was established in financial year 2007/08. A provision of € 37,282 thousand (previous year: € 37,094 thousand) was made for pension obligations towards former members of the Board of Managing Directors and their surviving dependents.

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

The remuneration of the Supervisory Board is regulated by Article 11 of the Articles of Association. It takes into account – in accordance with the legal regulations and the provisions of the Corporate Governance Code – of the responsibility and the scope of the roles assigned to the members of the Board of Managing Directors as well as the financial position and success of the IKB Group. The members of the Board of Managing Directors receive two variable, performance-related remuneration components in addition to their fixed remuneration. The short-term component is dependent on the level of the dividend and the long-term component is in line with the average consolidated net profit per share for the last three years. Both components are only paid if a dividend of at least 4% of the share capital is distributed. The members of the Supervisory Board receive € 20,000 for each financial year as fixed remuneration in addition to compensation for their expenses, including income tax payable on their earnings. In addition, members of the Supervisory Board receive variable remuneration of € 200 for every € 0.01 of dividend in excess of € 0.30 per share distributed to shareholders for the previous financial year. A further variable remuneration of € 90 is also paid for every € 0.01 by which the average consolidated net profit per share for the last three years exceeds € 0.30.

The Chairman of the Supervisory Board receives double and each Deputy Chairman receives 1.5 times the remuneration of a member of the Supervisory Board. The remuneration also increases by a factor of 0.25 of the Supervisory Board member remuneration for every position held on a Supervisory Board committee and by a factor of an additional 0.25 for every chairmanship of a Supervisory Board committee. This does not include members of the Nomination Committee, who do not receive any additional remuneration for their duties in accordance with a resolution passed by the Supervisory Board on 5 February 2009. The additional remuneration for committee work may not exceed the remuneration of a member of the Supervisory Board. Members of the Supervisory Board who belong to the Supervisory Board or a committee for only part of the fiscal year receive pro rata remuneration for the month or part month in which their position was held.

The remuneration of the Supervisory Board depends on different key ratios from those applied to the remuneration of the Board of Managing Directors, which prevents any undesirable alignment of remuneration interests between the two executive bodies. The annual fixed remuneration of € 20,000 is designed primarily to account for the independence of the Supervisory Board, which is necessary to carry out its supervisory function. In addition, it aims to ensure an appropriate minimum remuneration that is not dependent on the financial success of the Company. The dividend-related remuneration element is designed to bring the remuneration interests of the Supervisory Board into line with the return expectations of the shareholders. Linking a further part of remuneration to the average consolidated net profit for last three years also ensures that the Supervisory Board remuneration has a component linked to the long-term success of the Company.

#### *Remuneration of the Supervisory Board*

For the financial year 2008/09, on the assumption that a dividend will not be distributed as a result of the Company's circumstances, the Supervisory Board members will not receive any variable remuneration.

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

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

Details on the remuneration of the Supervisory Board for the 2008/09 financial year can be found in the table below:

in € thousand	Total (fixed remuneration only; variable remuneration will not be paid because no dividend is to be distributed)
Bruno Scherrer (from 30 October 2008) (Chairman from 30 October 2008)	Waived
Dr Karsten von Köller (from 16 December 2008) (Deputy Chairman from 1 January 2009)	Waived
Werner Oerter (until 31 December 2008) (Chairman until 30 October 2008)	35
Detlef Leinberger (until 06 October 2008) (Deputy Chairman until 6 October 2008)	26
Dieter Pfundt (until 31 December 2008) (Deputy Chairman until 31 December 2008)	30
Dieter Ammer (until 30 November 2008)	13
Jörg Asmussen (until 27 May 2008)	3
Dr Jens Baganz (until 30 November 2008)	13
Stefan A. Baustert (from 25 March 2009)	2
Wolfgang Bouché	30
Olivier Brahin (from 22 January 2009)	Waived
Hermann Franzen (until 31 December 2008)	19
Dr Lutz-Christian Funke (from 22 January 2009)	5
Ulrich Grillo	20
Arndt G. Kirchhoff (from 25 March 2009)	2
Jürgen Metzger	20
Werner Möller (from 28 August 2008 until 18 November 2008) (Deputy Chairman from 08 October 2008 until 18 November 2008)	10
Dr Claus Nolting (from 22 January 2009)	Waived
Roland Oetker (until 30 November 2008)	17
Dr Christopher Pleister (from 28 August 2008 until 1 February 2009)	10
Dr Eberhard Reuther	20
Randolf Rodenstock (until 3 December 2008)	15
Rita Röbel (until 30 November 2008)	13
Dr Michael Rogowski (until 28 August 2008)	8
Jochen Schametat (until 30 November 2008)	13
Dr Carola Steingraber	20
Dr Alfred Tacke (until 31 December 2008)	23
Dr Andreas Tuczka (from 22 January 2009)	Waived
Dr Martin Viessmann (until 25 March 2009)	20
Ulrich Wernecke	22
Andreas Wittmann	20
<b>Sub-total</b>	<b>429</b>
Compensation of Supervisory Board expenses (total)	69
<b>Total</b>	<b>498</b>

## 8. Other financial information

### Disclosures in accordance with Section 289 (4) HGB

As at 31 March 2009, the share capital of the Company amounted to € 1,497,794,332.16, comprising 585,075,911 no-par value bearer shares. All shares convey the same rights. Each share conveys one vote and is the determinant for participation in the Company's profit.

On 27 March 2008, the Annual General Meeting of IKB AG resolved a cash capital increase with shareholders' subscription rights of up to € 1,486,765,992.96, from € 247,794,332.16 to up to € 1,734,560,325.12. KfW had agreed that as many new shares as necessary in IKB AG would be subscribed to or acquired as a result of the capital increase to allow IKB AG to generate an inflow of at least € 1.25 billion (before costs). The new shares were offered to shareholders of the Company for subscription between 29 July 2008 and 11 August 2008 for € 2.56 per new share. A total of 487,288,757 new shares were purchased by KfW and 992,493 new shares by other shareholders for € 2.56 each. The capital increase was entered into the commercial register on 24 October 2008. As a result of this measure, the Company's share capital increased by € 1,250,000,000.00 to € 1,497,794,332.16.

By a 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 Company's share capital by up to € 500,000,000.00 in return for cash or non-cash payments by 27 August 2013 by issuing up to 195,312,500 new shares. This authorisation allows the legal subscription right of shareholders to be disapplied with the approval of the Supervisory Board. This authorisation was not used in the 2008/09 financial year.

By a resolution of the Annual General Meeting on 28 August 2008, the Board of Managing Directors was also authorised to issue convertible and option bonds with a total nominal value of € 900,000,000.00 and a maximum duration of 20 years by 27 August 2013 and to grant the bearers of these bonds conversion or option rights to shares in the Company with a stake of up to € 123,749,998.08 in the share capital according to the relevant bond conditions. The remaining authorisation to issue convertible and/or option bonds of up to € 245,700,000.00 and the associated contingent capital of up to € 13,667.84 were revoked by resolution of the Annual General Meeting on 28 August 2008.

On 19 November 2008, on the basis of the authorisation dated 28 August 2008, the Board of Managing Directors decided to issue subordinate bonds with a total nominal value of up to € 123,671,070.72 with a contingent conversion obligation and contingent conversion privilege for up to 48,309,012 shares in the Company from contingent capital with a shareholders' subscription right. The conditions for the existence of a conversion obligation and conversion privilege are that the recessionary action against the authorisation granted on 28 August 2008 is settled and the contingent capital associated with the authorisation is entered as final into the Company's commercial register. The convertible bonds were offered to shareholders of the Company in a non-public offer for subscription between 24 November 2008 and 8 December 2008. A subsidiary of the Lone Star group, LSF6 Rio S.à.r.l., Luxembourg, has undertaken to assume all bonds not



subscribed to by other 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.). One bond carries the authorisation to subscribe to 9 new shares from contingent capital at a conversion price of € 2.56 per share. Since 1 July 2009, the conditions for the existence of a conversion obligation and a conversion privilege have been met. As a result, a conversion privilege has existed since this time. A conversion obligation shall exist not later than on 11 April 2012, or earlier the Company falls below certain regulatory financial ratios.

Since LSF6 Rio S.à.r.l. utilised its conversion right in full on 2 July 2009, the Company's share capital increased by € 123,520,896.00 to € 1,621,315,228.16 with the issue of the subscribed shares.

By a resolution of the Annual General Meeting on 28 August 2008, the Company was also authorised to acquire and sell treasury shares for the purpose of securities trading until 27 February 2010. The shares acquired for this purpose may not exceed 5% of the share capital at the end of any one day. Together with the treasury shares acquired for other reasons held by the Company or assigned to it in accordance with Sections 71a ff. AktG, the shares acquired on the basis of this authorisation may not exceed 10% of the share capital at any time. This authorisation was not used in the 2008/09 financial year.

In the Annual General Meeting held on 28 August 2008, the Company was also authorised to acquire treasury shares of up to 10% of the share capital for purposes other than securities trading until 27 February 2010. The shares can be acquired on the stock exchange or by way of a public bid to all shareholders. The acquisition of shares may be carried out using put or call options. Such share acquisitions are limited to shares of a maximum volume of 5% of the share capital at the time of the resolution on this authorisation by the Annual General Meeting on 28 August 2008. Together with the treasury shares acquired for trading purposes and other reasons held by the Company or assigned to it in accordance with Sections 71a ff. AktG, the treasury shares acquired on the basis of these authorisations may not exceed 10% of the share capital of the Company at any time. The shares acquired may be sold on the stock exchange or in another way, or partially or fully retired at the discrepancy of the Board of Managing Directors. These authorisations were not used in the 2008/09 financial year.

By a resolution of the Extraordinary General Meeting held on 25 March 2009, the Board of Managing Directors was authorised – with the approval of the Supervisory Board – to increase the Company's share capital by up to € 247,499,996.16 in return for cash or non-cash payments until 24 March 2014 by issuing up to 96,679,686 new shares. This authorisation allows shareholders' legal subscription right to be exempted with the approval of the Supervisory Board. Recessionary and revocation claims have been brought against this resolution on which a verdict has not yet been reached.

By a further resolution of the Extraordinary General Meeting held on 25 March 2009, the Board of Managing Directors was authorised to issue convertible and option certificates and convertible and/or option bonds with a total nominal value of € 900,000,000.00 by 24 March 2014 and to grant the bearers of these bonds conversion or option rights to shares in the Company with a share of up to € 618,749,990.40 in the share capital according to the relevant bond conditions. The remaining authorisation to issue convertible and/or option bonds of up to € 776,328,929.28 was revoked by resolution of the Annual General Meeting on 25 March 2009. Recessionary and revocation claims have been brought against these resolutions, on which a verdict has not yet been reached.

The Federal Republic of Germany has a stake of 80% in KfW Bankengruppe, Frankfurt am Main, which held 45.48% of the voting rights in IKB AG directly and indirectly through its 100% subsidiary KfW Beteiligungsholding GmbH, Frankfurt am Main as at 24 October 2008. On 24 October 2008, the share of voting rights held directly and indirectly through KfW Beteiligungsholding GmbH in the KfW Bankengruppe increased to 90.81%. Since 29 October 2008, this 90.81% share of voting rights has been held directly by LSF6 Europe Financial Holdings, L.P. (Delaware), Dallas, USA, and indirectly by LSF6 Europe Partners, LLC (Delaware), Dallas, USA, Lone Star Europe Holdings, L.P. (Bermuda), Hamilton, Bermuda, Lone Star Europe Holdings, Ltd. (Bermuda) Hamilton, Bermuda, and Mr John P. Grayken, USA. As a result of the exercise of conversion rights from bonds in the Company by the subsidiary of the Lone Star group, LSF6 Rio S.à.r.l., Luxembourg, on 2 July 2009, the share of the voting rights held by the Lone Star group shall increase slightly with the issue of subscribed shares to 91.5%.

On 24 October 2008, the share of voting rights held by the Stiftung zur Förderung der Forschung für die gewerbliche Wirtschaft (Stiftung Industrieforschung), Cologne, fell short of the 10% threshold for obligatory disclosure.

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

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

## Report of the Board of Managing Directors on the disclosures in accordance with Section 289 (4) HGB

In the management report for the Company, the Board of Managing Directors made disclosures in accordance with Section 289 (4) HGB, as explained below.

The composition of the share capital is based on Article 5 of the Articles of Association. The Company has only issued ordinary shares. There are no preference shares or special rights for individual shareholders.

With regard to the expiry of the two authorisations on 27 February 2010 for the acquisition and sale of treasury shares for the purpose of securities trading and for other purposes, the Board of Managing Directors intends to request the Annual General Meeting in 2009 to issue new authorisations of a similar type.

With LSF6 Europe Financial Holdings L.P., a company of the Lone Star financial investor, IKB has a main shareholder that supports a continued focus on the medium and long-term financing of German small and medium-sized enterprises with an extended range of services offered to Corporate Clients.

The appointment and dismissal of members of the Board of Managing Directors is in accordance with the provisions of the law and the Articles of Association. In accordance with the by-laws of the Supervisory Board, the Supervisory Board appoints the Chairman of the Board of Managing Directors from the members of the Board of Managing Directors. Changes to the Articles of Association are facilitated to legally permissible extent.

## Disclosures in accordance with Section 312 AktG

IKB has produced a dependent company report in accordance with Section 312 AktG. The dependent companies 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."

Dusseldorf, 9 July 2009

IKB Deutsche Industriebank AG  
The Board of Managing Directors



# Annual Financial Statements of IKB Deutsche Industriebank AG

- Balance Sheet
- Profit and Loss Account
- Notes

## Balance sheet of IKB Deutsche Industriebank AG

Assets	in €* in € thousand*	in € thousand*	31 March 2009 in €	31 March 2008 in € thousand
<b>1. Cash reserve</b>				
a) Cash-in-hand			21 313.49	35
b) Balances with central banks			3 859 084.61	308 393
of which: with Deutsche Bundesbank	3 643 622.91	(308 300)		
c) Balances in postal giro accounts			58 649.24	78
			<b>3 939 047.34</b>	<b>308 506</b>
<b>2. Loans and advances to banks</b>				
a) Payable on demand			1 518 983 575.56	1 603 477
b) Other loans and advances			4 784 215 419.41	6 673 542
			<b>6 303 198 994.97</b>	<b>8 277 019</b>
<b>3. Loans and advances to customers</b>			<b>24 462 166 390.00</b>	<b>26 064 685</b>
of which: Loans to local authorities	1 969 443 266.62	(2 256 520)		
<b>4. Debt securities and other fixed-income securities</b>				
a) Bonds and notes				
aa) Public-sector issuers			1 453 369 899.47	1 236 004
ab) Other issuers			10 658 074 081.69	10 876 333
			12 111 443 981.16	12 112 337
of which: eligible as collateral with Deutschen Bundesbank	7 967 480 000.00	(6 618 081)		
of which: Public-sector issuers	1 149 980 000.00	(918 354)		
of which: Other issuers	6 817 500 000.00	(5 699 728)		
b) eigene Schuldverschreibungen			315 955 984.25	190 863
Nennbetrag	324 078 973.02	(200 884)		
			<b>12 427 399 965.41</b>	<b>12 303 200</b>
<b>5. Equities and other non- fixed-income securities</b>			<b>182 343 703.89</b>	<b>181 849</b>
<b>6. Investments</b>			<b>12 881 926.27</b>	<b>12 882</b>
of which: Interests in banks	262 885.64	(263)		
<b>7. Investments in affiliated companies</b>			<b>893 265 709.64</b>	<b>977 813</b>
of which: Interests in banks	323 605 374.00	(192 520)		
of which: Interests in financial services providers	0.00	(40 000)		
<b>8. Trust assets</b>			<b>937 686.58</b>	<b>1 288</b>
of which: Trustee loans	887 686.58	(1 127)		
<b>9. Intangible assets</b>			<b>9 319 927.16</b>	<b>14 996**</b>
<b>10. Tangible assets</b>			<b>18 454 122.35</b>	<b>27 285**</b>
<b>11. Other assets</b>			<b>678 259 104.63</b>	<b>1 712 789</b>
<b>12. Deferred taxes</b>			<b>86 600 000.00</b>	<b>–</b>
<b>13. Prepaid expenses</b>			<b>90 753 107.87</b>	<b>94 102</b>
<b>Total assets</b>			<b>45 169 519 686.11</b>	<b>49 976 414</b>

\* in parentheses: figures for the previous year

\*\* Figure for the previous year restated as described in the notes

## as of 31 March 2009

Equity and liabilities	in €*	in € thousand*	31 March 2009 in €	31 March 2008 in € thousand
<b>1. Liabilities to banks</b>				
a) Payable on demand			65 797 219.64	134 316
b) with agreed term or period of notice			15 966 505 455.67	18 761 159
			<b>16 032 302 675.31</b>	<b>18 895 475</b>
<b>2. Liabilities to customers</b>				
a) Other liabilities				
<i>aa) Payable on demand</i>			909 687 666.59	256 912
<i>ab) with agreed term or period of notice</i>			5 977 378 526.74	6 606 822
			<b>6 887 066 193.33</b>	<b>6 863 734</b>
<b>3. Securitised liabilities</b>				
a) Bonds issued			<b>14 272 313 931.02</b>	<b>18 418 648</b>
<b>4. Trust liabilities</b>			<b>937 686.58</b>	<b>1 288</b>
of which: Trustee loans	887 686.58	(1 127)		
<b>5. Other liabilities</b>			<b>2 487 906 418.54</b>	<b>491 272</b>
<b>6. Deferred income</b>			<b>178 522 651.84</b>	<b>166 148</b>
<b>7. Provisions</b>				
a) Provisions for pensions and similar obligations			160 560 546.35	154 761
b) Tax provisions			86 990 796.49	93 678**
c) Other provisions			1 087 670 050.16	1 273 599**
			<b>1 335 221 393.00</b>	<b>1 522 038</b>
<b>8. Subordinated liabilities</b>			<b>1759 009 182.31</b>	<b>1 790 233</b>
<b>9. Profit participation capital</b>			<b>186 799 363.92</b>	<b>301 165</b>
of which:				
Due within two years	41 348 335.12	(49 281)		
<b>10. Fund for general banking risks</b>			<b>189 620 816.45</b>	<b>189 620</b>
<b>11. Equity</b>				
a) Subscribed capital			1 497 794 332.16	247 794
Contingent capital:	123 749 998.08	(14)		
b) Silent partnership contributions			70 128 920.14	210 866
c) Capital reserve			1 649 201 194.97	1 649 201
d) Revenue reserve				
<i>da) Legal reserve</i>			2 398 573.84	2 399
<i>db) Other revenue reserves</i>			0.00	502 493
			2 398 573.84	504 892
e) Net accumulated losses			-1 379 703 647.30	-1 275 950
			<b>1 839 819 373.81</b>	<b>1 336 803</b>
<b>Total equity and liabilities</b>			<b>45 169 519 686.11</b>	<b>49 976 414</b>
<b>1. Contingent liabilities</b>				
a) Contingent liabilities from discounted forwarded bills			52 705.74	121
b) Liabilities from guarantees and indemnity agreements			4 406 278 063.04	5 362 964
			<b>4 406 330 768.78</b>	<b>5 363 085</b>
<b>2. Other obligations</b>				
a) Irrevocable loan commitments			<b>2 750 658 783.64</b>	<b>4 100 834</b>

\* in parentheses: figures for the previous year

\*\* Figure for the previous year restated as described in the notes

## Income statement of IKB Deutsche Industriebank AG

Expenses	in €	in € thousand*	2008/2009 in €	2007/2008 in € thousand
<b>1. Interest expenses</b>			<b>6 270 435 845.75</b>	<b>5 472 021</b>
<b>2. Commission expenses</b>			<b>22 802 878.93</b>	<b>25 772</b>
<b>3. Net expenditure on financial operations</b>			<b>–</b>	<b>4 056</b>
<b>4. General administrative expenses</b>				
a) Personnel expenses				
aa) Wages and salaries			116 341 434.63	118 110
ab) Compulsory social security contributions and expenses for pensions and other employee benefits			28 347 963.57	36 802
of which: pension expenses	14 939 798.30	(22 121)		
			144 689 398.20	154 911
b) Other administrative expenses			166 243 321.96	158 466
			<b>310 932 720.16</b>	<b>313 377</b>
<b>5. Amortisation/depreciation and write-downs of intangible and tangible assets</b>			<b>7 993 772.40</b>	<b>7 889</b>
<b>6. Other operating expenses</b>			<b>110 225 599.65</b>	<b>29 361</b>
<b>7. Amortisation/depreciation and write-downs of receivables, specific securities and additions to loan loss provisions</b>			<b>1 192 124 846.54</b>	<b>1 492 779</b>
<b>8. Amortisation/depreciation and write-downs investments, interests in affiliated companies and long-term investment securities</b>			<b>656 625 722.26</b>	<b>1 295 840</b>
<b>9. Extraordinary expenses</b>			<b>55 282 662.02</b>	<b>–</b>
<b>10. Reimbursed income taxes</b>			<b>–82 169 244.18</b>	<b>–22 671</b>
<b>11. Other taxes not reported under „Other operating expenses“</b>			<b>1 743 491.95</b>	<b>1 727</b>
<b>Total expenses</b>			<b>8 545 998 295.48</b>	<b>8 620 151</b>
<b>1. Net loss for the year</b>			<b>–861 349 273.11</b>	<b>–1 760 678</b>
<b>2. Loss carryforward from the previous year</b>			<b>–1 275 949 984.96</b>	<b>–</b>
<b>3. Withdrawals from profit participation capital</b>			<b>114 365 319.32</b>	<b>295 594</b>
<b>4. Withdrawals from silent partnership contributions</b>			<b>140 737 115.86</b>	<b>189 134</b>
<b>5. Withdrawals from revenue reserves</b>				
a) from other revenue reserves			502 493 175.59	–
<b>Net accumulated losses</b>			<b>–1 379 703 647.30</b>	<b>–1 275 950</b>

\* in parentheses: figure for the previous year



for the period from 1 April 2008 to 31 March 2009

Income	2008/2009 in €	2007/2008 in € thousand
<b>1. Interest income from</b>		
a) Lending and money market transactions	6 031 584 311.72	5 069 268
b) Fixed-income securities and debt register claims	458 270 136.34	638 909
	<b>6 489 854 448.06</b>	<b>5 708 177</b>
<b>2. Current income from</b>		
a) Equities and other non-fixed income securities	6 722 981.14	6 344
b) Investments	280 416.02	623
c) Interests in affiliated companies	17 033 577.57	–
	<b>24 036 974.73</b>	<b>6 967</b>
<b>3. Income from profit-pooling, profit transfer and partial profit transfer agreements</b>	<b>119 556 540.02</b>	<b>50 856</b>
<b>4. Commission income</b>	<b>109 389 890.85</b>	<b>116 015</b>
<b>5. Net income from financial operations</b>	<b>2 240 708.94</b>	<b>–</b>
<b>6. Income from the reversal of write-downs on investments, interests in affiliated companies and long-term investment securities</b>	<b>5 355 541.00</b>	<b>14 223</b>
<b>7. Other operating income</b>	<b>29 600 612.64</b>	<b>20 719</b>
<b>8. Extraordinary income</b>	<b>904 614 306.13</b>	<b>942 516</b>
<b>9. Net loss for the year</b>	<b>861 349 273.11</b>	<b>1 760 678</b>
<b>Total income</b>	<b>8 545 998 295.48</b>	<b>8 620 151</b>

# Notes

## Notes to the annual financial statements

The annual financial statements of IKB Deutsche Industriebank AG (IKB) for the 2008/09 financial year were 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).

## Accounting policies

### Receivables

Loans and advances to banks and customers are reported at nominal amount less specific and global write-downs (provision for possible loan losses). Differences between the nominal and payment amount are taken to deferred income and prepaid expenses and reversed.

There are global write-downs for deferred credit risks. The calculation of global write-downs is based on past analyses of the credit portfolio and the tax provisions as set out in the circular by the German Federal Ministry of Finance dated 10 January 1994. According to the IDW statement BFA 1/1990 on the recognition of global write-downs for deferred credit risks in the annual financial statements of banks, the calculation of the deferred risk must be multiplied by a factor that allows for the risk observed in the past to be continued into the future. To take into account the anticipated higher future defaults in the wake of the current recession, a recession premium of 55% has been applied to the global write-downs calculated in line with the tax method. This results in an increase in global write-downs of around € 46 million.

### Securities/credit derivatives

Securities as defined in RechKredV are reported under “Bonds and other fixed-income securities” and “Equities and other non-fixed-income securities” (not including shares in affiliated companies and equity investments). If these assets are classified as current assets they are measured at the lower of cost of acquisition and fair value (strict principle of lower of cost or market). On account of the requirement to reverse write-downs under section 280 (1) HGB, such write-downs on securities in previous years were reversed to fair value, not exceeding the amortised cost of acquisition. The securities classified as fixed assets are predominantly the issues of international industrial firms (corporate bonds) and securities from securitisation transactions, particularly in the form of credit-linked notes, which IKB acquired with the intention to hold to maturity.

The securities classified as fixed assets are measured in line with the less strict principle of lower of cost or market value under section 340e (1) HGB in conjunction with section 253 (2) sentence 3 HGB. In cases in which impairment can be assumed to be permanent, securities are written down to the lower of cost or market value. Impairment is not considered permanent for held-to-maturity securities whose fair value is less than the carrying amount on account of strong spread widening as a result of the current market developments with no discernible deterioration in the credit quality of the underlying receivables or on account of liquidity discounts. Therefore they are not written down to the lower fair value. If significant, the differences between the cost and repayment amount (premiums/discounts) are distributed over the remaining term pro rata temporis.

IKB bases its recognition of securities from securitisation transactions – particularly collateralised debt obligations (CDO) and credit-linked notes (CLN) – on the interpretation of the HGB provisions on the recognition of structured products. Such instruments are only recognised separately in line with the statement on accounting of IDW RS HFA 22 “On the uniform or separate recognition of structured financial instruments” when the underlying instrument is linked to a derivative that is subject to risks other than the credit risk of the issuer (embedded derivative). Based on the “IDW position paper on accounting issues in connection with the subprime crisis”, an embedded credit derivative always exists when dealing with a security for which the credit risk of the reference portfolio was transferred to the issuer with a credit default swap (CDS).

If the reference portfolio contains CDSs, the derivatives embedded in structured securities were reported in the accounting notes as contingent liabilities. In the event of permanent impairment of these securities on account 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. If the reference portfolio contains only receivables or securities, the security is recognised as a single asset in line with the general provisions.

If a listed price is available for a security, this is the fair value. IKB again developed the measurement procedures it uses further in the reporting year. The following procedure is used to derive the fair value:

- **Measurement of asset-backed securities (ABS):** If price data from an external data provider exists for the securities after validation these data are used to calculate the fair value after verification. A present value is determined for the remaining securities on the basis of contractually agreed cash flows with spreads for securities with similar risk profiles.
- **Measurement of CDOs referencing ABS securities with subprime shares in particular:** A present value is calculated for these securities on the basis of forecast cash flows. To do so, cash flows are that are influenced in particular by expected defaults, expected losses given default and the option of early loan repayments are estimated for the underlying reference portfolios. Both empirical historical summaries and published estimates by market participants are used. This sufficiently takes into account the current negative market conditions. It was assumed for the expected payments assigned to a specific CDO tranche that repayments of the ABS securities will be assigned to the highest-ranking tranche. In a further step, the individual CDOs are amalgamated to produce a total cash flow. Simplified assumptions regarding the rankings in the CDO contract (“waterfall”) are taken into consideration. In determining the present value for this total cash flow, additional discounts are also recognised for the lack of market liquidity in these securities.

- **Measurement of other CDOs predominantly referencing securities with business risks:** If these CDOs are classified as current assets, their measurement is based on the usual methods used by market participants for CDOs. If CDOs reference other CDOs (CDO<sup>2</sup>), these are initially combined into a single CDO. Any special features are taken into account when determining the lower and upper limits of the loss participation of the single CDO. The key measurement parameters – CDS spreads and correlations for the underlying business risks – were available on the market or were derived from market data and adjusted to any special features of the portfolio structure.

If these CDOs are classified as fixed assets, a fundamental measurement is performed. This is based on simulation calculations that take the expected transaction defaults into account. Historic rates of default adjusted in line with the remaining term of the transactions are used to calculate the expected default.

- **Measurement of first-to-default products:** IKB currently holds five securities with first-to-default agreements that predominantly relate to Southern and Eastern European states. They are measured using measurement models on account of the lack of market prices. They are measured on the basis of credit spreads and recovery rates available on the market and of assumptions of the correlation of financial instrument risks in the reference portfolio.
- **Measurement of collateralised loan obligations:** These securities are measured using measurement models on account of the lack of market prices. The contractually agreed cash flows are discounted with an interest rate adjusted to the risk of the reference receivables. The values calculated here were verified with a credit portfolio model and on the basis of estimates of the fair values of the underlying loans of the collateralised loan obligations. Here, too, sufficient account was taken of the difficult overall economic situation.

Certain securities classified as fixed assets form measurement units with the (interest rate) hedges assigned to these securities with the result that neither a write-down nor a provision for expected losses from executory contracts are recognised for changes in value induced by market interest rates in underlyings or hedges on account of the opposing value development of the hedge. If changes in value are due to a permanent deterioration in the credit rating of the issuer or partner, a corresponding write-down or provision is recognised. In addition, certain trading portfolio derivatives were combined to form measurement units on account of the opposing alignment.

In connection with the use of measurement models to determine fair values, expert estimates, assumptions and subjective management assessments based on the available capital market information and past experience are needed owing to a lack of or implausible market data. If actual developments deviate from expected developments, the forecast uncertainty this entails can lead to different business results, affecting the assets, liabilities, financial position and profit or loss of the Company.

In the financial year, nominally € 659 million of negotiable own debt instruments were bought back. In line with the resolution of the Board of Managing Directors of 24 March 2009, € 367 million of these were called in. The reduction of the securitised liabilities recognised at repayment amount resulted in a profit of € 63.7 million.

### Equity investments and shares in affiliated companies/tangible assets/intangible assets

Shares in affiliated companies and investees and investors are carried at the lower of 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) HGB in conjunction with section 253 (2) sentence 3 HGB. They are only written down to the lower of cost or market value in cases in which impairment can be assumed to be permanent.

Tangible and intangible assets are measured at cost less depreciation and amortisation respectively. Impairment is recognised if expected to be permanent.

Standard software and software licences were reclassified from tangible to intangible assets in the 2008/09 reporting year.

From 1 January 2008, on the basis of the business tax reform that came into effect as of this date, only low-value assets with a net value of up to € 150 were written down in full in the year of their acquisition. Low-value assets with a net value of between € 150 and € 1,000 must now be written down over five years in line with section 6 (2a) of the Einkommensteuergesetz (EStG – German Income Tax Act). The low-value assets are grouped into an annual omnibus item and then written down over five years.

### Repurchase agreements

In genuine repurchasing transactions, the transferred assets are still reported in the balance sheet in line with section 340b (4) HGB and a corresponding liability is recognised against the pension recipient. If IKB itself is the recipient, the pension assets are not recognised and a receivable from the pension provider is recognised in the amount of the assets transferred as collateral.

### Liabilities

Liabilities are carried at the repayment amount. The difference between this and the amount paid in is deferred and reversed in profit or loss.

### Provisions

Provisions for pensions and similar obligations are measured in line with actuarial principles using the 2005G Heubeck mortality tables and an interest rate of 6% with the net present value for future pensions and the present value for current pensions.

Provisions for taxes and uncertain obligations are recognised in the amount of expected utilisation. If required, provisions for anniversary obligations are discounted at 5.5% in line with tax regulations.

In the past two financial years, the pension obligations from pension fund plans 79 and 94, the assets hedging deferred compensation obligations and the deferred income accounts scheme assets were spun off. The assets for pension fund plan 06 were similarly spun off at the start of the 2008/09 financial year. As part of contractual trust arrangements (CTA), IKB separated the assets necessary to meet pension claims from its other company assets and transferred these to a trustee. The assets offsetting these obligations are reported in full under “Equities and other non-fixed-income securities”.

In the financial year, interest on taxes of € 9.8 million (previous year: € 12.1 million) was transferred from tax provisions to other provisions.

### Contingent liabilities

Contingent liabilities are recognised at nominal amount less any recognised provisions.

### Derivatives

As executory contracts, derivative financial transactions (swaps, forwards, options) do not have to be reported on the balance sheet. They are assigned to the banking or the trading book in line with their purpose on conclusion. If derivative financial transactions are assigned to the trading book, they are measured on the basis of current market prices in line with the imparity and realisation principle. Together with balance sheet financial transactions, derivative financial transactions concluded to cover and manage banking book interest and market price risks are subject to the uniform management and measurement of the interest rate risk. Changes in the fair value of these transactions are therefore not shown in the balance sheet.

### Currency translation

Foreign-currency balance sheet and off-balance sheet transactions are translated in line with the principles of section 340h HGB. Foreign-currency fixed assets are translated into euro at historical cost. This does not include securities classified as fixed assets denominated in foreign currency, which are covered separately by liabilities and forwards in the same currency. These securities classified as fixed assets are translated using the reference rate of the European Central Bank (ECB) as of the reporting date.

All other assets, liabilities and outstanding spot transactions denominated in foreign currency are also translated using the ECB reference rate. If forward foreign exchange transactions are concluded to cover interest-bearing balance sheet items, the premiums/discounts on the spot rate are offset in net interest income pro rata temporis. Hedged expenses and income are translated at the contracted forward rate.

Currency translation expenses are shown in the income statement in line with section 340h (2) HGB. In line with section 340h (2) sentence 2 HGB, unrealised income is only included to the extent that it eliminated the above expenses per currency in the income statement.

## Notes on the dissolution of the risk shielding intended for the assumption of risks by KfW Bankengruppe and the bank pool

To avert the situation posing a threat to IKB's existence in the wake of the subprime crisis, KfW Bankengruppe (KfW) carried out various rescue measures, partially with the support of three German banking associations (bank pool).

For a portfolio of particularly risky structured securities held on the balance sheet of IKB and IKB International S.A. with a nominal value of € 3.3 billion (as of 30 September 2007), KfW Bankengruppe, with the support of the bank pool, undertook to offset defaults and losses on disposals of these securities of up to a maximum amount of € 1 billion by way of credit default swaps and a finance guarantee (risk shielding). On 24 July 2008, the risk shielding was dissolved by way of early settlement with KfW. The claim against KfW under the rescue package reported under other assets in the previous year was derecognised accordingly. The premiums paid in the financial year for the assumption of risks and the measurement effects of early settlement were recognised in the extraordinary result.

In addition, agreements were made between KfW Bankengruppe and IKB on the sub-participation of KfW in IKB's risk of default on liquidity lines to Havenrock Ltd. and Havenrock II Ltd. These sub-participation agreements were settled with KfW on 28 October 2008. As a result of the settlement, IKB received an outstanding amount of around US\$ 938.9 million from KfW.

As of the balance sheet date, credit commitments made by IKB to Havenrock Ltd. for a total amount of US\$ 835 million had been utilised in the amount of around US\$ 103.7 million.

The credit commitments of IKB to Havenrock II Ltd. for US\$ 460 million had been utilised in full as of the balance sheet date.

The utilisation of these credit commitments resulted in a write-down of € 905 million offset by extraordinary income from risk shielding by KfW.

## Other special matters

### Mandatory convertible bonds

On account of the authorisation of the Annual General Meeting of IKB on 28 August 2008, IKB issued subordinated bonds of € 123,671,070.72 with a contingent conversion obligation and contingent conversion privilege in denominations of € 23.04. The conditions giving rise to the conversion privilege and the conversion obligation are the discharge of certain investor lawsuits and the entry of the resolution on the contingent capital increase in the commercial register. If these conditions are not satisfied by 12 April 2012, the conversion obligation shall lapse and the bond shall be repayable on 12 April 2014. After the conversion conditions have been satisfied, a conversion privilege and conversion obligation shall exist at any time no later than 12 April 2012 or even earlier if IKB fails to achieve specific regulatory ratios.

An interest rate (A) was agreed for the entire term of the bond. The interest rate A is recognised as an expense. Interest rate B is the correction for the conversion ratio and therefore is only considered at the time of conversion. On the conversion date, the amount less the accrued interest rate B shall be transferred to subscribed capital.

### Registered bond

As of 27 November 2008 and 16 December 2008, IKB issued subordinated, unsecured registered bonds with a ten-year term and the option of early redemption by the issuer. Under IDW RS HFA 22, the redemption right is an embedded derivative and must be recognised separately. The registered bond is measured at nominal amount and reported as a subordinated liability. The option premium implicit in the nominal interest is reported under other assets. Under IDW RS HFA 22, the contra item to the option premium reported under other assets is a prepaid expense. This is reversed proportionately over the term of the bond or until the redemption option is exercised.

### Sonderfonds Finanzmarktstabilisierung (SoFFin – *Special Fund for the Stabilisation of the Financial Market*)

In December 2008, SoFFin granted IKB guarantees for new bonds of up to € 5 billion.

With the liquidity situation at IKB remaining difficult, there were two issues of fixed-income bearer bonds with a volume of € 2.0 billion each January and March 2009 utilising the SoFFin guarantees.

In line with section 253 (1) sentence 2 HGB, the bond is expensed at the nominal value of the repayment amount and reported under securitised liabilities (form 1 RechKredV, item 3.a) on the equity and liabilities side of the balance sheet). The SoFFin guarantee does not affect the measurement of this bond.

The standby fee is reported under interest expenses and the guarantee commission under commission expenses.



### Bacchus 2008-1, Bacchus 2008-2 and REPV-DS

The special-purpose entities Bacchus 2008-1 plc, Dublin, Bacchus 2008-2 plc, Dublin, and REPV-DS Finance 2008-1 GmbH, Frankfurt, were formed to procure liquidity in the 2008/09 financial year. Credit portfolios with a volume of € 1.1 billion were sold to the special-purpose entities Bacchus 2008-1 and Bacchus 2008-2. In return, all the debt instruments of the special-purpose entities were acquired. The transfer to REPV-DS Finance 2008-1 was subject to a condition precedent. The condition precedent has not yet arisen. Under IDW RS HFA 8 "Accounting issues of asset-backed securities structures and similar transactions" a crucial factor in the disposal of receivables in ABS transactions is that credit risks are also transferred to the acquirer in addition to ownership under civil law. For the companies Bacchus 2008-1 and 2008-2, ownership under civil law was transferred to these companies. In the event of the transfer to REPV-DS which is subject to a condition precedent, there is no transfer of civil law ownership to this special-purpose entity. As all the debt instruments were acquired for the companies Bacchus 2008-1 and Bacchus 2008-2 and for REPV-DS GmbH 2008-1, the debt instruments that must primarily bear the losses of the special-purpose entity were acquired, under IDW RS HFA 8 there are agreements in place that prevent the credit risk and thereby economic ownership from passing to the special-purpose entities. The receivables are therefore still reported at IKB. In accordance with IDW RS HFA 8, a corresponding liability is reported in the amount of the purchase price (carrying amount of the receivables) under other liabilities in such cases. The acquired debt instruments of the Bacchus companies were also carried on the face of the balance sheet and reported under bonds and other fixed-income securities as securities classified as fixed assets. One promissory note loan was acquired from REPV-DS GmbH 2008-1, which is also reported in the balance sheet under loans and advances to customers as a subordinated loan. Subsequent measurement is at cost less any impairment.

### Rio Debt Holdings (Ireland) Limited

In December 2008, structured securities and derivatives were transferred to the special-purpose entity Rio Debt Holdings (Ireland) Limited, Dublin. In this context, a non-interest bearing junior loan was granted to this special-purpose entity that participates in the first loss up to its nominal amount and 80% of possible additional proceeds (equity kicker) in connection with the utilisation of the portfolio by the special-purpose entity. Other loans preceding the junior loan were granted by third parties. On account of the amount of the risk retention by granting the junior loan, economic ownership was not transferred to the special-purpose entity in line with IDW RS HFA 8. The transferred securities are therefore still reported in the balance sheet under bonds and other fixed-income securities and measured in line with the provisions for securities classified as fixed assets. Liabilities of the same amount measured using the same policies as the securities are reported under other liabilities. The junior loan is reported under loans and advances to customers and measured in line with the strict principle of lower of cost or market value. On account of IKB's participation in possible additional income in connection with the utilisation of the portfolio, the equity kicker must be recognised and measured separately as an embedded derivative in accordance with IDW RS HFA 22. It is measured in line with the strict principle of lower of cost or market value on the basis of model calculations taking into consideration cash flow forecasts and reported under other assets. Some of the structured securities were transferred to the special-purpose entity by concluding total return swaps. The settlement amounts received were expensed under other liabilities.

### Reclassification of securities from current assets to fixed assets

On account of a change in purpose, securities were reclassified from current assets to fixed assets on the basis of IDW RH HFA 1.014 "Reclassification and measurement of receivables and securities under HGB". In this context, current asset measurement units that include liquidity holdings with swaps were reclassified to fixed assets at carrying amounts. Following reclassification they were measured on the basis of the applicable principles for fixed assets. The volumes and other details of this can be found in the notes to the statement of changes in fixed assets.

### Restructuring

In the matter of state aid from the Federal Republic of Germany for the restructuring of IKB, the EU Commission announced on 21 October 2008 that the state rescue measures that IKB had received since the start of the crisis in July 2007 were approved, subject to conditions and requirements. The radical conditions include a drastic reduction of IKB's business activities, the discontinuation of the Real Estate Finance segment and the closing of several international offices.

Internal projects were initiated to implement the EU conditions and have already commenced their work. New business in the Real Estate Finance segment and in IKB Capital Corporation, New York, was discontinued. Preparations for the transfer of internal functions from the Luxembourg subsidiary slated for closure to the Group headquarters in Düsseldorf were initiated. The units and subsidiaries directly affected by the conditions currently employ almost 300 employees. Furthermore, jobs in other units of the Group could also be affected by the restructuring. Jobs will also be downsized as a result of the planned efficiency enhancement and centralisation measures as well as adjustments in line with the reduced scope of business and streamlining. IKB has concluded a works agreement with the Group Works Council on a balancing of interests. All the key points of this agreement had been negotiated by the balance sheet date and it was signed on 21 April 2009 after the final details had been clarified. The socially responsible headcount reduction was taken into account by the conclusion of a social plan on 21 April 2009. The balancing of interests will be implemented by offering a reasonable job and relocation, compensation for redundancies and termination agreements, early retirement agreements, a transfer agency, a possible move to an external interim employment company and other services.

The obligations of the above restructuring measures and the expected losses from the settlement of continuing obligations was taken into account in the 2008/09 financial year by the recognition of provisions reported as other provisions. The provisions were measured at repayment amount unless these were for uncertain obligations. Provisions for expected losses from executory contracts were discounted. The expenses of the restructuring measures are reported under extraordinary expenses.

## Notes on the balance sheet

### Structure of maturities of selected balance sheet items by remaining term

in € million		Up to three months	Between three months and one year	Between one and five years	More than five years
Loans and advances to banks <sup>1)</sup>					
	31 Mar 2009	4 022	354	219	189
	31 Mar 2008	4 537	1 507	59	571
Loans and advances to customers					
	31 Mar 2009	1 957	2 641	11 818	8 046
	31 Mar 2008	2 630	3 123	10 905	9 407
Liabilities to banks <sup>1)</sup>					
	31 Mar 2009	6 603	1 439	4 962	2 963
	31 Mar 2008	7 577	2 843	4 161	4 180
Liabilities to customers <sup>1)</sup>					
	31 Mar 2009	1 501	837	1 080	2 558
	31 Mar 2008	1 134	1 484	1 184	2 805

<sup>1)</sup> Not including loans and advances or liabilities payable on demand

€ 1,949 million (previous year: € 1,189 million) of the bonds and other fixed-income securities reported in the balance sheet are payable in the following year. € 6.5 billion (previous year: € 8.1 billion) of the bonds issued and reported under securitised liabilities are payable in the following year.

### Fixed assets

in € million	Acquisition/ production cost	Additions	Disposals/ reclassification	Write-downs, cumulative	Write-downs in financial year	Net carrying amounts 31 March 2009	Net carrying amounts 31 March 2008
Tangible assets	62.3	1.0	1.6	43.2	9.1	18.5	27.3
Intangible assets	49.6	0.7	–	41.0	6.4	9.3	15.0
Equity investments	12.9	–	–	–	–	12.9	12.9
Shares in affiliated companies	1 635.8	325.3	152.6	915.3	257.2	893.3	977.8
Fixed-income securities	7 103.0	6 268.8	2 799.5	617.0	370.9	9 955.3	6 719.3
Equities	196.8	7.7	0.0	22.2	8.1	182.3	181.8

Fixed assets include bonds and other fixed-income securities and equities with a volume of € 10.1 billion (previous year: € 6.9 billion). These are predominantly issued by international industrial firms (corporate bonds and credit-linked notes) and CDOs and ABS bonds acquired with the intention to hold to maturity.

In the financial year, write-downs of € 379.0 million were recognised on fixed-income securities and equities classified in fixed assets. In total, these securities included hidden liabilities on the balance sheet date of € 1,833 million (previous year: € 687 million). These holdings currently have lower fair values as a result in particular of spreads widening following the financial market crisis. IKB does not consider the difference between the fair values (€ 8,305 million) and the carrying amounts (€ 10,138 million) to be permanent impairment and therefore no write-downs have been recognised.

The above securities portfolios include securities with a carrying amount of € 725.6 million that did not lead to a balance sheet disposal in line with the regulations of HFA 8 in the context of the sales transactions with the special-purpose entity Rio Debt Holdings (Ireland) Limited, Dublin. Compared to the current fair values of € 537.1 million, these portfolios included hidden liabilities on the balance sheet date of € 188.5 million. However, the structure of the sale transaction includes the acquisition of a junior loan that limits the loss participation of IKB AG to a total of US\$ 243 million. Any losses from this portfolio in excess of this are borne by LSF Aggregated Lendings S.A.R.L. and KfW.

In the 2008/09 financial year, the Bank reclassified securities portfolios from current to fixed assets at carrying amounts of € 2,893.4 million. Thus, write-downs of € 156.2 million in line with the strict principle of lower of cost or market value were avoided.

The carrying amount of shares in affiliated companies and equity investments did not exceed the fair value.

On 31 March 2009, the carrying amount of land and buildings used for bank operations was € 9.7 million (previous year: € 17.5 million).

The operating and office equipment is included in tangible assets at € 5.9 million (previous year: € 7.0 million). The carrying amounts of standard software of € 0.2 million (previous year: € 1.7 million) and software licences of € 0.3 million (€ 1.3 million) were reclassified to intangible assets.

### Negotiable securities

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

in € million	Total		Listed		Non-listed	
	31 Mar 2009	31 Mar 2008	31 Mar 2009	31 Mar 2008	31 Mar 2009	31 Mar 2008
Bonds and other fixed-income securities	12 390.4	12 240.0	11 242.1	10 955.0	1 148.3	1 285.0
Equity investments	0.0	0.0	0.0	0.0	0.0	0.0
Equities and other non-fixed-income securities	182.3	181.8	0.0	0.0	182.3	181.8
Shares in affiliated companies	292.7	192.5	0.0	0.0	292.7	192.5

### Loans and advances to and liabilities from affiliated companies and wholly owned subsidiaries

in € million	Affiliated companies		Equity investments	
	31 March 2009	31 March 2008	31 March 2009	31 March 2008
Loans and advances to banks	4 597.7	6 567.4	0.0	8.6
Loans and advances to customers	1 737.7	1 771.5	142.2	127.7
Liabilities to banks	1 748.0	2 589.5	0.0	7 911.8
Liabilities to customers	292.5	77.3	0.0	0.4
Subordinated liabilities	700.3	475.1	0.0	0.0

The subordinated liabilities include a registered bond in the amount of € 101.5 million and a convertible bond of € 123.7 million, € 123.5 million of which was assumed by the special-purpose entity LSF6 Rio S.a.r.l., Luxembourg, and transferred to LSF6 Europe Financial Holdings L.P., Dallas, by way of agreement dated 4 June 2009.

Furthermore, there were receivables from affiliated companies of € 137.6 million (previous year: € 39.8 million) reported under other assets as of 31 March 2009. There were no other assets relating to subsidiaries as of the balance sheet date (previous year: € 918 million).

### Trust activities

in € million	31 March 2009	31 March 2008
Loans and advances to customers	0.8	1.1
Equity investments	0.1	0.2
<b>Trust assets</b>	<b>0.9</b>	<b>1.3</b>
Liabilities to customers	0.9	1.3
<b>Trust liabilities</b>	<b>0.9</b>	<b>1.3</b>

The loans and advances to customers under trust assets are predominantly 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.

### Subordinated assets

Subordinated assets are included in the following asset items:

in € million	31 March 2009	31 March 2008
Loans and advances to banks	150.0	150.3
Loans and advances to customers	891.1	710.5

### Repurchase agreements

As a pension provider, securities with a nominal value of € 732.0 million were transferred as of the reporting date. In addition, as a pension recipient, IKB received securities with a nominal value of € 158.1 million that it is authorised to sell on or to re-assign. As of the reporting date, this resulted in loans and advances to banks of € 127.9 million. IKB has utilised € 106.0 million of its authorisation to re-assign these assets. In line with the usual conditions for repo agreements, there is a return obligation in the same amount for the securities received. This collateral was reassigned in repo agreements.

### Foreign-currency assets and liabilities

The currency volumes translated into euro are shown in the table below. The differences between the assets and the liabilities are largely hedged by currency hedges.

in € million	31 March 2009	31 March 2008
Assets	10 600.9	10 472.5
Liabilities	9 278.6	6 508.0

## Other assets and other liabilities

The significant items under other assets are:

in € million	31 March 2009	31 March 2008
Deferred interest on derivative transactions	407	485
Receivables from affiliated companies	138	40
Receivables from tax authorities	48	42
Rio Debt Holdings equity kicker	48	–
Premiums paid in derivative transactions	18	18
Deferred tax asset from KfW for risk shielding	–	919

The significant items under other liabilities are:

in € million	31 March 2009	31 March 2008
Liabilities to special-purpose entities	1 899	–
Deferred interest on derivative transactions	411	421
Liabilities to KfW	75	–
Option premiums received	49	24
Interest liabilities from subordinate liabilities	26	22

The increase in “Other liabilities” is due to the reporting of liabilities from special-purpose entities due to the non-disposal of credit portfolios and securities.

In accordance with IDW RS HFA 8, this item includes liabilities of € 1,974 million offset by securities holdings in the same amount as collateral as defined by section 285 no. 1 b), 2 HGB.

## Prepaid expenses and deferred income

Differences in accordance with section 250 (3) HGB and section 340e (2) sentence 3 HGB (discounts on liabilities recognised at nominal value) are reported at € 72 million (previous year: € 73 million) under prepaid expenses.

Deferred income essentially includes € 107 million (previous year: € 92 million) in deferred interest income from structured securities and € 43 million (previous year: € 43 million) in differences in accordance with section 250 (2) HGB and section 340e (2) sentence 2 HGB (discounts on receivables recognised at nominal value).

## Deferred taxes

Deferred taxes were recognised in line with section 274 HGB for the first time this financial year in the amount of € 86.6 million. This is based solely on the differences between the financial accounts and the tax accounts that will reverse in subsequent years, particularly for provisions for expected losses for embedded derivatives (CDS) recognised in the financial accounts but not in the tax accounts.

### Subordinated liabilities

The subordinated liabilities are own funds as defined by the Kreditwesengesetz (KWG – German Banking Act) and therefore count in the amount of € 1,749 million as eligible equity and in the amount of € 6 million as Tier III funds. There is no early repayment obligation. In the event of insolvency or liquidation, they can only be repaid after all non-subordinated creditors. Participation in the losses of operating activities is not provided for here; interest is owed and paid regardless of the Bank's net profit or loss for the year.

The subordinated liabilities amount to € 1.8 billion (previous year: € 1.8 billion). Interest expenses on these amounted to € 96.1 million in the financial year (previous year: € 96.7 million).

Individual items exceeding 10% of the total amount:

Year of issue	Carrying amount in € million	Issue currency	Interest rate in %	Maturity
2003/2004	310.0	EUR	4.50	9 July 2013
2004/2005	400.0	EUR	4.25	29 July 2033

### Profit participation capital

After loss allocation, profit participation capital amounted to € 186.8 million as of the balance sheet date (previous year: € 301.2 million). € 141.4 million of this amount (previous year: € 247.9 million) meets the requirement of section 10 (5) KWG and therefore serves to increase liable equity. The nominal value as of the balance sheet date was € 596.8 million (previous year: € 596.8 million). In line with terms and conditions, profit participation capital participates fully in the net loss for the year or net accumulated losses. Depending on the issue, interest payments are only made in conjunction with existing net retained profits or net income for the year. The claims of profit participation certificate bearers to capital repayment are subordinate to the claims of other creditors.

The loss participation of profit participation certificate bearers or the replenishment of profit participation capital is 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 carryforward) 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 repayment claims of the remaining profit participation were reduced by € 114.4 million on account of the loss participation of the Bank's profit participation capital stipulated in the terms and conditions of the profit participation capital.

The profit participation certificates break down as follows:

Year of issue	Original nominal value in € million	Issue currency	Interest rate in %	Maturity
1997/1998	102.3	DM	7.05	31 March 2009
1999/2000	20.0	EUR	7.23	31 March 2010
2001/2002	100.0	EUR	6.50	31 March 2012
2001/2002	74.5	EUR	6.55	31 March 2012
2004/2005	30.0	EUR	4.50	31 March 2015
2005/2006	150.0	EUR	3.86	31 March 2015
2006/2007	50.0	EUR	4.70	31 March 2017
2007/2008	70.0	EUR	5.63	31 March 2017

No interest was incurred on profit participation certificates for the 2008/09 financial year (previous year: € 2.3 million). Without the net loss for the year or net accumulated losses, interest of € 27.9 million would have been payable on profit participation certificates in the 2008/09 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. The profit participation certificates must satisfy the requirements of the German Banking Act, under which the capital paid in to grant the profit participation certificates is attributable to liable equity. Bearer option rights 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 entitle bearers to subscribe to bearer shares in the Company. This has not yet been entered in the commercial register.

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.

## Development of capital

### 1. Treasury shares

The resolution of the Annual General Meeting on 28 August 2008 authorised the Company to acquire and sell treasury shares for the purpose of securities trading up to 27 February 2010. The amount of shares acquired for this purpose cannot exceed 5% of the share capital at the end of any one day. Together with the treasury shares acquired for other reasons held by the Company or assigned to it in accordance with sections 71a ff. AktG, the treasury shares acquired on the basis of this authorisation cannot exceed 10% of the share capital at any time. This authorisation was not utilised in the 2008/09 financial year.

The Annual General Meeting on 28 August 2008 authorised the Company to acquire treasury shares of up to 10% of the share capital for purposes other than securities trading until 27 February 2010. They can be acquired on the stock exchange or by way of a public bid to all shareholders, including the limited use of put or call options. Together with the treasury shares acquired for trading purposes and other reasons held by the Company or assigned to it in accordance with sections 71a ff. AktG, the treasury shares acquired on the basis of this authorisation cannot exceed 10% of the share capital of the Company at any time. In line with a decision by the Board of Managing Directors, the acquired shares can be sold on the stock exchange or in some other way or, in full or in part, called in. This authorisation was not utilised in the 2008/09 financial year.

No treasury shares were held in the 2008/09 financial year, not were there any additions or disposals of the same.

### 2. Equity

On 27 March 2008, the Annual General Meeting of IKB resolved a capital increase against cash contributions by up to € 1,486,765,992.96 from € 247,794,332.16 to up to € 1,734,560,325.12, granting subscriptions rights to shareholders. The new shares were offered to the shareholders of the Company in the period from 29 July 2008 to 11 August 2008 at € 2.56 per new share. KfW Bankengruppe subscribed to a total of 487,288,757 new shares while other shareholders subscribed to 992,493 new shares at € 2.56 per share. Therefore, the number of new shares issued was 488,281,250.

The resolved and implemented capital increase was entered in the commercial register on 24 October 2008. As a result, the subscribed capital (share capital) increased by € 1,250,000,000.00 from € 247,794,332.16 to € 1,497,794,332.16 in the 2008/09 financial year. The subscribed capital (share capital) is divided into 585,075,911 (previously: 96,794,661) bearer shares.

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 shares until 27 August 2013. With the approval of the Supervisory Board, the statutory subscription rights of shareholders can be disappplied under this authorisation. This authorisation was not utilised in the 2008/09 financial year. The authorised capital was entered in the commercial register on 3 November 2008.

By way of resolution of the Extraordinary General Meeting on 25 March 2009, the Board of Managing Directors was authorised, with the approval of the Supervisory Board, to increase the share capital of the Company by a total of up to € 247,499,996.16 against cash or non-cash contributions by issuing up to 96,679,686 new shares until 24 March 2014. With the approval of the Supervisory Board, the statutory subscription rights of shareholders can be disapplied under this authorisation. Several actions for annulment have been brought against this resolution that have not yet been resolved.

By way of resolution of the Annual General Meeting on 9 September 2004, the Board of Managing Directors was authorised, with the approval of the Supervisory Boards to issue convertible and option bonds with a total nominal amount of up to € 300,000,000 and to grant the bearers of these bonds conversion and option rights to shares of IKB with a share of capital of up to € 22,528,000.00 until 8 September 2009. This authorisation and the associated contingent capital were utilised in the 2008/09 financial year.

By way of resolution of the Annual General Meeting on 28 August 2008, the Board of Managing Directors was also authorised to issue convertible and option bonds with a total nominal amount of up to € 900,000,000.00 with a term of not more than 20 years and to grant the bearers of these bonds conversion and option rights to shares of the Company with a share or capital of up to € 123,749,998.08 in line with the respective terms and conditions of the bonds until 27 August 2013. The residual authorisation to issue convertible and option bonds of up to € 245,700,000.00 and the associated contingent capital of up to € 13,667.84 were revoked by way of resolution of the Annual General Meeting on 28 August 2008.

Utilising the authorisation of 28 August 2008, on 19 November 2008 the Board of Managing Directors of the Company resolved to issue subordinated bonds with a total nominal amount of up to € 123,671,070.72 with a contingent conversion obligation and contingent conversion privilege to up to 48,309,012 shares of the Company from the contingent capital with the subscription rights of shareholders in place. The basic conditions for the conversion obligation and the conversion privilege to arise are that the action for annulment against the authorisation of 28 August 2008 and that the contingent capital relating to the authorisation is effectively entered in the commercial register of the Company. The contingent increase in share capital was entered in the commercial register on 15 October 2008. The convertible bonds were offered to the shareholders of the Company in a public subscription offering in the period from 24 November 2008 to 8 December 2008. A subsidiary of the Lone Star group, LSF6 Rio S.a.r.l., Luxembourg, had undertaken to assume all bonds not subscribed to by other IKB AG shareholders. The shareholders of the Company subscribed to and assumed total bonds of € 150,174.72 and LSF6 Rio S.a.r.l., Luxembourg, subscribed to and assumed the remainder of € 123,520,896.00. A bond of nominally € 23.04 entitles the bearer to subscribe to nine new shares from contingent capital at a conversion price of € 2.56 per share. The conditions for the conversion obligation and the conversion privilege to arise were met on 1 July 2009 and LSF6 Rio S.à.r.l. announced the conversion of the shares it had purchased on 6 July 2009. A conversion obligation shall exist on no later than 12 April 2012 or earlier if IKB fails to achieve specific regulatory ratios.

By way of a further resolution by the Extraordinary General Meeting on 25 March 2009, the Board of Managing Directors was authorised to issue convertible and option certificates and convertible and option bonds with a total nominal amount of up to € 900,000,000.00 and to grant the bearers of profit participation certificates or bonds conversion or option rights to shares of the Company with a share of capital of up to € 618,749,990.40 in line with the respective terms and conditions of the bonds until 24 March 2014. The residual authorisation to issue convertible and option bonds of up to € 776,328,929.28 was revoked by way of resolution of the Extraordinary General Meeting on 25 March 2009. Actions for annulment have been brought against this resolution that have not yet been resolved.

### 3. Capital reserves

The capital reserves were reported unchanged at € 1,649.2 million in the financial year.

€ 1,050 million of this relates to amounts appropriated to the capital reserves in the past financial year in accordance with section 272 (2) no. 4 HGB on account of the debt waiver on two loans by KfW with compensation from future profits which were treated as other additional contributions. In the context of the disposal of IKB shares held by KfW to LSF6 Europe Financial Holdings L.P. as of 29 October 2008, the rights to the compensation from future profits were also transferred and subsequently assigned to LSF6 Rio (Ireland) Limited, Dublin. The claims to compensation from future profits arising from the capital measure take precedence over the claims of the bearers of profit participation certificates and the silent partner contributions of IKB. Claims shall only arise in a financial year if and to the extent that IKB does not report a net loss for the year in its single entity HGB financial statements after these have been served and the regulatory equity ratio is above 9% at the level of the Bank as a single entity. Interest shall only be incurred for financial years such as these and to the extent that IKB does not report a net loss for the year in its single entity HGB financial statements after – possibly only partially – serving the claims to compensation from future profits.

### 4. Revenue reserves

Other revenue reserves were released and offset against the net loss for the year and the loss carryforward.

### 5. Hybrid capital instruments

As of 31 March 2009, the hybrid Tier I capital after loss allocation amounted to € 70.1 million (previous year: € 210.9 million). It meets the requirements of section 10 (4) KWG and is therefore attributed to regulatory Tier I capital. Its nominal value is unchanged at € 400 million.

The term hybrid capital instruments includes issues in the form of asset contributions by silent partners. These contributions by silent partners – which otherwise have unlimited terms – can only be cancelled by the issuers. They cannot be cancelled before 2013 and 2014 respectively and only then if the repayment value has returned to the original nominal value of the contribution.

In addition, in the event of insolvency, silent partner contributions can only be repaid after all subordinated liability and profit participation certificate issues have been served.

The loss ratio is calculated by the ratio of the silent partner contribution to balance sheet equity including profit participation certificates. The repayment claims of the silent partners were reduced by € 140.7 million in the financial year as a result of the loss participation. The replenishment of the repayment amount after a loss participation is expressly provided for when certain conditions are met.

There were no interest expenses on the hybrid capital instruments in the current reporting year (previous year: € 9.6 million).

### Development of capital

in € million	1 April 2008	Withdrawals	Additions	Distribution of annual loss	31 March 2009
<b>a) Subscribed capital</b>					
Share capital	247.8	0.0	1 250.0 <sup>1)</sup>		1 497.8
<b>b) Silent partnership contribution</b>	210.9	-140.7 <sup>2)</sup>	0.0		70.1
	458.7	-140.7	1 250.0	0.0	1 567.9
<b>c) Capital reserves</b>	1 649.2	0.0	0.0	0.0	1 649.2
<b>d) Revenue reserves</b>					
da) Legal reserve	2.4	0.0	0.0	0.0	2.4
db) Other revenue reserves	502.5	-502.5 <sup>3)</sup>	0.0	0.0	0.0
	504.9	-502.5	0.0	0.0	2.4
<b>e) Net accumulated losses</b>	-1 275.9	0.0	0.0	-103.7	-1 379.6
	<b>1 336.8</b>	<b>-643.2</b>	<b>1 250.0</b>	<b>-103.7</b>	<b>1 839.8</b>
Unutilised					
authorised capital	0.0	0.0	500.0	0.0	500.0
contingent capital	0.0	0.0	123.7 <sup>4)</sup>	0.0	123.7

(The table contains rounding differences due to reasons of calculation)

<sup>1)</sup> Implementation of the capital increase in line with AGM resolution of 27 March 2009

<sup>2)</sup> Loss participation of silent partner contributions for 2008/09 financial year

<sup>3)</sup> Full release of revenue reserves as part of appropriation of earnings

<sup>4)</sup> Subordinated convertible bond of € 123.7 million issued on 11 December 2008

In line with the notification submitted to the regulatory authorities as of the balance sheet date, the regulatory own funds as per the German Banking Act amounted to a total of € 3.2 billion (previous year: € 2.5 billion). The calculation of own funds using the balance sheet values produced a value of € 3.0 billion.

### Significant shares in voting rights

The Bank had received the following notifications in accordance with section 21 of the *Wertpapierhandelsgesetz* (WpHG – German Securities Trading Act) as of 31 March 2009:

Date of change	Notifying party	Location	Threshold	Held directly	Held indirectly	Total
24 Oct 2008	Stiftung zur Förderung der Forschung für die gewerbliche Wirtschaft	Cologne	<3%	1.72%		1.72%
24 Oct 2008	Sal Oppenheim jr. & Cie. S.C.A	Luxembourg	<3%		0.5%	0.5%
24 Oct 2008	Sal Oppenheim jr. & Cie. KGaA	Cologne	<3%		0.5%	0.5%
24 Oct 2008	Sal Oppenheim jr. & Cie. Beteiligungen S.A.	Luxembourg	<3%	0.5%		0.5%
24 Oct 2008	The Federal Republic of Germany represented by the Federal Ministry of Finance	Berlin	>75%		90.81%	90.81%
24 Oct 2008	Kreditanstalt für Wiederaufbau	Frankfurt am Main	>75%	83.54%	7.27%	90.81%
24 Oct 2008	KfW Beteiligungsholding GmbH	Frankfurt am Main	<10%	7.27%		7.27%
29 Oct 2008	The Federal Republic of Germany represented by the Federal Ministry of Finance	Berlin	<3%		0%	0%
29 Oct 2008	Kreditanstalt für Wiederaufbau	Frankfurt am Main	<3%	0%	0%	0%
29 Oct 2008	KfW Beteiligungsholding GmbH	Frankfurt am Main	<3%	0%		0%
29 Oct 2008	John P. Grayken	USA	>75%		90.81%	90.81%
29 Oct 2008	Lone Star Europe Holdings, Ltd. (Bermuda)	Hamilton (Bermuda)	>75%		90.81%	90.81%
29 Oct 2008	Lone Star Europe Holdings, L.P. (Bermuda)	Hamilton (Bermuda)	>75%		90.81%	90.81%
29 Oct 2008	LSF6 Europe Partners, L.L.C. (Delaware)	Dallas (Texas)	>75%		90.81%	90.81%
29 Oct 2008	LSF6 Europe Financial Holdings, L.P. (Delaware)	Dallas (Texas)	>75%	90.81%		90.81%

## Contingent liabilities/other obligations

<b>Contingent liabilities</b> in € million	31 March 2009	31 March 2008
Guarantees, warranties, other	4 084.9	5 060.0
Assumptions of liability	321.4	303.1
<b>Total</b>	<b>4 406.3</b>	<b>5 363.1</b>

<b>Other obligations</b> in € million	31 March 2009	31 March 2008
Commitments up to one year	1 186.5	1 884.2
Commitments of more than one year	1 564.1	2 216.6
<b>Total</b>	<b>2 750.6</b>	<b>4 100.8</b>

On the balance sheet date, credit default swaps (Bank as pledgor) are also included under guarantees and warranties under the “Contingent liabilities” item. Here, IKB has assumed the default risk for a pre-defined credit event for specific credit portfolios.

Furthermore, derivative components of structured products (CDS) reported under “Bonds and other fixed-income securities” are also included in the item “Liabilities from guarantee and warranty agreements” at € 2.8 billion (previous year: € 3.1 billion). Provisions of € 0.8 billion (previous year: € 0.7 billion) were recognised for these products as part of the measurement of embedded CDS transactions reported off-balance sheet.

€ 149.6 million was reclassified to assumptions of liability from the previous year’s figure for guarantees, warranties, other.

## Notes on the income statement

### Income by geographical market (section 34 (2) RechKredV)

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

in € million	2008/09	2007/08
Federal Republic of Germany	4 415.7	4 040.4
Europe not including Germany	2 359.0	1 862.3
<b>Total</b>	<b>6 774.7</b>	<b>5 902.7</b>

Income is allocated to geographical regions on the basis of the head office of operations.

### Administrative and brokerage services for third parties

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

### Other operating income

The other operating income essentially includes Group overheads of € 5.9 million and income from the reversal of provisions of € 11.6 million (previous year: € 3.1 million).

It also includes the early reversal of a CDS transaction that led to the recognition of the full amount of € 15.4 million. However, this effect was offset by an equalisation payment of € 8.3 million, as a result of which the overall effect of the transaction was € 7.1 million.

### Other operating expenses

This item essentially includes the following:

in € million	2008/09	2007/08	Change
Addition to provision for loss of IKB Capital Cooperation	94.5	–	94.5
Rental expenses	5.2	4.3	0.9
Addition to provision for land transfer tax payment Movesta Lease and Finance GmbH	5.0	–	5.0
Catering, entertainment and canteen expenses	1.2	1.3	–0.1
Addition to provision for shareholder lawsuits	1.1	15.0	–13.9



### Extraordinary expenses

The earnings effect of the transfer to provisions as part of the restructuring measures is reported under “Extraordinary expenses”. In total, the expenses for the restructuring in the reporting period amounted to € 43.1 million. This includes expenses for the termination of employment agreements, provisions for vacancy costs in rental premises and for early retirement obligations. This item also includes extraordinary write-downs of € 7.5 million for buildings used for banking operations in Leipzig and Munich. Furthermore, it includes a net figure of € 4.7 million from the settlement of risk shielding, consisting of the expenses of risk shielding and the reimbursement of costs to KfW of € 29.7 million and the opposing interest effect of the early settlement of risk shielding of € 25.0 million.

### Prior-period expenses

The administrative expenses include a repayment of the Deposit Protection Fund for the prior financial year of € 3.1 million.

### Extraordinary income

This item includes the earnings effect of € 905 million arising from the KfW risk shielding for the Havenrock exposure. This was offset by write-downs on credit receivables from Havenrock in the same amount.

### Reimbursed income taxes

Income from taxes on income of € 82.2 million (previous year: € 22.7 million) was incurred in the reporting year.

On account of the loss situation, IKB is not currently incurring any current taxes. Outside Germany, the carryback of tax losses to previous years has resulted in some income. Taxes on income relate in full to ordinary activities.

## Other disclosures

List of shareholdings in accordance with section 285 no. 11 and 11a HGB and section 313 (2) HGB [excerpt]	Letter of comfort	Equity interest in %	Equity in € thousand	Result in € thousand
<b>1. Foreign banks</b>				
IKB International S.A., Luxembourg	x	100.0	183 133	-272 972
<b>2. Other German companies</b>				
IKB Beteiligungen GmbH, Düsseldorf	x	100.0	475 710	0 <sup>1)</sup>
IKB Data GmbH, Düsseldorf	x	100.0	20 000	0 <sup>1)</sup>
IKB Grundstücks GmbH, Düsseldorf	x	100.0	113	10
IKB Grundstücks GmbH & Co. Objekt Degerloch KG, Düsseldorf <sup>5)</sup>	x	100.0	1 977	-4 697
IKB Grundstücks GmbH & Co. Objekt Hamburg KG, Düsseldorf <sup>5)</sup>	x	100.0	-746	-3 061
IKB Grundstücks GmbH & Co. Objekt Holzhausen KG, Düsseldorf <sup>5)</sup>	x	100.0	3 678	-6 302
IKB Grundstücks GmbH & Co. Objekt Uerdinger Straße KG, Düsseldorf <sup>5)</sup>	x	100.0	8 699	25
IKB Immobilien Management GmbH, Düsseldorf	x	75.0	2 295	507
IKB Projektentwicklung GmbH & Co. KG, Düsseldorf <sup>5)</sup>	x	100.0	40 467	6 641
IKB Projektentwicklungsverwaltungsgesellschaft mbH, Düsseldorf	x	100.0	28	2
IMAS Grundstücks-Vermietungsgesellschaft mbH, Düsseldorf	x	100.0	2 442	120
ISTOS Beteiligungsverwaltungs- und Grundstücksvermietungsgesellschaft mbH, Düsseldorf	x	100.0	55	14
ISTOS Erste Beteiligungsverwaltungs- und Grundstücksvermietungsgesellschaft mbH & Co. KG, Düsseldorf <sup>5)</sup>	x	100.0	40	-5
ISTOS Zweite Beteiligungsverwaltungs- und Grundstücksvermietungsgesellschaft mbH & Co. KG, Düsseldorf <sup>5)</sup>		100.0	193	-115
ISTOS Dritte Beteiligungsverwaltungs- und Grundstücksvermietungsgesellschaft mbH & Co. KG, Düsseldorf <sup>5)</sup>		100.0	245	26
TUSSA Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Wilhelm-Bötzkes-Straße KG, Eschborn		100.0	1	2 751.1 <sup>6)</sup>
IKB Credit Asset Management Verwaltungs GmbH, Düsseldorf		100.0	25	0 <sup>6)</sup>
ICCO Grundstücks-Vermietungsgesellschaft mbH, Düsseldorf <sup>3)</sup>	x	100.0	46	2
ICCO Grundstücks-Vermietungsgesellschaft mbH & Co. KG, Düsseldorf <sup>3) 5)</sup>	x	100.0	193	-24
ISOS Grundstücks-Vermietungsgesellschaft mbH, Düsseldorf <sup>3)</sup>	x	100.0	46	2
ISOS Grundstücks-Vermietungsgesellschaft mbH & Co KG, Düsseldorf <sup>3) 5)</sup>	x	100.0	246	-8
IKB Equity Capital Fund I GmbH & Co. KG, Düsseldorf <sup>3)</sup>	x	99.8	53 966	-3 999
IKB Equity Finance GmbH, Düsseldorf <sup>3)</sup>		100.0	962	2 883
IKB Autoleasing GmbH, Hamburg <sup>3)</sup>	x	100.0	14 000	0 <sup>1)</sup>
IKB Leasing Berlin GmbH, Erkner <sup>3)</sup>	x	100.0	8 000	0 <sup>1)</sup>
IKB Leasing GmbH, Hamburg <sup>3)</sup>	x	100.0	45 000	0 <sup>1)</sup>
IKB Private Equity GmbH, Düsseldorf <sup>3)</sup>	x	100.0	90 000	0 <sup>1)</sup>
Movesta Lease and Finance GmbH, Düsseldorf <sup>3)</sup>		50.0	17 835	3 329
IKB Dritte Equity Suporta GmbH, Düsseldorf <sup>3)</sup>		100.0	2 160	-3 358
IKB Erste Equity Suporta GmbH, Düsseldorf <sup>3)</sup>		100.0	183	158
Linde Leasing GmbH, Wiesbaden <sup>3)</sup>		30.0	25 100	-6 178

<sup>1)</sup> There is a profit transfer agreement in place

<sup>2)</sup> Subordinated letter of comfort

<sup>3)</sup> Indirect interest

<sup>4)</sup> Incl. silent partnership contributions/preferred shares

<sup>5)</sup> Company exercised exemption option under section 264b HGB

<sup>6)</sup> 31 December 2007 or 2007/08 financial year

List of shareholdings in accordance with section 285 no. 11 and 11a HGB and section 313 (2) HGB [excerpt]	Letter of comfort	Equity interest in %	Equity in € thousand	Result in € thousand
<b>3. Other foreign companies</b>				
IKB Capital Corporation, New York		100.0	38 114	-1 637 <sup>6)</sup>
IKB Finance B.V., Amsterdam	x	100.0	4 911	3 541
IKB Funding LLC I, Wilmington, Delaware	x <sup>2)</sup>	100.0	75 997 <sup>4)</sup>	-888
IKB Funding LLC II, Wilmington, Delaware	x <sup>2)</sup>	100.0	402 687 <sup>4)</sup>	-614
IKB Lux Beteiligungen S.á.r.l., Luxembourg	x	100.0	59 265	-5 839
IKB Funding Trust I, Wilmington		100.0	75 068	0
IKB Funding Trust II, Wilmington		100.0	400 001	0
IKB Leasing Austria GmbH, Salzburg <sup>3)</sup>	x	100.0	799	-713
IKB Leasing CR s.r.o., Prague <sup>3)</sup>	x	100.0	2 870	-1 162
IKB Leasing France S.A.R.L., Marne <sup>3)</sup>	x	100.0	1 466	-1 179
IKB Leasing Hungária Kft., Budapest <sup>3)</sup>	x	100.0	267	-1 240
IKB Leasing Polska Sp. z.o.o., Posen <sup>3)</sup>	x	100.0	5 407	391
ZAO IKB Leasing, Moscow <sup>3)</sup>	x	100.0	276	-1 090
IKB Leasing SR, s.r.o., Bratislava <sup>3)</sup>	x	100.0	2 198	-53
IKB Pénzüdyi Lízing Hungária Rt., Budapest <sup>3)</sup>	x	100.0	1 924	548
Still Location S.A.R.L., Marne <sup>3)</sup>	x	100.0	10 473	-1 886
IKB Leasing srl, Bucharest <sup>3)</sup>	x	100.0	-24	-880
IKB Leasing Finance IFN SA, Bucharest <sup>3)</sup>	x	100.0	495	53

<sup>1)</sup> There is a profit transfer agreement in place

<sup>2)</sup> Subordinated letter of comfort

<sup>3)</sup> Indirect interest

<sup>4)</sup> Incl. silent partnership contributions/preferred shares

<sup>5)</sup> Company exercised exemption option under section 264b HGB

<sup>6)</sup> 31 December 2007 or 2007/08 financial year

The full list of shareholdings has been submitted to the electronic Federal Gazette and can be accessed on the Internet site of the Company Register. It can be requested from IKB free of charge.

#### Disclosure of auditor's fees in line with section 285 sentence 1 no. 17 HGB

The following fees were paid for the auditor:

in € million	2008/09	2007/08
Audit of financial statements	4.8	2.0
Other assurance or valuation services	2.6	7.7
Tax advisory services	0.1	0.0
Other services	0.4	0.5
<b>Total</b>	<b>7.9</b>	<b>10.2</b>

The "Audit of financial statements" relates to audit fees for the annual financial statements and the consolidated financial statements of IKB. € 1.7 million of the audit costs relate to the previous year. Other assurance or valuation services include expenses for the fees for the consolidated interim financial statements of IKB as of 30 June 2008 and 30 September 2008 of € 1.2 million.

### Other financial obligations

There is a proportionate obligation to make additional contributions with respect to Liquiditäts-Konsortialbank GmbH, Frankfurt am Main, in accordance with section 26 of the *Gesetz betreffend die Gesellschaften mit beschränkter Haftung* (GmbHG – German Limited Liability Companies Act). IKB also has a proportionate contingent liability for the fulfilment of the obligation to make contributions of other members of the Association of German Banks. Given the current market situation, the expenses of this are not foreseeable.

In February 2008, compensation payments to the investors of Lehman Brothers Bankhaus Aktiengesellschaft, Frankfurt am 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 are unknown at the current time.

Furthermore, in accordance with section 5 (10) of the by-laws of the Deposit Protection Fund, the Bank is required to indemnify the Association of German Banks from any losses incurred by banks in which it holds a majority interest.

### Letters of comfort

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

IKB Leasing GmbH, Hamburg, has issued letters of comfort to Commerzbank Rt., Budapest, for its subsidiaries IKB Leasing Hungaria Kft., Budapest, and IKB Penzüdyi Lizing Hungaria zRt, Budapest. Furthermore, IKB Leasing GmbH, Hamburg, issued a letter of comfort to Bankhaus Carl Spängler & Co., Salzburg for IKB Leasing Austria GmbH, Salzburg.

IKB Projektentwicklung GmbH & Co. KG, Düsseldorf, issued a letter of comfort to Zoo & Co. in the amount of € 340 thousand for ilmenau center GmbH & Co. KG, Lüneburg.

### Transfer of collateral for own liabilities

Fixed-interest securities in the amount of € 7.4 billion (previous year: € 6.6 billion) have been assigned as collateral for the ECB tender proceedings and for the GC Pooling (collateral pool) with Eurex Repo GmbH. In addition, credit receivables were lodged at Bundesbank in the amount of € 0.7 billion (previous year: € 1.6 billion). As of the balance sheet date, credit facilities totalling € 2.9 billion had been utilised (previous year: € 3.1 billion).

Also, a line of liquidity was granted by the KfW in the financial year that can be drawn in several tranches and in euro and US dollar up to a total value of € 3.0 billion and, as part of a global loan, credit receivables can be transferred to KfW as collateral (€ 3.0 billion as of the balance sheet date).

IKB has provided cash collateral of € 5.8 million in total (previous year: € 294.7 million) to various banks in connection with credit derivatives.

Cash collateral in the amount of € 1.3 billion (previous year: € 0.6 million) was assigned to various banks for interest derivatives as part of collateral management).

Securities with a nominal value of € 19.0 million (previous year: € 3.5 million) have been lodged with Clearstream Banking AG, Frankfurt, and Clearstream Banking S.A., Luxembourg, for compliance with payment obligations in securities transactions; securities with a nominal value of € 7.0 million (previous year: € 7.0 million) have been deposited as collateral. In the context of trading on EUREX Germany, securities with a nominal value of € 5.0 million (previous year: € 20.0 million) have been pledged for margin obligations to BHF-Bank AG, Frankfurt and Berlin.

Securities in the amount of € 160.0 million have been pledged to KfW, Frankfurt am Main, to help hedge joint business concepts and cash collateral of € 170.0 million has been provided (previous year combined: € 246.6 million).

Securities in the amount of € 732.0 million were transferred in genuine repurchase agreements as of the reporting date (previous year: € 2.1 billion).

In line with IDW RS HFA 8, legally transferred receivables are considered as an assignment of collateral to secure a received loan if there is no balance sheet disposal. This includes securities of € 75.0 million to KfW, € 688.5 million to Rio Debt Holdings (Ireland) Limited and loans and advances to customers of € 589.2 million to the special-purpose entity Bacchus 2008-1, € 407.4 million to the special-purpose entity Bacchus 2008-2 and € 214.0 million to the special-purpose entity REPV-DS GmbH 2008-1.

## Pensions

The sole purpose of the assets of € 182.3 million spun off under CTAs is to cover the pension commitments to employees and obligations arising from deferred compensation, early retirement obligations and those arising from the work time account model and to generate current income to compensate the costs incurred. Furthermore, they also serve to secure the above obligations in the event of the Bank's insolvency.

## Forwards/fair values of derivatives/interest rate risks

The forwards concluded essentially serve to manage and limit interest rate risks and relate in particular to the credit refinancing portfolio and the investment portfolio. 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 constantly in risk management. In addition, the volume of forward and derivative transactions is restricted by counterparty limits.

The interest rate risks of extending loans and the associated refinancing funds are managed in the credit refinancing portfolio. Derivatives are used to eliminate or reduce mismatched maturities and interest and exchange rate risks. The derivatives used in credit refinancing business are predominantly interest derivatives. The derivatives have a net negative fair value of € 1,124.9 million. The negative fair values of the derivatives in credit refinancing business are offset by the positive fair values (above nominal value) of loans and interest-bearing securities. The credit default swaps and credit-linked note transactions carried out in the previous year in credit refinancing business were essentially outsourced to the special-purpose entity Rio Debt Holdings (Ireland) Limited over the course of the financial year. IKB's participation in the fair value and market risk of this SPV is limited to a first loss piece with a nominal volume of around US\$ 243 million. The fair value of this is € 118 million as of 31 March 2009.

Long-term investments: The investment portfolio comprises investments in government and sovereign bonds, mortgage bonds, bank bonds, corporate bonds and promissory note loans. The portfolio is partly used to invest the Bank's own funds and was essentially secured against changes in interest rates by interest rate swaps over the financial year. However, on account of unsecured option issuer positions embedded in structured securities, there remains a significant contribution of the investment portfolio to the Bank's total market price risk. The option positions were reduced over the course of the financial year and the changing interest rate risk is managed on an ongoing basis by the conclusion of suitable interest rate swaps. In addition, the investment portfolio is also used to secure the Bank's liquidity. Thus, it predominantly includes securities used by the ECB as collateral for tender transactions.

#### Fair values of derivatives

Derivative transaction in € million	Nominal	Fair value		
	31 March 2009	positive 31 March 2009	negative 31 March 2009	Total
Interest rate swaps	30 913.8	832.6	-1 953.6	-1 121.0
Swap options	800.0	0.8	-0.8	0.0
Forward interest rate swaps	194.0	1.9	-5.8	-3.9
Caps/floors	19.3	0.0	0.0	0.0
Bond options	25.2	0.7	-5.6	-4.9
Forward bonds	10.0	0.0	-0.1	-0.1
Forward forward deposits	20.1	0.0	0.0	0.0
FX swaps	1 911.9	34.8	-5.8	29.1
Currency swaps	908.6	33.4	-50.7	-17.4
Currency forwards	6.5	0.0	0.0	0.0
Credit derivatives	2 589.2	217.0	-1 897.3	-1 680.3
of which: embedded derivatives*	(2 138.6)	(0.0)	(-1 120.1)	(-1 120.1)
bid-ask effects	0.0	0.0	-12.1	-12.1
<b>Total</b>	<b>37 398.5</b>	<b>1 121.3</b>	<b>-3 931.9</b>	<b>-2 810.6</b>

\* Provisions of € 719.6 million were recognised as a provision for possible loan losses for embedded derivatives.

Derivatives were measured for exchange-traded transactions at the listed price as of the balance sheet date. Fair values were determined for derivatives not traded on exchanges on the basis of financial and mathematical measurement models and market measurement parameters (including interest rates, interest rate volatilities, exchange rates). The credit derivatives are predominantly credit default swaps on corporate bonds and government bonds in connection with structured securities. The measurement methods for portfolio credit default swaps are based on the measurement methods for credit-linked notes. In line with market practice, the reported fair values include deferred accrued interest.

In addition to the above derivatives, the Bank has an equity kicker from the agreement structure in connection with the first loss piece of Rio Debt Holdings (Ireland) Limited, which represents the claim to 80% of the additional proceeds from the utilisation of the transferred portfolio (with a nominal volume of € 2.7 billion), which is recognised as an embedded derivative at a fair value of € 48 million.

### Remuneration and loans to executive bodies

A detailed description of the principles of the remuneration and the compensation system for the members of the Board of Managing Directors and of the Supervisory Board is included in the remuneration report, which is part of the management report.

### Remuneration of the Board of Managing Directors

The total remuneration of the members of the Board of Managing Directors for the 2008/09 financial year amounted to € 7,068 thousand (previous year: € 4,264 thousand). € 2,380 thousand (previous year: € 1,967 thousand) of this related to fixed compensation, € 3,117 thousand (previous year: € 2,044 thousand) to variable compensation, € 280 thousand to additions to pension replacement payments (previous year: € 56 thousand) and € 1,291 thousand (previous year: € 197 thousand) to additional benefits (including compensation of € 1,120 thousand).

### Former and retired members of the Board of Managing Directors

Total remuneration for former and retired members of the Board of Managing Directors and their surviving dependents amounted to € 3,097 thousand (previous year: € 3,882 thousand). Furthermore – in addition to the above compensation – amounts of € 1,313 thousand were paid to former members of the Board of Managing Directors under compensation agreements in the 2008/09 financial year, for which a provision of € 800 thousand was recognised in the 2006/07 and 2007/08 financial years. Provisions of € 37,282 thousand were recognised for pension obligations to former members of the Board of Managing Directors and their surviving dependents (previous year: € 37,094 thousand).

Please see the comments in the remuneration report for details of reclaiming performance-based remuneration paid to the Board of Managing Directors for the 2006/07 financial year.

### Remuneration of the Supervisory Board

The total remuneration of the members of the Supervisory Board for the 2008/09 financial year amounted to € 498 thousand (previous year: € 561 thousand). This includes travel expenses of € 69 thousand (€ 37 thousand).

### Remuneration of the Advisory Board

€ 417 thousand (previous year: € 361 thousand) including VAT was paid to the members of the Advisory Board.

### 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 € 0.1 million were extended to the members of the Supervisory Board (previous year: € 1.0 million).

### Average number of employees for the year

(calculated on the basis of full-time employees)

	2008/09	2007/08
Men	710	763
Women	442	467
<b>Total</b>	<b>1 152</b>	<b>1 230</b>

### Corporate governance

The Board of Managing Directors and the Supervisory Board of the Bank issued the annual declaration of compliance in accordance with section 161 AktG on 11 July 2008. The Bank issued the declaration required in line with section 161 AktG and made it permanently available to the shareholders.



## Executive bodies

The following list of members of the Supervisory Board and Board of Managing Directors shows

- a) *their membership in other statutory supervisory boards and*  
 b) *similar offices held in comparable governing bodies of German and foreign companies.*

### Supervisory Board

#### Chairman

Werner Oerter, Linden

Director of KfW Bankengruppe  
 (Chairman until 30 October 2008 and  
 member until 31 December 2008)

- b) *Grundstücks- und Gebäudewirtschafts-  
 Gesellschaft m.b.H.  
 High-Tech Gründerfonds GmbH & Co. KG  
 Authentos GmbH*

Bruno Scherrer, London

Senior Managing Director/Head of European Investments  
 Lone Star Management Europe Ltd.  
 (Chairman and member from 30 October 2008)

- a) *COREALCREDIT BANK AG (Chairman)  
 MHB-Bank Aktiengesellschaft (Chairman)*

#### Deputy Chairman

Dr Karsten von Köller, Frankfurt

Chairman Lone Star Germany GmbH  
 (Member from 16 December 2008,  
 Deputy Chairman from 1 January 2009)

- a) *COREALCREDIT BANK AG (Deputy Chairman)  
 MHB-Bank Aktiengesellschaft  
 (Deputy Chairman)*

- b) *W.P. Carey & Co. LLC (Executive Director)*

Detlef Leinberger, Neu-Anspach  
 (until 6 October 2008)

- b) *Europäischer Investitionsfonds (Luxembourg) (EIF)  
 (until May 2008)*

Werner Möller, Echzell

Director (retired) of KfW Bankengruppe  
 (Member from 28 August 2008 until 18 November 2008  
 and Deputy Chairman from 8 October 2008  
 to 18 November 2008)

Dieter Pfundt, Frankfurt (Main)

Personally liable partner of  
 Sal. Oppenheim jr. & Cie. KGaA  
 (Member and Deputy Chairman until 31 December 2008)

- a) *Börse Düsseldorf AG*

- b) *Sal. Oppenheim jr. & Cie. Corporate  
 Finance (Switzerland) AG, President  
 Bank Sal. Oppenheim jr. & Cie (Österreich) AG  
 (Deputy Chairman)  
 4IP Management AG  
 Air Berlin PLC  
 Bank Sal. Oppenheim jr. & Cie (Switzerland) AG  
 Collineo Asset Management GmbH  
 (from 8 January 2009)  
 Kommanditgesellschaft Allgemeine Leasing GmbH & Co.  
 MB Advisory Group, LLC  
 Sal. Oppenheim (France) S.A.  
 Sal. Oppenheim Alternative Asset Management S.A.  
 (from 1 July 2008)  
 Sal. Oppenheim Alternative Investments GmbH  
 Sal. Oppenheim Investments GmbH  
 Sal. Oppenheim (Hong Kong) Limited*

## Members

Dieter Ammer, Hamburg  
CEO of Conergy AG  
(until 30 November 2008)

- a) *Beiersdorf AG (Chairman until 30 April 2008)*  
*Conergy AG (until 31 July 2008)*  
*GEA AG*  
*Heraeus Holding GmbH*  
*tesa AG (until 24 April 2008)*

Jörg Asmussen, Berlin  
Ministerial Director in the German Federal  
Ministry of Finance (until 27 May 2008)

- a) *Euler Hermes Kreditversicherungs-AG*  
*(until 27 May 2008)*  
*Postbank AG (until 27 May 2008)*
- b) *Bundesanstalt für Finanzdienstleistungsaufsicht*  
*(Deputy Chairman)*

Dr Jens Baganz, Düsseldorf  
State Secretary in the Ministry for  
Economic Affairs and Energy  
in the State of North-Rhine Westphalia  
(until 30 November 2008)

- a) *Messe Düsseldorf GmbH*  
*duisport AG*
- b) *NRW.Invest GmbH (Chairman)*  
*NRW.International GmbH (Chairman)*  
*Entwicklungsgesellschaft Zollverein mbH*  
*Forschungszentrum Jülich GmbH*  
*Institut für Mittelstandsforschung*  
*NRW.BANK*  
*NRW Japan, K.K.*  
*ZENIT GmbH*

Stefan Baustert, Bad Homburg  
President and CEO of  
SINGULUS TECHNOLOGIES AG  
(from 25 March 2009)

- b) *AptarGroup*

Wolfgang Bouché, Düsseldorf  
Employee representative

Olivier Brahin, London  
Head of European Real Estate Investments division at  
Lone Star Management Europe Ltd.  
(from 22 January 2009)

- a) *COREALCREDIT BANK AG*

Hermann Franzen, Düsseldorf  
Personally liable partner of  
Hermann Franzen KG  
(until 31 December 2008)

- a) *SIGNAL IDUNA Allgemeine Versicherung AG*  
*(Deputy Chairman)*  
*SIGNAL-IDUNA Holding AG*

Dr Lutz-Christian Funke, Frankfurt  
Director of Corporate Strategy/  
Head of the Office of the Board of  
KfW Bankengruppe  
(from 22 January 2009)

- a) *Dedalus GmbH & Co. KGaA*  
*(Deputy Chairman)*

Dipl.-Kfm. Ulrich Grillo, Duisburg  
Chairman of the Board of  
Grillo-Werke Aktiengesellschaft

a) *Praktiker Bau- und Heimwerkermärkte  
Holding AG  
Praktiker Bau- und Heimwerkermärkte AG  
mateco AG*

b) *HDF Hamborner Dach- und Fassadentechnik  
GmbH & Co. KG (Chairman)  
Grillo Zinkoxid GmbH  
Zinacor S.A. (Belgium)*

Arndt G. Kirchhoff, Attendorn  
Managing Partner of  
KIRCHHOFF Automotive GmbH  
(from 25 March 2009)

a) *DEKRA AG  
KOSTAL Verwaltungsgesellschaft mbH*

b) *DEG – Deutsche Investitions- und  
Entwicklungsgesellschaft mbH  
LEWA Attendorn GmbH*

Jürgen Metzger, Hamburg  
Employee representative

Dr Claus Nolting, Munich  
Chairman of the Board of  
COREALCREDIT BANK AG  
(from 22 January 2009)

Roland Oetker, Düsseldorf  
Managing Partner of  
ROI Verwaltungsgesellschaft mbH  
(until 30 November 2008)

a) *Deutsche Post AG  
Volkswagen AG*

b) *Dr August Oetker KG (Deputy Chairman)  
RAG-Stiftung*

Dr Christopher Pleister, Berlin  
Member of the Steering Committee of the  
German Financial Market Stabilisation Fund  
(from 28 August 2008 to 1 February 2009)

b) *Sennheiser electronic GmbH & Co. KG  
(until 31 December 2008)*

Dr Thomas Rabe, Berlin  
Member of the Board of  
Bertelsmann AG  
(from 23 June 2009)

a) *Arvato AG (Deputy Chairman)  
Druck- und Verlagshaus Gruner + Jahr AG.  
Symrise AG*

b) *Ricordi & C. S.p.A. (Chairman)  
Bertelsmann Capital Investment (S.A.) SICAR  
Bertelsmann Digital Media Investments S.A.  
Bertelsmann Inc.  
Edmond Israel Foundation  
RTL Group S.A.*

Dr-Ing. E.h. Eberhard Reuther, Hamburg  
Chairman of the Supervisory Board of  
Körber Aktiengesellschaft (until 27 April 2009)

a) *Körber AG (Chairman)*

Randolf Rodenstock, Munich  
Managing Partner of  
Optische Werke G. Rodenstock GmbH & Co. KG  
(until 3 December 2008)

a) *E.ON Energie AG  
Rodenstock GmbH*

Rita Röbel, Leipzig  
Employee representative  
(until 30 November 2008)

Dr Michael Rogowski, Heidenheim  
Chairman of the Supervisory Board of Voith AG  
(until 28 August 2008)

*a) Voith AG (Chairman)*

*Carl Zeiss AG*

*HDI Haftpflichtverband der  
Deutschen Industrie V.a.G.*

*Klöckner & Co. AG*

*Talanx AG*

*Vattenfall Europe AG (from June 2008)*

*b) Freudenberg & Co. (Deputy Chairman)*

*Würth Gruppe (honorary member)*

Jochen Schametat, Düsseldorf  
Employee representative  
(until 30 November 2008)

Dr Carola Steingräber, Berlin  
Employee representative

Dr Alfred Tacke, Celle  
Member of the Board of  
Evonik Industries AG  
(until 31 December 2008)

*a) Evonik New Energies GmbH*

*(Chairman until 31 December 2008)*

*Deutsche Steinkohle AG*

*RAG Aktiengesellschaft*

Dr Andreas Tuczka, London  
Head of European Financial Institutions division at  
Lone Star Management Europe Ltd.  
(from 22 January 2009)

Dr Martin Viessmann, Allendorf (Eder)  
Partner and President of  
Viessmann Werke GmbH & Co. KG  
(until 25 March 2009)

*a) Messe Frankfurt GmbH*

*Schott Glas AG*

Ulrich Wernecke, Düsseldorf  
Employee representative

Andreas Wittmann, Munich  
Employee representative

## Board of Managing Directors

Dr Günther Bräunig

(Member and Chairman until 31 October 2008)

- b) IKB Autoleasing GmbH (until 31 October 2008)*
- IKB Leasing Berlin GmbH (until 31 October 2008)*
- IKB Leasing GmbH (until 31 October 2008)*
- IKB Private Equity GmbH (until 31 October 2008)*

Dr Dieter Glüder

- b) IKB International S.A. (Chairman)*
- IKB Autoleasing GmbH (until 21 May 2008 and from 5 March 2009 to 9 June 2009)*
- IKB Capital Corporation (until 19 May 2009)*
- IKB Data GmbH (from 9 June 2009)*
- IKB Immobilien Management GmbH (Chairman from 9 June 2009)*
- IKB Leasing Berlin GmbH (until 21 May 2008 and from 5 March 2009 to 9 June 2009)*
- IKB Leasing GmbH (until 21 May 2008 and from 5 March 2009 to 9 June 2009)*
- Movesta Lease and Finance GmbH (from 9 June 2009)*

Dr Reinhard Grzesik

(until 3 July 2009)

- b) IKB Immobilien Management GmbH (Chairman until 9 June 2009)*
- IKB Data GmbH (Chairman until 9 June 2009)*
- IKB International S.A. (from 30 June 2008 to 3 July 2009)*
- IKB Private Equity GmbH (until 15 May 2008)*
- Movesta Lease and Finance GmbH (until 21 May 2008 and from 26 November 2008 to 9 June 2009)*

Dr Andreas Leimbach

(from 1 April 2008 to 31 January 2009)

- b) IKB Autoleasing GmbH (Chairman from 21 May 2008 to 31 January 2009)*
- IKB Leasing Berlin GmbH (Chairman from 21 May 2008 to 31 January 2009)*
- IKB Leasing GmbH (Chairman from 21 May 2008 to 31 January 2009)*
- IKB Private Equity GmbH (Chairman from 15 May 2008 to 31 January 2009)*
- Argantis GmbH (until 31 January 2009)*
- IKB International S. A. (from 30 June 2008 to 31 January 2009)*
- Movesta Lease and Finance GmbH (from 21 May 2008 to 25 November 2008)*

Claus Momburg

- b) Movesta Lease and Finance GmbH (Deputy Chairman)*
- IKB Autoleasing GmbH (Chairman until 20 May 2008, then member)*
- IKB International S.A. (member and Deputy Chairman until 30 June 2008, member from 16 March 2009)*
- IKB Leasing Berlin GmbH (Chairman until 20 May 2008, then member)*
- IKB Leasing GmbH (Chairman until 20 May 2008, then member)*
- IKB Private Equity GmbH (Chairman until 14 May 2008, then member)*
- Argantis GmbH (until 31 August 2008)*

Hans Jörg Schüttler

(Member and Chairman from 1 November 2008)

- b) IKB Autoleasing GmbH (from 27 November 2008)*
- IKB Leasing Berlin GmbH (from 25 November 2008)*
- IKB Leasing GmbH (from 25 November 2008)*
- IKB Private Equity GmbH (from 25 November 2008)*

Dr Michael H. Wiedmann  
(from 1 March 2009)

b) *IKB Private Equity GmbH (Chairman from  
2 April 2009; member from 4 March 2009)*  
*IKB Autoleasing GmbH (from 9 June 2009)*  
*IKB Capital Corporation (from 20 May 2009)*  
*IKB Leasing Berlin GmbH (from 9 June 2009)*  
*IKB Leasing GmbH (from 9 June 2009)*

#### Offices held by employees

As of 31 March 2009, the following employees were represented in the statutory supervisory boards of large corporations:

Dr Reiner Dietrich  
*Tricor Packaging & Logistics AG*

Roland Eschmann (until 29 May 2009)  
*Oechsler AG*

Frank Kraemer  
*ae Group AG*

Düsseldorf, 9 July 2009  
IKB Deutsche Industriebank AG  
The Board of Managing Directors



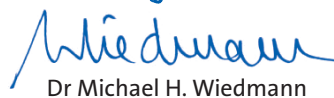
Hans Jörg Schüttler



Claus Momburg



Dr Dieter Glüder



Dr Michael H. Wiedmann

The following auditor's report (Bestätigungsvermerk) has been issued in accordance with § (Article) 322 German Commercial Code (Handelsgesetzbuch) in German language on the German version of the annual financial statements, comprising the balance sheet, the income statement and the notes to the financial statements, and of the management report of the IKB Deutsche Industriebank AG, Düsseldorf, for the business year from April 1, 2008, to March 31, 2009.

## Auditor's Report

We have audited the annual financial statements, comprising the balance sheet, the income statement and the notes to the financial statements, together with the bookkeeping system, and the management report of the IKB Deutsche Industriebank Aktiengesellschaft, Düsseldorf, for the business year from April 1, 2008, to March 31, 2009. The maintenance of the books and records and the preparation of the annual financial statements and 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 management report based on our audit.

We conducted our audit of the annual financial statements in accordance with § (Article) 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 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 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 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 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.

According to our duties, we refer to the fact that the Company's ability to continue as a going concern is threatened by risks, which are described in the section 'Overall view of the risk situation' of the Group management report. It is stated there that IKB Deutsche Industriebank Aktiengesellschaft's ability to continue as a going concern depends on the compliance with the conditions stipulated by SoFFin for the provision of guarantees, by the European Commission for the approval of the state aid and by the Deposit Protection Fund of the private banks and on the approval of the extended SoFFin guarantees by the European Commission. For this purpose, it is particularly necessary that

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

If IKB is unable to sufficiently reduce risk items in the coming business years for the purpose of maintaining a Tier I capital ratio (Kernkapitalquote) of at least 8% and guaranteeing its risk-bearing capacity, further additional equity will be required.

Düsseldorf, July 10, 2009

PricewaterhouseCoopers  
Aktiengesellschaft  
Wirtschaftsprüfungsgesellschaft

Ralf Schmitz	Michael Maifarth
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)



## Responsibility statement in line with section 264 (2) sentence 3 HGB, section 289 (1) sentence 5 HGB

To the best of our knowledge, and in accordance with the applicable reporting principles, the annual financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company, and the management report of the Company includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal opportunities and risks associated with the expected development of the Company.

Düsseldorf, 9 July 2009  
IKB Deutsche Industriebank AG  
The Board of Managing Directors



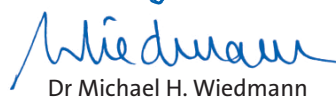
Hans Jörg Schüttler



Claus Momburg



Dr. Dieter Glüder



Dr. Michael H. Wiedmann

## Note on forward-looking statements

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

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