Annual Financial Statements and Management Report of IKB Deutsche Industriebank AG

2011/2012

IKB

Deutsche Industriebank

Contents

Management Report of IKB Deutsche Industriebank AG

1. Business and general conditions

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

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

General conditions for the core business

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

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

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

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

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

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

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

IKB's strategic positioning

IKB Deutsche Industriebank AG (IKB AG or IKB when referring to the Group) has undergone comprehensive restructuring in the past four years, a period characterised by a sustained and repeatedly resurgent financial crisis. Key risks have been gradually reduced. Lending business is only pursued where an active customer relationship exists. Long-term project and export financing activities are no longer being actively pursued. The Bank has been reoriented with a focus on the financing and advisory requirements of its traditional customers, German SMEs.

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

IKB has a nationwide sales network of locations of IKB AG and the IKB Leasing Group that covers all regions of Germany. Domestic sales are also supplemented by selected European locations. The IKB Leasing Group has 15 leasing companies in ten countries (Germany, France, Italy, Austria, Poland, Romania, Russia, Slovakia, Czech Republic and Hungary).

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

The refinancing structure of IKB, which prior to the financial crisis was dominated by the issuance of unsecured bonds, has since been gradually replaced by a refinancing mix with secured financing and broader deposit business with corporate and retail clients. IKB is thereby preparing itself for a sharp decline in demand among traditional investors (banks, insurance companies) for unsecured bank bonds due to Basel III and Solvency II.

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

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

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

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

Segments

The Group's reporting is based on banking products with the segments

- Credit Products
- Advisory and Capital Markets,
- Treasury and Investments
- Head Office/Consolidation.

The **Credit Products segment** reports the earnings components and asset positions from IKB's lending and leasing business. This includes own loans and subsidy loans, IKB Leasing Group business and mezzanine financing for the companies of the subsidiary IKB Private Equity GmbH (IKB PE). The results of collateralised loan obligations, which relate to the loans of this segment, are also presented here.

The **Advisory and Capital Markets segment** comprises IKB's consulting activities in the fields of M&A, structuring, restructuring, structure/income optimisation and private equity. IKB has invested in sales specialists and extended its product range in this area. The Capital Markets sub-segment bundles the range of capital market solutions in the area of equity and liabilities lending, risk management solutions for customer derivatives, attracting customer deposits from institutional investors, and consulting and structuring services for securitisation transactions.

The **Treasury and Investments segments** reports the earnings components resulting from investment decisions by Treasury in the context of asset/liability management and holdings of liquid or ECB-eligible securities. In addition, the segment comprises structured investments, such as bonds and promissory note loans, IKB's portfolio investments that represent its investments in securitisation products including first loss pieces, and IKB's proprietary trading activities. Credit exposures that are no longer included in the strategic portfolio and IKB's assets not relating directly to customers and managed as investments are also assigned to the Treasury and Investments segment. These portfolios are to be reduced through active portfolio management while preserving equity.

The **Head Office/Consolidation segment** records the administrative expenses of head office units which cannot be distributed in line with causation to other segments, as well as non-recurring factors not caused by the operating units and internal consolidation matters as earnings components and asset positions.

2. Significant events in the reporting period

Implementation of EU conditions

The final report on the completed implementation of the EU conditions was submitted by the German Federal Government to the European Commission at the turn of the year 2011/12. A response is currently still awaited. The restructuring period from the ruling expired on 30 September 2011. IKB implemented the measures set out in the restructuring plan in a timely measure where this was feasible and permitted in accordance with the relevant statutory conditions. Accordingly, IKB assumes that the conditions were met at the reporting date.

For the record: In the matter of state aid from the Federal Republic of Germany for the restructuring of IKB, the EU Commission announced on 21 October 2008 that the state rescue measures that IKB had received since the start of the crisis in July 2007 had been approved subject to conditions and requirements. By way of its ruling of 15 May 2009, the European Commission approved a change to the schedule for the winding up of the Luxembourg site.

The conditions included a significant reduction in IKB's business activities, the discontinuation of the Real Estate Finance segment, the closure of certain international offices and the partial discontinuation of new business. The Group's total assets were to be reduced by around 47% to € 33.5 billion (from € 63.5 billion on 31 March 2007, before the start of the IKB crisis) by 30 September 2011. IKB had to comply with an agreed restructuring plan.

Specifically, the conditions were as follows:

- discontinuation of the Real Estate Finance segment (discontinuation of new business as at 31 December 2008; active reduction of at least 20% of the portfolio by 30 September 2010; reduction of a further 40% of the portfolio by 30 September 2011; remaining portfolio by way of scheduled repayments); subsidiaries affected: IKB Immobilien Management GmbH (IKB Immobilien Management), IKB Projektentwicklung GmbH & Co. KG (IKB Projektentwicklung), IKB Projektentwicklungsverwaltungs GmbH,
- disposal of IKB's 50% interest in Movesta Lease and Finance GmbH (Movesta) by 30 September 2011,
- winding-up or disposal of IKB Capital Corporation, New York, (IKB CC) by 30 September 2011 (reduction of 25% of portfolio by 30 September 2010) and discontinuation of new business as of 31 December 2008,
- winding-up of IKB International S.A. by 1 April 2011 (the derivatives business and loan portfolio was permitted to be relocated to IKB in Düsseldorf up to a maximum of € 3.2 billion) and discontinuation of new business by 1 December 2010,
- winding-up of IKB AG's business activities in Amsterdam by 30 March 2010 and discontinuation of new business as at 31 December 2008 and
- sale of non-strategic assets by 30 September 2011.

The status of implementation of the conditions is as follows:

- The credit volume of Real Estate Finance was reduced to € 1.7 billion as at 30 September 2011. The reduction target of 60% by 30 September 2011 has therefore been met. The winding-up of the subsidiaries from the Real Estate Finance segment was completed on schedule: following a change of legal form to a GmbH & Co. KG, IKB Immobilien Management was dissolved by way of incorporation into IKB, while IKB Projektentwicklung and IKB Projektentwicklungsverwaltungs GmbH entered liquidation. New business was discontinued on schedule.
- IKB's 50% interest in Movesta was sold in 2009. One purchase condition was hiving-off Movesta Development GmbH and selected special purpose entities from Movesta which have proportionately

remained with their former owners. Following a change of legal form to a GmbH & Co. KG, Movesta Development GmbH was dissolved by way of incorporation into IKB with effect from 30 September 2011. IKB also took all of the legally permissible measures to wind up the special purpose entities. No new business has been performed.

- IKB CC: The credit portfolio was reduced in full by way of sale. The company has entered liquidation proceedings that are expected to be completed in May 2013.

- IKB International S.A.: The company's new business was discontinued on time. Provided that customers had granted their consent, derivatives and loan business was transferred to IKB AG in Düsseldorf. The remaining derivatives and loan holdings had to remain with the company as they could not be legally transferred. By way of resolution of its Extraordinary General Meeting, IKB International S.A. was dissolved and entered liquidation as at 1 April 2011. Its banking licence was also returned. Thus, the company has been a wind-up company since 1 April 2011. The closure process was approved by the Luxembourg banking authority Commission de Surveillance du Secteur Financier. In July 2010, IKB AG had acquired the new customer derivatives business from IKB International S.A.

- All business activities of IKB AG in Amsterdam have been discontinued.

- The non-strategic assets referenced in the corresponding EU requirement have been selectively reduced from € 1.7 billion as at 31 March 2007 to € 0.04 billion as at 30 September 2011. The remaining portfolio consists of exposures that it was not possible to fully wind up due solely to legal barriers.

- The Group's total assets were reduced to € 31.7 billion as at 30 September 2011, thereby falling below the upper limit set by the European Commission.

The EU Commission's resolution dated 17 August 2009 also imposes other obligations on IKB in respect to conduct regarding the extension of the guarantee window for the Special Fund for Financial Market Stabilisation (SoFFin):

- Firstly, the ruling requires restrictions in proprietary trading. These are compatible with IKB AG's objectives.

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

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

Return of SoFFin guarantees

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

- Following the buy-back and return of SoFFin guarantees of € 100 million of the SoFFin-guaranteed bond maturing on 29 April 2011, the remainder of € 0.9 billion was repaid on schedule in the 2010/11 financial year. IKB AG's SoFFin guarantee was therefore reduced to a total of € 8.6 billion.

- Following the buy-back and early return of further SoFFin guarantees in the amount of € 1.3 billion from the SoFFin-guaranteed bonds maturing on 27 January 2012 and 13 March 2012 in August 2011, IKB AG's SoFFin guarantee totalled € 7.3 billion. The remaining amounts of these SoFFin-guaranteed bonds were each repaid on schedule. IKB AG's SoFFin guarantee was reduced to € 6.1 billion as at 27 January 2012 and € 5.0 billion as at 13 March 2012.

- On 15 March 2012, IKB AG returned further SoFFin guarantees in the amount of € 500 million ahead of schedule. This related to the bonds maturing on 1 February 2013 and 2 February 2015 in the amount of € 250 million respectively. As a result, IKB AG's SoFFin guarantee was reduced to a total of € 4.5 billion as at 15 March 2012.

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

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

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

Changes in the Group

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

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

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

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

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

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

Legally relevant events

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

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

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

Results of the special audit

In August 2009, the Düsseldorf Regional Court resolved at the request of shareholders to appoint a special auditor to examine whether members of the Board of Managing Directors or the Supervisory Board of IKB AG committed breaches of duty in connection with certain transactions relating to the crisis at IKB. The District Court awarded the special audit mandate to Dr Harald Ring, a member of the Management Board of Treuhand- und Revisions-Aktiengesellschaft Niederrhein, Wirtschaftsprüfungsgesellschaft/Steuerberatungsgesellschaft, Krefeld, Germany. Appeals by IKB AG against the court appointment were unsuccessful. Dr Ring had already been appointed as the special auditor under stock corporation law by the Annual General Meeting in March 2008 and performed audit activities until his appointment was revoked by the Annual General Meeting in March 2009.

IKB has not yet received the results of this audit.

Debt issuance programme

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

Refinancing through online offering for retail customers

On 15 March 2011, IKB launched its online service, “IKB direkt”, for retail customers (www.ikbdirekt.de). IKB has created a further source of refinancing with this offering of overnight and fixed term deposits. Since September 2011, investments with a term of up to ten years have been possible. Since March 2012, “IKB direkt” has also offered private investors an income plan with terms of up to ten years.

Personnel changes

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

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

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

Annual General Meeting on 7 September 2011

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

European debt crisis

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

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

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

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

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

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

The credit event affecting the Republic of Greece also meant that the first-to-default bonds held by IKB relating to Greece (cost: € 148 million) fell due and securities corresponding to the terms of the bond were delivered in exchange. The debt haircut led to further write-downs and price losses on bonds relating to Greece in the amount of € 256 million in the year under review (previous year: € 30 million).

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

Current rating situation

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

3. Net assets, financial position and results of operations

Business development

Despite the slowdown in economic development, IKB AG and the IKB Leasing Group generated a new business volume of € 3.3 billion in the period under review (previous year: € 3.7 billion). This reduction is primarily due to the selective lending policy and the general downturn in demand for credit over the course of the year. The IKB Leasing Group expanded its business volume, generating new business of € 1.1 billion (previous year: € 0.9 billion). The results of the Leasing Group are included in the annual financial statements of IKB AG through profit transfer agreements.

Earnings performance

The net loss for the year increased by € 65 million year-on-year to € 255 million. Earnings were impacted in particular by a number of extraordinary factors. The main burdens were almost entirely attributable to the debt haircut on Greek receivables and the subsequent credit event forming part of the government debt crisis affecting the European Monetary Union. The debt haircut led to further write-downs and price losses on bonds relating to Greece in the amount of € 256 million in the year under review (previous years, total: € 30 million).

The strong economic development in Germany meant that IKB AG was able to further reduce its provisions for possible loan losses.

The higher level of investment income had a positive impact on earnings, particularly the gain of € 193 million on the non-cash contribution of MATRONA to IKB PE (see section 2., “Changes in the Group”). MATRONA was contributed to the free capital reserves of IKB PE from the assets of IKB Beteiligungen GmbH by way of a non-cash contribution. The non-cash contribution was conducted at market value. The aforementioned gain of € 193 million was generated via profit transfer agreements (extraordinary factor: see also “extraordinary factors” table; current income from equities, equity investments and shares in affiliated companies and income from profit transfer agreements).

Adjusted for extraordinary factors, the net loss for the year amounted to € 73 million. The adjusted result from ordinary business activities improved to € -65 million.

The biggest extraordinary factors in terms of amount and their effect on the items of the income statement are shown in the table below:

Table: Income statement with extraordinary factors

in € million	Unadjusted income statement 2011/12	Extraordinary factors		Adjusted income statement 2011/12	Unadjusted income statement 2010/11
		Restruc-turing	Other		
Net interest income (not including current income from shares, investments, etc.)	102			102	226
Net fee and commission income	-51	-102		51	-71
Net trading portfolio expenses	1			1	-13
Current income from shares, equity participation and shares in affiliated companies and income from profit transfer agreements	404	192	199	13	8
Personnel expenses	-128			-128	-125
Other administrative expenses and write-downs and value adjustments on intangible and tangible assets	-127	-4		-123	-143
Write-downs and value adjustments on receivables and additions to provisions in the lending business	-14		9	-23	-64
Write-downs/additions of write-downs on securities in the liquidity reserve	9	-14	-4	27	8
Write-downs and losses on/additions of write-downs and income from securities held as fixed assets	-257		-262	5	10
Write-downs, value adjustments and additions of write-downs on equity participations and shares in affiliated companies	-192	-193	1	0	-56
Net other operating income (including costs of loss absorption)	20		10	10	-15
Result from ordinary business activities	**-233**	**-121**	**-47**	**-65**	**-235**
Extraordinary result	-14	-8	-6	0	-6
Tax income	-8			-8	51
Net loss for the year	**-255**	**-129**	**-53**	**-73**	**-190**
Loss participation of profit-participation certificates and silent partnership contributions	14				32
Loss carryforward from previous year	-1,789				-1,631
Net accumulated losses	**-2,030**				**-1,789**

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

Net interest income declined by € 124 million year-on-year to € 102 million. Among other things, this was due to the lower level of credit business on the balance sheet due to the EU conditions and liquidity provisioning.

At € -51 million, net fee and commission income was up significantly on the prior-year figure of € -71 million. This was primarily due to the € 24 million reduction in SoFFin guarantee commission to € 102 million. Adjusted for SoFFin guarantee commission, net fee and commission income amounted to € 51 million, down slightly on the previous year's figure of € 55 million.

The net income of the trading portfolio improved by € 14 million to € 1 million. This was attributable in particular to the positive market value development of derivatives.

Current income from equities, equity investments and profit transfer agreements increased by € 396 million to € 404 million. This was due in particular to extraordinary factors such as the gain of € 192 million as a result of the capital reduction at IKB International S.A., Luxembourg, and the aforementioned gains of € 193 million on the non-cash contribution of MATRONA.

Personnel expenses amounted to € 128 million, slightly higher than the previous year's figure of € 125 million. This was due in particular to the increase in the average workforce of 30 FTEs to 1,058 FTEs in the period under review. By contrast, the workforce declined to 1,038 FTEs as at the end of the 2011/12 financial year.

Meanwhile, other administrative expenses were cut by € 16 million to € 127 million, particularly as a result of the € 15 million cost saving relating to external consultants.

Loan loss allowances (net risk provisioning) declined further on the back of the strong economic performance, particularly in Germany. Accordingly, the balance of loan loss allowances declined by € 50 million to € -14 million. This development was observed for all credit sub-portfolios. Risk provisions include € 25 million in net additions to specific valuation allowances, provisions and write-downs (previous year: € 126 million). The net addition includes € 9 million in reversals relating to the contribution of assets to the subsidiary IKB PE (extraordinary factor). The global valuation allowance for lending business declined by € 11 million.

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. Owing to the improved economic situation, this factor was reduced from 110% to 100%. Without reducing the economic factor, global valuation allowances would have been € 10 million higher. In order to reflect latent default risks in financial assets, loans and advances to banks and irrevocable loan commitments, the Bank also added global valuation allowances totalling € 6 million for the first time on the basis of an estimated one-year expected loss. This was offset by reversals of € 13 million. The total amount of global valuation allowances is € 111 million after € 118 million in the previous year.

The item “Write-downs/reversals of write-downs on securities in the liquidity reserve” showed net income of € 9 million (previous year: net income of € 8 million). Extraordinary factors in the period under review included a loss of € 14 million from the acquisition of the Bank’s bonds in connection with the early return of SoFFin-guaranteed bonds and a loss of € 4 million from the contribution of securities classified as current assets to the subsidiary IKB PE.

Disposals of long-term investments and write-downs and reversals of write-downs resulted in an expense of € 257 million. This item contained write-downs and realised price losses totalling € 256 million on Greek bonds and first-to-default bonds relating to Greece. In addition, the contribution of securities held as non-current assets to the subsidiary IKB PE resulted in losses of € 6 million (extraordinary factor), resulting in adjusted income of € 5 million.

Write-downs and reversals of write-downs on equity investments and shares in affiliated companies resulted in a net expense of € 192 million (previous year: expense of € 56 million). The main extraordinary factor was the write-down on the carrying amount of the investment in IKB International in the amount of € 192 million, which was offset by the aforementioned “current income from equities, equity investments and shares in affiliated companies and income from profit transfer agreements” in the same amount.

The other operating result (including costs of loss absorption) increased by € 35 million year-on-year to € 20 million. This was primarily attributable to income of € 20 million from the early termination of a hedge on a securitised portfolio of SME loans and the reversal of provisions.

The extraordinary result amounted to € -14 million (previous year: € -6 million) and related in particular to restructuring expenses.

The net loss for the year increased by € 65 million to € 255 million. Adjusted for extraordinary factors, the net loss for the year amounted to € 73 million. In the 2011/12 financial year, profit participation certificates and silent partnership contributions of IKB AG shared in the losses in the amount of € 14 million, resulting in a loss after loss participation of € 241 million. Including the loss carryforward of € 1,789 million, the net accumulated losses amounted to € 2,030 million.

Net assets

IKB AG’s total assets again declined during the period under review. This was primarily due to the EU conditions requiring a reduction in total consolidated assets and selective new credit business with adequate margins. On the balance sheet date, total assets were down by € 2.8 billion as against the previous year to € 32.3 billion.

The gross credit volume (see also the risk report) amounted to € 32.4 billion on the reporting date, down € 0.5 billion on the same figure for the previous year, and includes medium and long-term loans to banks, loans to customers, the trading portfolio, non-trading book derivatives that are assets and guarantees.

Assets

Loans and receivables to banks rose by € 0.3 billion to € 2.4 billion as a result of the increase in short-term investments on the interbank market and cash collateral for derivative transactions.

Loans and advances to customers were down by a net amount of € 2.5 billion at € 18.1 billion. This decline is due to the reduction in customer lending business and the lower level of new business as part of the implementation of the EU conditions (e.g. for real estate finance) as well as to maturities.

Bonds and other fixed-income securities fell by a net amount of € 0.6 billion to € 9.9 billion, due mainly to maturities and disposals. The portfolio includes own issues acquired in the amount of € 2.5 billion (previous year: € 2.9 billion).

Equity and liabilities

Liabilities to banks increased by € 1.8 billion to € 13.2 billion. This was primarily due to the higher level of borrowing on the interbank market and an increase in special purpose refinancing.

Liabilities to customers increased by € 2.2 billion to € 10.2 billion, largely as a result of the growth in the volume of customer deposits obtained via the "IKB direkt" retail customer platform.

Holdings of securitised liabilities fell by € 5.9 billion to € 4.8 billion. This development was due in particular to maturities and the early return of SoFFin bonds in the amount of € 5.0 billion. At the reporting date, the Bank held SoFFin bonds with a volume of € 2.5 billion in its own portfolio (assets), meaning that the net liability amounted to € 2.3 billion.

Other liabilities declined by € 0.4 billion to € 0.7 billion, largely as a result of the reclassification of front-end fees received for lending to prepaid expenses and deferred income.

Provisions dropped by a total of € 0.1 billion to € 0.4 billion. This was primarily attributable to the reduction in other provisions and is due to the significantly lower level of provisions for possible loan losses for off-balance sheet lending.

Largely as a result of the net loss for the year of € 255 million, equity declined by € 241 million to € 1,366 million (previous year: € 1,607 million). In line with the notification submitted to the banking authorities as at the balance sheet date, regulatory equity capital amounted to a total of € 2.2 billion. The calculation of equity capital based on the final carrying amounts produced a figure of € 2.2 billion. Derived from this, the tier I capital ratio was 9.7% with an overall capital ratio of 14.5%.

Hidden charges have arisen in recent financial years from interest rate positions in the banking book in the form of long-term securities, from derivatives and from the refinancing of the loan book without matching maturities as a result of changes in market interest rates and interest rate volatilities; these hidden charges amounted to € 872 million at the reporting date, down € 190 million on the figure at the end of the previous financial year. This will lead to reductions in net interest income or losses on disposal in future financial years.

Financial position

The liquidity situation at IKB is stable. This development has been driven in particular by the expansion of the funding mix. IKB accepts revolving deposits from a number of corporate clients and retail customers, and is also reducing its non-strategic assets in order to generate liquidity and adopting a selective policy to new lending business with an impact on the balance sheet.

Overall assessment

In terms of the adjusted result from ordinary business activities – i.e. with extraordinary and tax effects eliminated – business development and the position in the 2011/12 financial year remained stable at the prior-year level. This is primarily due to the good economic development, particularly in Germany, and the significant reduction in allowances for losses on loans and advances as a result. However, the momentum of the German economy tailed off in the third quarter of the financial year due to the difficult environment.

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

The results of operations for the year under review include substantial write-downs on bonds relating to Greece. Despite this, IKB AG's Tier I ratio remained could be kept at 9.7%. Aside from this non-recurring effect, the results of operations stabilised as

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

4. Risk report

Risk management organisation

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

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

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

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

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

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

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

Exposures with an increased risk as well as restructuring and settlement cases are managed in special management units within Credit Risk Management. The aim of this special management is to take action in good time in order to maintain the company’s capacity for redevelopment, in the event that these endeavours fail, to reduce the economic losses. Special attention is applied not just to non-performing loans but to all exposures for which, while permanent impairment is not expected, available information indicates that they require special management from units specialising in settlement or restructuring.

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

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

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

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

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

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

Monitoring earnings development and capital resources. The Finance division prepares monthly performance analyses for existing and new business in the context of performance controlling and presents these to the Board of Managing Directors on a weekly basis, where deviations in the net assets and results of operations from the projected figures are identified and analysed on an ongoing basis. This ensures that business risk is continually monitored and reported. The Board of Managing Directors is therefore able to react to negative developments even at short notice.

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

Internal Audit. The Group Audit central division is organised as a process-independent part of the risk management system and the internal control processes. It operates on behalf of the entire Board of Managing Directors, with no duty to comply with instructions, as an independent body that reports directly to the Chairman of the Board of Managing Directors. All relevant activities and processes throughout the Group are examined on the basis of risk-oriented process checks. It focuses on particularly risk-sensitive processes and quantitative methods as well as IT workflows in the lending, consulting and trading business. There is also a focus on loan reviews on a case-by-case basis. Group Audit also carries out special audits as required by order of the Board of Managing Directors. The Board of Managing Directors receives ongoing reports on the audit findings. In its annual report, Group Audit informs the Board of Managing Directors of the significant and serious audit findings and their processing status in summarised format. The member of the Board of Managing Directors responsible for Group Audit then informs the Supervisory Board of current developments and material results at least once a year. Independently of this, it is ensured that the Chairman of the supervisory body or the Finance and Audit Committee can obtain information directly from the head of Group Audit with the involvement of the Board of Managing Directors.

Regulatory capital resources and risk-bearing capacity

Regulatory capital resources. The Bank calculates regulatory capital resources for the credit risk according to the standardised approach for credit risk, for operational risk according to the base indicator approach and for market price risk according to standard methods (interest risks: duration method; option risks: delta-plus method). The transition from the maturity-based method to the duration method was effected as part of the introduction of the new regulatory market price risk solution "RiVa". The scenario

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[1] This is Rhineland Funding Capital Corporation LLC, Delaware, (RFCC) and various purchasing companies based in Jersey and Delaware. These legally independent special-purpose entities are no longer active on the market. They invested in structured securities. Among other things, IKB acts as a consultant for RFCC and the purchasing companies.

[2] These two legally independent special purpose entities backed 25% of the liquidity risk for two liquidity providers of Rhineland Funding and the entire credit risk that arose on utilisation of the liquidity lines. IKB acts as an administrator for the Havenrock companies.

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

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

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

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

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

Some totals may be subject to discrepancies due to rounding differences.
1) Deductions predominantly consist of securitisation positions and equity investments in line with section 10 (6) sentence 1 no. 1 KWG.

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

Regulatory capital situation in € million	**as at 31 Mar. 2012**	**as at 31 Mar. 2011**	**as at 31 Mar. 2010**
Risk-weighted assets	14,554	16,053	17,790
Market risk equivalent	501	324	23
Operational risk	423	581	780
Risk position	**15,478**	**16,958**	**18,593**
Tier I capital	1,505	1,746	1,943
Tier II capital	742	913	1,023
Tier III capital	0	19	2
Deductions[1)]	0	-41	-195
Equity capital	**2,247**	**2,637**	**2,773**
Tier I ratio in %	9.7	10.2	9.9
Overall capital ratio in %	14.5	15.6	14.9

Some totals may be subject to discrepancies due to rounding differences.
1) Deductions relate solely to securitisation positions.

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

At 9.7% at individual Bank level and 9.4% at Group level, the tier I capital ratios have fallen as against the previous year. They are still above the regulatory minimum tier 1 capital ratio of 4.0%. At 14.5% at individual Bank level and 13.0% at Group level, the overall capital ratio is also higher than the regulatory minimum of 8.0%.

The Board of Managing Directors expects it to be possible to meet both statutory minimum requirements and the minimum requirements imposed by SoFFin and the Auditing Association of German Banks (including a tier I ratio of 8%) in the future (see also "Outlook"). The ongoing implementation of Basel III will lead to significant additional equity requirements. For this reason, the Bank will further reduce its risk-weighted assets by lowering the level of balance sheet assets, restructuring its investments an using a central counterparty for standardised derivatives trading. There is still considerable uncertainty due to the fact that the results of the legislation progress remain unforeseeable. This process is not yet complete despite the fact that the application of the new rules is scheduled for 1 January 2013.

Risk-bearing capacity. Risk-bearing capacity is monitored and controlled internally by comparing the available economic risk cover with the total risk on a Group basis determined in accordance with standard business methods (economic capital requirements) from both an equity provider (going concern view) and a lender (liquidation view) perspective. The equity provider perspective is intended to ensure that the minimum capital (benchmark capital) required to continue banking operations is not affected, even if both expected and unexpected losses are incurred in the period of analysis. The perspective of a non-subordinated lender should ensure that the non-subordinated capital borrowed by a bank can be repaid in full even if all expected and unexpected risks occur. In contrast to the equity provider perspective, this assumes a significantly higher level of security (confidence level).

In the equity provider and lender perspectives alike, risk cover consists of core capital (share capital, reserves, net retained profits/loss carryforwards and the planned operating result for the next twelve months), profit participation certificates, silent partnership contributions and, in the lender perspective, subordinated capital. Unrealised market value losses[3] are deducted from risk cover in both perspectives, while benchmark capital is also deducted in the equity provider view.

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

- Reduction in core capital due to an operating result for the 2011/12 financial year that was worse than expected. This was due to the impact of the European debt crisis as presented in the “Business and general conditions” section above. The negative planned operating result for the 2012/13 financial year was also deducted from risk cover.

- In the lender perspective, the crisis situation in the euro zone had a particularly pronounced impact, with a stress scenario effectively occurring. This is primarily reflected in the rise in hidden charges. The historical simulation applied was also determined by the crisis days – particularly in late December 2011 – thereby leading to higher methodological loss estimates. These discounts are recognised in risk cover in full, although the Bank is not expecting to see permanent impairment.

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

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

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

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

Table: Economic capital requirements – equity provider perspective

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

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

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

Table: Economic capital requirements – lender perspective

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

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

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

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

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

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

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

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

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

Risk strategy

The individual risk strategies are a component of the integrated business and risk strategy. They set the framework to which IKB's business activities are geared. In the 2011/12 financial year, all of the risk strategies were revised in order to reflect the current business focus and the economic situation. The areas of the strategies requiring adjustment as identified by the Strategy and Risk Committee were taken into account.

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

Market price risk strategy. In its customer business, the Bank focuses on providing interest and currency derivatives to support the interest and currency management of its customers with regard to possible market price risks. This is supplemented by the development of a brokerage model by accepting securities issued by customers in the trading book with the aim of promptly reselling them to third-party investors. For trading book transactions, the Bank largely restricts itself to highly liquid products denominated in euro and US dollar, while the maximum risk positions this entails are kept very low. The majority of the Group's market price risk therefore results from asset/liability management and its investment portfolios. The key risk drivers are credit spread risks and interest rate risks, which the Bank intends to continue to limit and moderately reduce as part of its market price risk management.

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

Counterparty default risk

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

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

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

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

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

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

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

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

Rating process and systems. The selection of business partners and investments is made feasible in terms of operations by means of requirements in respect to collateral provided for exposures and creditworthiness given in the credit guidelines. Thus, the credit rating of borrowers plays a central role within the credit process.

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

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

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

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

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

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

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

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

Regular monitoring by the Limit Committee, which comprises representatives from industry groups specialising in sectors, Credit Risk Management and Risk Controlling central divisions and the segments, is the starting point for determining concentration limits, which are oriented towards business policy target figures and risk policy guidelines. Volume and risk contribution limits are determined for individual economic sectors based on existing structures and in due consideration of identified sector risks and economic influences. In addition, upper limits for individual loans and loans to company groups are defined in order to avoid concentration risks. Furthermore, the credit portfolio is continuously monitored by risk analysts at Credit Risk Management specialising in industrial sectors.

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

Structure of counterparty default risk. The credit volume as at 31 March 2012 was composed as follows:

Table: Credit volume

Credit volume in € million	**31 Mar. 2012**	**31 Mar. 2011**	**Difference**
Loans and advances to banks	2,445	2,095	350
Loans and advances to customers	18,058	20,522	-2,463
Bonds and other fixed-income securities not including own bonds	7,415	7,600	-185
Equities and other fixed-income securities	78	30	49
Assets held for trading	222	74	148
Subtotal: balance sheet assets	**28,219**	**30,321**	**-2,101**
Contingent liabilities[1)]	1,405	1,080	325
Asset derivatives in the non-trading book	2,247	752	1,495
Valuation allowances[2)]	512	770	-258
Gross credit volume	**32,383**	**32,922**	**-540**
For information purposes: Other significant counterparty default risks outside the gross credit volume			
Irrevocable loan commitments[3)]	1,455	1,443	12
Investments and shares in affiliated companies	791	1,090	-299

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

1) Not including derivative components of structured products (CDS), which are reported under “Bonds and other fixed-income securities”

2) Not including provisions for embedded CDS transactions reported off-balance sheet; credit volume after deduction of valuation allowances on bonds and other fixed-income securities

3) Before deduction of valuation allowances in the amount of € 6 million (previous year: € 0 million)

The gross credit volume decreased by € 0.5 billion to € 32.4 billion. Loans and advances to customers declined by € 2.5 billion; this was largely due to the reduction in non-strategic assets. By contrast, asset derivatives in the non-trading book rose by € 1.5 billion to € 2.2 billion. The € 0.4 billion increase in loans and advances to banks is attributable to the growth in call accounts as part of collateral agreements in derivatives trading. The € 0.3 billion increase in contingent liabilities relates to intragroup transactions. Valuation allowances declined by € 0.3 billion as a result of the reduction in problem exposures.

Table: Credit volume by size

Size in € million	31 Mar. 2012 Credit volume		Number[1)]	31 Mar. 2011 Credit volume	
Under € 5 million	2,642	8%	1,997	2,442	7%
Between € 5 million and € 10 million	2,220	7%	304	2,473	8%
Between € 10 million and € 20 million	3,300	10%	237	3,592	11%
Between € 20 million and € 50 million	3,183	10%	105	3,225	10%
Over € 50 million	11,481	35%	64	9,722	30%
Sub-total	**22,826**	**70%**	**2,707**	**21,454**	**65%**
Risk transferred to third parties[2)]	4,826	15%		6,708	20%
Total	**27,652**	**85%**		**28,162**	**86%**
Internal transactions[3)]	4,731	15%		4,760	14%
AG as a whole	**32,383**	**100%**		**32,922**	**100%**

Some totals may be subject to discrepancies due to rounding differences.
1) Borrower groups in accordance with section 19 KWG
2) Hermes guarantees, indemnifications, risks transferred
3) Loans and contingent liabilities to companies in the scope of consolidation of IKB in accordance with the International Financial Reporting Standards (IFRS)

The reduced volumes in the size classes up to € 50 million are due to the repayment of loans and sales of loan receivables.

The rise in the volume for the size class of over € 50 million is characterised by the increased positive market values of derivatives and collateral with banks provided for derivatives. The average exposure in this class is € 179 million (previous year: € 177 million). The largest share of exposures over € 50 million relates to banks (€ 7.4 billion; previous year: € 5.4 billion), the public sector (€ 2.2 billion; previous year: € 2.5 billion) and portfolio investments (€ 0.5 billion; unchanged year-on-year).

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

This mainly includes synthetic securitisations, in which KfW Bankengruppe (KfW) hedges the credit risk, and indemnifications, which are also predominantly used in the context of KfW programmes. Current risk transfers amount to a total of € 4.8 billion. The Bank is secured against counterparty default risks by means of synthetic securitisations, although they are still reported in the balance sheet and continue to be managed by IKB. At the reporting date, the utilisation of these loans amounted to € 2.6 billion (previous year: € 4.2 billion). The loans transferred are composed as follows:

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

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

Table: Credit volume by type of collateral

Credit volume in € million	31 Mar. 2012 Credit volume		31 Mar. 2011 Credit volume	
Property liens and charges	4,463	14%	5,145	16%
Transfers of ownership	429	1%	477	1%
Other collateral[1)]	2,676	8%	3,231	10%
Collateralised[2)]	3,947	12%	1,255	4%
Secured credit volume[3)]	**11,514**	**36%**	**10,108**	**31%**
Without collateral	11,311	35%	11,347	35%
Sub-total	**22,826**	**70%**	**21,454**	**65%**
Risk transferred to third parties[4)]	4,826	15%	6,708	20%
Total	**27,652**	**85%**	**28,162**	**86%**
Internal transactions	4,731	15%	4,760	14%
AG as a whole	**32,383**	**100%**	**32,922**	**100%**

Some totals may be subject to discrepancies due to rounding differences.
1) e.g. assignment of receivables, participation rights, assignment of shares, ownership rights, subordinations, fixed and floating charges, mortgage over shares
2) Derivatives with positive market values (€ 1.9 billion) and call accounts (€ 2.0 billion) relating to collateral agreements, i.e. with corresponding positions, largely derivatives with negative market values
3) Including credit portions beyond collateral value
4) Hermes guarantees, indemnifications, risks transferred

Exposures secured by means of property liens, transfers of ownership and other collateral decreased by a total of € 1.3 billion in the past financial year.

The "Collateralised" item is used to report derivatives with positive market values and call accounts that relate to collateral agreements, i.e. with corresponding positions – largely derivatives with negative fair values. This position increased by € 2.7 billion year-on-year due to the rise in the market value of the relevant derivatives.

The majority of unsecured loans relates to banks (€ 4.0 billion; previous year: € 5.1 billion), the public sector (€ 2.4 billion; previous year: € 2.8 billion) and portfolio investments (€ 0.6 billion; unchanged year-on-year). The remaining unsecured loans increased from € 2.8 billion to € 4.3 billion, largely as a result of new business and the rise in the market value of the relevant derivatives. Unsecured loans relating to banks and the public sector primarily include securities that are assigned to the cash portfolio and are eligible at the ECB.

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

Table: Credit volume by region

Regions in € million	31 Mar. 2012 Credit volume		31 Mar. 2011 Credit volume	
Germany	**11,090**	**34%**	**11,339**	**34%**
Outside Germany	**11,735**	**36%**	**10,115**	**31%**
Western Europe	9,132	28%	8,379	25%
Eastern Europe	191	1%	223	1%
North America	2,241	7%	1,296	4%
Other	171	1%	218	1%
Sub-total	**22,826**	**70%**	**21,454**	**65%**
Risk transfers[1)]	4,826	15%	6,708	20%
Total	**27,652**	**85%**	**28,162**	**86%**
Internal transactions	4,731	15%	4,760	14%
AG as a whole	**32,383**	**100%**	**32,922**	**100%**

Some totals may be subject to discrepancies due to rounding differences.
1) Hermes guarantees, indemnifications, risks transferred

The credit volume in Germany declined slightly in the past financial year. The growth in the credit volume outside Germany is attributable to the higher volume of derivatives and Western European bank bonds.

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

Country ratings[1)]Credit volume in € million	31 Mar. 2012 total[2)]	Country ratings				
		1-6	7-9	10-12	13-15	16-19
Western Europe	9,132	8,390	558	143	0	41
Eastern Europe	191	115	14	61	0	0
North America	2,241	2,241	0	0	0	0
Other	171	112	23	22	15	0
Total	**11,735**	10,859	595	226	15	41

Some totals may be subject to discrepancies due to rounding differences.
1) Excluding risks transferred to third parties; higher credit ratings reflect higher risk levels
2) Export credit guarantees are deducted from the figures presented above. No other adjustments for collaterals are made.

92% of the credit volume attributable to countries outside Germany was assigned to the six best country risk classes, 1-6. In addition, risk transfers (e.g. secured by Hermes guarantees) of € 0.4 billion related to borrowers outside Germany.

The utilisation of loans in risk classes 13-15 primarily relates to Iran (€ 12 million) and Egypt (€ 2 million). The utilisation of loans in risk classes 16-19 relates to Greece (€ 41 million).

Within Western Europe, risks relate to the following states:

Table: Credit volume in Western Europe by risk

31 Mar. 2012 in € million	Credit volume after risk mitigation	of which state risks	of which banks[1)]	of which other counterparty default risks[2)]
UK	1,914	0	957	957
France	1,826	166	998	661
Italy	1,688	1,018	251	419
Spain	1,339	97	563	679
Ireland	558	19	20	519
Luxembourg	336	0	255	81
EU[3)]	325	230	0	95
Netherlands	287	0	119	168
Switzerland	236	0	131	105
Portugal	143	50	31	61
Sweden	137	0	100	37
Greece	41	16	13	12
Other	301	0	132	169
Total	**9,132**	**1,597**	**3,570**	**3,966**

Some totals may be subject to discrepancies due to rounding differences.
1) Bank exposures in Spain and Italy primarily contain covered bonds.
2) Portfolio investments of € 367 million are included in the figure for Ireland, while bonds issued by the European Financial Stability Facility (EFSF) in the amount of € 95 million are included in the figure for the EU.
3) European Commission and EFSF

Since the end of 2009, the debt levels of some EU states have led to a massive loss of confidence in the European Monetary Union. To prevent this crisis of confidence from spreading further and to thereby ensure the stability of the euro, all euro states have since agreed a stability pact intended to guarantee the solvency of the EU states. The euro states that have received or applied for aid to date are Greece, Ireland, Portugal and Spain. Thanks to these support measures by the EU, the Bank does not feel that these states are exposed to acute default risks at present, with the exception of Greece.

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

The Greek credit event on the CDS market affected four first-to-default securities referring to Greece with a total cost of € 148 million. Two of these securities had already been swapped at the reporting date in exchange for the delivery of Greek government bonds with a nominal volume of € 30 million and a carrying amount of € 7 million, as well as Hellenic Railway with a nominal volume of € 38 million and a carrying amount of € 12 million. These securities were sold after the balance sheet date. The two remaining first-to-default securities (nominal volume € 80 million, carrying amount € 13 million) were only swapped after the balance sheet date, with the securities received in exchange also being sold. In the above overview, the first-to-default securities are allocated to the risk country of Greece.

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

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

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

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

Table: Credit volume by sector

Sectors in € million	31 Mar. 2012 Credit volume		31 Mar. 2011 Credit volume	
Industrial sectors	**10,320**	**32%**	**9,826**	**30%**
Energy supply	850	3%	1,038	3%
Services	788	2%	717	2%
Mechanical engineering	743	2%	746	2%
Wholesale	647	2%	479	1%
Retail	624	2%	618	2%
Other	6,668	21%	6,229	18%
Real estate	**1,355**	**4%**	**1,839**	**6%**
Financial sector	**870**	**3%**	**892**	**3%**
Banks	**7,912**	**24%**	**6,117**	**19%**
Public sector	**2,369**	**7%**	**2,779**	**8%**
Sub-total	**22,826**	**70%**	**21,454**	**65%**
Risk transfers[1)]	4,826	15%	6,708	20%
Total	**27,652**	**85%**	**28,162**	**86%**
Internal transactions	4,731	15%	4,760	14%
AG as a whole	**32,383**	**100%**	**32,922**	**100%**

Some totals may be subject to discrepancies due to rounding differences.
1) Hermes guarantees, indemnifications, risks transferred

The credit volume in the industrial sectors increased by € 0.5 billion year-on-year, while the credit volume in the real estate industry fell by € 0.5 billion year-on-year. The degree of diversification in the industrial sectors is still high, with no single sector accounting for more than 3% of the portfolio. The increase of € 1.8 billion in the banking sector is primarily attributable to the higher level of derivatives with positive market values.

Credit rating structure. The credit volume not including internal transactions is assigned to the internal rating classes as follows:

Table: Credit volume by credit rating structure

Credit rating structure[1)] in € million	31 Mar. 2012 Credit volume		31 Mar. 2011 Credit volume	
1-4	8,662	31%	8,624	31%
5-7	6,197	22%	3,842	14%
8-10	4,224	15%	4,029	14%
11-13	1,867	7%	2,295	8%
14-15	242	1%	357	1%
Lehman assets[2)]	339	1%	332	1%
Problem exposures[3)]	1,295	5%	1,975	7%
Sub-total	**22,826**	**83%**	**21,454**	**76%**
Risk transferred to third parties[4)]	4,826	17%	6,708	24%
Total	**27,652**	**100%**	**28,162**	**100%**

Some totals may be subject to discrepancies due to rounding differences.
1) Higher rating classes reflect lower creditworthiness
2) Portfolio investments whose probability of default is no longer dependent on the credit ratings of the portfolio investments due to legal risks, and that therefore cannot be quantified
3) Carrying amounts, i.e. after deducting losses from impaired financial assets (securities)
4) Hermes guarantees, indemnifications, risks transferred

The € 2.4 billion increase in credit rating levels 5-7 is primarily attributable to deteriorations in the creditworthiness of bank counterparties and the public sector. In addition to problem exposures, the volume in credit rating levels 11-13 also declined due to loan repayments and improvements in creditworthiness.

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

Table: Problem exposures[1)]

Credit volume	31 Mar. 2012 in € million	31 Mar. 2011 in € million	Change	
			in € million	in %
Impaired (non-performing loans)	1,013	1,533	-520	-33.9%
Non-impaired	281	442	-161	-36.3%
Total	**1,295**	**1,975**	**-680**	**-34.4%**
In % of credit volume not including internal transactions	4.7%	7.0%		

Some totals may be subject to discrepancies due to rounding differences.
1) Carrying amounts, i.e. after deducting losses from impaired financial assets (securities). Nominal volume at 31 March 2012: € 164 million; 31 March 2011: € 133 million

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

The following table provides an overview of non-performing loans[4].

[4] A loan is defined as being non-performing if (i) insolvency proceedings have been instigated, (ii) if interest or principal payments are more than 90 consecutive days in arrears, or (iii) in the event of other clear signs that the debtor is unable to meet the contractual obligations in the absence of any objective indications that subsequent payment or the realisation of collateral is likely. The liquidation value of the available collateral is taken into account in such cases.

Table: Non-performing loans

Credit volume	31 Mar. 2012 in € million	31 Mar. 2011 in € million	Change	
			in € million	in %
Germany	619	1,105	-486	-43.9%
Outside Germany	340	352	-12	-3.5%
Impaired loans	**959**	**1,457**	**-498**	**-34.2%**
Securities (impaired financial assets)[1)]	54	76	-22	-28.8%
Impaired (non-performing loans), total	**1,013**	**1,533**	**-520**	**-33.9%**
In % of credit volume not including internal transactions	3.7%	5.4%		

Some totals may be subject to discrepancies due to rounding differences.
1) Carrying amounts, i.e. after deducting losses from impaired financial assets (securities). Nominal volume at 31 March 2012: € 164 million; 31 March 2011: € 133 million

The decline in non-performing loans predominantly relates to liquidation measures of German borrowers. The volume of non-performing loans for foreign borrowers was virtually unchanged.

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 the permanent impairment of CDSs as well as for CDSs embedded in credit-linked notes (CLNs).

When measuring the valuation adjustment required, IKB takes into consideration both expectations with regard to future cash flows from interest and principal payments and the value of the respective collateral. The Credit Risk Management central division is responsible for setting 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 reduced from 110% to 100%. If the factor had remained unchanged, the global valuation allowance as at March 2012 would have been € 10 million higher. In order to reflect latent default risks in financial assets, loans and advances to banks and irrevocable loan commitments, the Bank added global valuation allowances totalling € 6 million for the first time on the basis of an expected loss estimate. The total amount of global valuation allowances is € 111 million after € 118 million in the previous year.

At € 14 million, the net provision for possible loan losses was € 50 million less than in the previous year (€ 64 million). The decline in risk provisioning is primarily due to the improved economic situation, which was reflected in lower additions accompanied by a continued high level of reversals. This positive development affects all credit sub-portfolios; the decline is particularly significant in the corporate area. For this reason, additions to specific valuation allowances were reduced. Net risk provisioning includes € 11 million of reversals of global valuation allowances and expenses of € 8 million relating to the sale of customer receivables without increased risk for portfolio optimisation purposes.

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

Structured credit products. The risks of these positions were reduced further over the course of the financial year. In terms of carrying amount, the risks of the remaining structured credit products predominantly relate to legal risks from positions in connection with the Lehman insolvency, to economic risks from items solely referencing corporate and state risks and the retention of IKB's own securitisation.

Following the transfer of the first loss tranche of the Rio Debt Holdings transaction to IKB PE, economic risks from investments with sub-prime content affect IKB only indirectly through the carrying amount of the investment in the receiving company.

As at 31 March 2012, the portfolio investments and other structured credit products had a nominal volume of € 1,081 million (31 March 2011: € 1,277 million) and comprised:

- Securitisation positions with a nominal amount of € 103 million (31 March 2011: € 152 million) and a carrying amount of € 55 million (31 March 2011: € 103 million) assigned to the strategic core business of the Bank and primarily deriving from the securitisation of own loans. These assets largely have a sub-investment grade rating.

- Two synthetic transactions with six tranches and corporate and state reference assets with a total volume of nominally € 200 million and a carrying amount of € 200 million (both unchanged year-on-year). The transactions have an external rating of Baa.

- Securities with a nominal volume of € 24 million (31 March 2011: € 516 million) and a carrying amount of € 15 million (31 March 2011: € 26 million) that were synthetically transferred to Rio Debt Holdings.

- One position with a nominal volume of € 15 million (31 March 2011: three positions with a nominal volume of € 77 million) that were transferred from the Havenrock I portfolio to IKB as part of asset disposals. This position was written down in full in the 2010/11 financial year.

- Owing to the Lehman insolvency, four synthetic transactions with a nominal value of € 339 million (31 March 2011: € 332 million) and a carrying amount of € 339 million (31 March 2011: € 332 million) are being wound up (one transaction has already been wound up). The risks for IKB resulting from these transactions are limited to legal risks with regard to the winding up process and the credit quality of the collateral provided. The ratings for these assets were withdrawn.

In terms of carrying amount, the actual economic risk to IKB from its portfolio investments was therefore only € 255 million as at 31 March 2012. € 55 million of this relates to the securitisation positions from the core business of IKB stated under the first point above (31 March 2011: € 103 million) and € 200 million to the synthetic transactions stated under the second point (31 March 2011: € 200 million). None of these positions has any sub-prime content.

Liquidity and market price risk

Liquidity risk

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

The Bank covered its liquidity requirements in the period under review – and will continue to do so in future – by accepting customer deposits, through secured borrowing on the interbank money market (cash and term deposits) and by participating in ECB tenders. The volume of new customer deposits again developed positively in the reporting period, now amounting to just under € 6 billion (previous year: just under € 4 billion).

Liquidity was also generated through asset disposals and the issue of promissory note loans guaranteed by the Deposit Protection Fund. IKB also received funds from public assistance programmes initiated by KfW and regional development authorities, which it is using to provide financing to its medium-sized corporate clients.

The improved short and medium-term liquidity situation allowed the Bank to reduce its SoFFin guarantee volume from € 9.5 billion to € 4.5 billion in the 2011/12 financial year.

Depending on the development of its new business, the Bank expects its liquidity requirements to amount to between € 10 billion and € 11 billion over the next twelve months. As previously, the main options currently available for refinancing these requirements are accepting customer deposits and promissory note loans, secured borrowing on the interbank market (cash and term deposits), participating in ECB tenders and selling balance sheet assets. A further option for the Bank lies in collateralised refinancing structures.

Liquidity planning is based on a range of assumptions as to the above and other factors which can determine liquidity, both on the assets side and the liabilities side. In the event that a number of these assumptions do not come to fruition, this may result in liquidity bottlenecks. For example, this may include market developments that prevent the Bank from extending liabilities guaranteed by the Deposit Protection Fund or selling balance sheet assets to a sufficient extent or at all.

Market price risk

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

IKB distinguishes between the portfolios for proprietary and customer trading, the investment portfolio including the liquidity reserve and loan refinancing. The liquidity reserve constitutes investments that can be utilised at the Central Bank or in interbank business in order to generate liquidity at short notice. All portfolios are valued on a daily basis. Their risk content is measured in a present-value value-at-risk system that forms the basis for limiting market price risks.

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

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

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

The relevant spread risk for IKB results in particular from the securities and promissory note loans in its investment portfolio and the other remaining portfolio investments.

Volatility risk. Volatility risks exist in potential changes in value for option positions as a result of implicit volatility observable on the market or option prices. Remaining option writer positions are held, particularly in the investment portfolio of the Bank.

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

Quantifying market price risks. In order to quantify market price risk in the context of operating management and daily monitoring, the Bank applies a value-at-risk approach using historical simulations, taking into account all relevant risk factors (interest, volatilities, exchange rates, spreads, equity prices). In order to give consideration to the specific features of all products, a complete valuation of structured interest products takes place using the last 250 historical market scenarios and incorporating correlation effects when carrying out historical simulation. For non-structured instruments, an assessment of the market value effect is carried out on the basis of interest, exchange rate and spread sensitivities of the instruments.

The value-at-risk expresses the loss in value for the portfolio of the Bank over a period of one day (holding period) which has a 99% probability (confidence level) of not being exceeded. This is the second-worst scenario result of the simulation. The value-at-risk is calculated at a confidence level of 99.76% (liquidity perspective) or 90% (going concern perspective) assuming a holding period of one year for the purposes of risk-bearing capacity (see “Risk-bearing capacity”).

Regular clean backtesting is carried out in order to test the ability of the models used to make predictions. The Board of Managing Directors is informed of the results of these tests during monthly MaRisk reporting. With regard to the assessment of the model's forecast quality, there were no outliers above and beyond the statistical benchmark in the financial year.

Development of the market price risk profile. The following table shows the development of the market price risk profile of the Group on the basis of the value-at-risk at a 99% confidence level assuming a holding period of one day.

Table: Market price risk profile

in € million	**31 Mar. 2012**	**31 Mar. 2011**
Basis point value	**0.3**	**-0.05**
Vega	**0.1**	**0.6**
VaR – foreign currency	-2.5	-2.5
VaR – interest rate and volatility	-5.2	-7.5
VaR – spread	-53.3	-41.7
Correlation effect	4.9	7.8
VaR total	**-56.1**	**-43.9**

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

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

Limiting. Limiting consists of a value-at-risk limit for the Group based on a 99% confidence level and assuming a holding period of one day. The value-at-risk limit is the same as the limit for market price risk in the context of risk tolerance. Furthermore, currency risks in aggregate holdings are restricted by way of a volume limit for the open positions. No limits were exceeded in the past financial year.

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

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

Operational risk

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

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

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

The gross loss volume identified in the financial year amounted to a total of € 18.5 million at Group level. Around € 12.4 million of this related to IKB AG. Loss reductions (e.g. insurance, settlement or goodwill payments) mean that the loss recognised in the income statement can be lower. If individual loss amounts cannot (yet) be determined exactly, the values are based on estimates. The Bank currently feels that the greatest operating risks lie in its legal risks (see chapter "Legal risks").

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

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

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

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

Legal risk

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

As a matter of principle, this task is performed using available internal resources. If necessary, external law firms are brought in for support.

In day-to-day business, a sample contract system based on text modules is used with which credit and collateral agreements in particular can be created. Deviations from these samples are checked and approved by the Legal central division.

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

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

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

There are the following significant legal conflicts:

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

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

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

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

IKB still considers the outstanding claims by investors not yet dismissed (with a remaining provisional value of around € 10.6 million) and the out-of-court claims for damages to be unfounded. Nonetheless, even after more than four years since the crisis broke out, the possibility that additional investors will claim for damages against the Bank cannot be completely ruled out. The success of these claims could increase the overall risk to which the Bank is exposed.

Other legal proceedings. On 16 September 2011, Crédit Agricole Corporate and Investment Bank (CA-CIB, formerly Calyon), Financial Guaranty Insurance Company (FGIC) and IKB Deutsche Industriebank AG (IKB) – and other parties – signed an agreement aimed at resolving various legal disputes between the parties.

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

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

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

At the start of February 2010, IKB filed to have the suits dismissed in New York on the grounds of incompetence of the court owing to, among other things, failure to state a claim. The proceedings were dismissed by way of rulings dated 4 May and 18 May 2010. The two matters were combined on 10 June 2010. In late November 2011, IKB completed its discovery for the combined suit. On 10 January 2012, the plaintiffs submitted additional particulars of the claim. On 31 January 2012, IKB filed to have the expanded claim dismissed on the grounds of failure to state a claim, among other things. The court ruled on this matter on 4 May 2012. The ruling allows the plaintiffs to also file a suit against all of the defendants due to negligent representation.

IKB is still of the opinion that the accusations made against IKB by the plaintiffs are unfounded and will continue to defend itself against these actions.

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

In an agreement dated 10/16 September 2008, KfW provided a degree of indemnification to IKB for claims from legal disputes against IKB (including the relevant court costs) in connection with the RFCC, Rhinebridge (including the suit concerning the plaintiffs King County and Iowa Student Loan Liquidity Corporation) or Havenrock entities for events which occurred before 29 October 2008.

Even if the indemnification amount is limited, IKB anticipates that the risks from currently asserted legal disputes are largely covered by the indemnification. In this connection, IKB has extensive duties to KfW in respect of information, disclosure, participation and action. Claims from IKB shareholders of investors in financial instruments linked to the development of IKB shares are not covered by the indemnification.

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

Criminal proceedings/investigation by the public prosecutors. After the Düsseldorf Department of Public Prosecution brought an action against the former Chairman of the Board of Managing Directors, Mr Ortseifen, in July 2009, the competent economic crimes chamber of the Düsseldorf Regional Court handed down a suspended sentence of ten months in July 2010 for market manipulation. The appeal lodged against this first instance ruling was rejected by the German Federal Court of Justice on 20 July 2011; the verdict has been legally binding since that date.

CDOs arranged by Lehman Brothers. The Bank invested in structured credit products (originally five synthetic CDOs with a total nominal volume of € 334 million and US$ 213 million) in which Lehman Brothers acted as the secured party through a special purpose entity. Following the insolvency of Lehman Brothers, the transactions concerned were terminated by the issuer on the basis of its contractual options. In such event, the documentation provided for the liquidation of the transaction collateral and the distribution of the profits in a specific order (“transaction waterfall”).

Under the contractually agreed regulations, in the event of its insolvency, the swap counterparty (in this case, Lehman Brothers) is subordinate to the investors in the distribution of the proceeds from the transaction collateral. This regulation on seniority has since been reviewed by courts in the UK and the US without the involvement of the Bank. While courts of final instance in the UK have upheld the validity of this regulation, a first instance insolvency court in the US has granted a violation of basic insolvency law principles. The underlying legal dispute has since been settled out of court between the parties immediately after admission to the court of appeal in the USA. Other model proceedings are still ongoing. A final instance confirmation of the legal position of the opposing party with the US courts could lead to the dismissal of the payment and, under certain circumstances, to claims for restitution against IKB. The Bank considers the probability of occurrence to be low. Because of the transactions, the Bank is involved in the out-of-court settlement proceedings with Lehman Brothers as ordered by the US insolvency court.

State aid proceedings. In connection with the rescue measures taken by KfW with the support of the banking associations for the benefit of IKB, the European Commission qualified the measures as aid and approved them in October 2008 under strict conditions. Since this date, the Bank has had to deploy considerable resources to implement these conditions. The restructuring period from the ruling expired on 30 September 2011. The final report on the completed implementation of the EU conditions was submitted by the German Federal Government to the European Commission at the turn of the year 2011/12. IKB implemented the measures set out in the restructuring plan in a timely measure where this was feasible and permitted in accordance with the relevant statutory conditions. Accordingly, IKB assumes that the conditions were met at the reporting date. A formal response from the European Commission is currently still awaited. If the conditions are not met, the Bank may be significantly disadvantaged, both legally and economically. Furthermore, the EU Commission’s ruling of 17 August 2009 on the admissibility of the extended SoFFin guarantee entails strict obligations with regard to IKB's operations, non-compliance with which could lead to material legal and economic disadvantages for the company.

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

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

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

Risks in connection with SoFFin conditions

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

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

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

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

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

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

IT risk

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

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

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

Staff training is also a key element of security precautions.

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

Compliance risk

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

The performance of compliance functions and reporting on the satisfaction of organisational requirements are implemented on the basis of a compliance map to be updated every year, which specifies all compliance functions and assigns responsibilities. Compliance functions are predominantly performed centrally.

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

Specifically, the Compliance Board is responsible for the following tasks:

- holistic monitoring of all compliance functions,
- ensuring and monitoring compliance risk management and
- the multiplier function for compliance issues at the Bank.

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

With an annual risk inventory, which is coordinated by the Finance, Risk Controlling and Legal divisions, the intention is to ensure not just the regulatory end-to-end and Group-wide risk tracking and updating of threat analyses, but also comprehensive reporting (annual report of the Chief Compliance Officer) on the basis of uniform data.

According to the current threat analysis, in terms of external fraud, it is assumed that IKB has a medium threat situation, equal to that of banks of a similar size and with a comparable business model. IKB is therefore not facing any non-standard or exaggerated risk of fraud.

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

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

Overall, on account of its specific operations, IKB is exposed to substantially less risk of money laundering than banks that perform over-the-counter business and payment transactions on behalf of customers. IKB has taken and implemented appropriate protective measures based on its business activities. With regard to the business activities of “IKB direkt” with retail customers, the growing number of customers means that the range of instruments for preventing money laundering is being continuously expanded with a view to identifying politically exposed persons and counteracting the abuse of accounts.

The regulations on money laundering prevention are contained in special organisational instructions for IKB as well as in specific handbooks at each of the affected sites abroad. Furthermore, IKB has implemented a compliance concept in which conduct requirements with regard to securities compliance are specified as binding for all employees, in some cases for specific locations. This is supplemented by the Group guideline on handling conflicts of interest and benefits. IKB also describes the moral concepts and beliefs of the Bank in a Code of Conduct. The principles given in the IKB Code of Conduct include requirements for the conduct of all employees at all locations of the Group. These provide a binding frame of reference for day-to-day business.

Personnel risk

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

As a result of the extensive reorganisation of the Bank, there has been a reorganisation of the workplace and a reduction in the number of jobs over recent years. Existing structures and deeply-rooted processes were changed and job descriptions modified. Thanks also to the clear regulations in the reconciliation of interests and the redundancy scheme and the consistently stable management structures, the reorganisation was successful without notable inefficiencies or elevated propensity to error. Further cost reduction and restructuring measures are planned at the Düsseldorf location in particular. To implement these measures, a new reconciliation of interests and redundancy scheme was negotiated with the employee representatives and signed on 8 May 2012. With a view to this, uncertainty among employees can be expected during the decision-making and implementation phase.

In the 2011/12 financial year, the number of people leaving the Bank exceeded the number of new appointments. The workforce reduction focused in particular on central functions. Feared recruitment bottlenecks materialised in only a few areas. One factor that can be considered to have reduced risk is that the Bank has succeeded in recruiting a number of highly qualified new employees and executives.

Strategic risk and reputation risk

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

Due to the fact that there are no regularities as regards strategic risks, it is difficult to capture these quantitatively as special risks in an integrated system and they are therefore assessed qualitatively.

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

The Bank is of the opinion that it has fulfilled the EU conditions in full and on schedule. The final report has been submitted to the European Commission. By reorienting its business model, including widening its product range for SME customers (primarily capital markets and consulting services) and by utilising customer potential more intensively, IKB is aiming to cover the needs of its customers adequately and thereby making IKB profitable.

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

A key aim of IKB is to improve its reputation once more, which has been damaged as a result of the crisis. Reputation risks at IKB are managed by the Board of Managing Directors. Responsible communications with all interest groups is a high priority in the management of reputation risks.

Business risk

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

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

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

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

Participation risk

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

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

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

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

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

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

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

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

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

Overall assessment of the risk situation

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

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

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

A key focus for IKB is ensuring sufficient financing for its planned business activities and the repayment of outstanding liabilities. Given the changes in the Bank's business model, its refinancing requirements will be lower than in the past. IKB has adjusted its refinancing structure and freed itself from its dependency on unsecured bond issues. The intensified and diversified deposit business with corporate clients and retail customers and repos (ECB and general collateral pooling) are of growing importance for refinancing. Secured refinancing on the capital market is a liquidity option for the Bank. An expansion of new lending business beyond the planned scope leading to rising liquidity requirements is not expected. According to planning, and taking into account the maturing SoFFin-guaranteed bonds, liquidity is ensured with a sufficient buffer.

IKB must comply with the – partially overlapping – requirements of the European Commission for the state aid granted, the guarantees issued by SoFFin for bonds and the Deposit Protection Fund of private banks for the secured deposit volume. The conditions imposed by the European Commission were fulfilled as at the reporting date (30 September 2011). Even after the risk provisioning for the Bank's Greek bonds, the Group's tier I capital ratio remains in excess of the minimum level of 8% required by SoFFin, among other things, and is expected to remain above this level during the two-year forecast period based on the Bank's planning. Thus, in addition to complying with the maximum volume of deposits and issues, the main requirements of the Deposit Protection Fund have also been satisfied.

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

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

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

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

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

Applicable legal provisions, accounting standards and first-time adoption

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

Responsibility for the ICSA

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

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

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

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

Organisation of accounting

Accounting at IKB is essentially performed centrally in the Finance division at the main site in Düsseldorf. The Finance central division is responsible for the preparation of the separate and consolidated financial statements. Accounting for the subsidiaries included in the consolidated financial statements is usually performed centrally by the Finance department or at the IKB Leasing Group under the terms of agency agreements. Accounting services are performed by external service providers for individual subsidiaries and the special purpose entities included in the consolidated financial statements. The accounting information supplied is checked for plausibility in the financial statement preparation process and usually audited by the local auditor of the company or reviewed. The Finance central division is supported by other divisions of the Bank in the performance of tasks within the preparation of the annual financial statements. The Taxes administrative department is responsible for processing all tax matters at the Bank, providing tax support for foreign units (foreign branches, foreign subsidiaries, foreign investment companies) of the Bank and for calculating deferred taxes in line with HGB/IFRS. Credit Risk Management and Securitisation Structure Management calculate valuation allowances and provisions in connection with lending business and valuation allowance requirements for securitisation respectively. Financial instruments that are not related to lending business are measured by Risk Controlling. The management report is prepared under the guidance of the Communications department with the involvement of other areas of the Bank.

Objectives and limits of the ICSA

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

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

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

Organisation and function

Requirements of the internal control system

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

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

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

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

Use of IT and specifications in the internal control system

IT systems not only have to properly map accounting policies, they must also comply with the generally accepted principles of computerised accounting systems (GoBS) and the generally accepted principles of proper accounting when using information technology (IDW RS FAIT 1). By systematically selecting its systems and contractual agreements, IKB AG ensures that its systems meet these requirements at all times. This is verified by regular internal and external audits. The necessary separation of functions is ensured in the accounting systems used by IKB by only issuing the authorisations required to process tasks. Internal Audit regularly reviews the appropriateness and compliance of the authorisation concept. As part of a regular process and internal projects, the existing authorisation concept in the SAP environment is permanently reviewed and further specified. Thus, authorisation roles have been defined more narrowly to ensure that sensitive data can only be processed and viewed by a defined group of persons. The dual control principle is a component of the internal application control system. Proper operation of the systems is based on extensive system documentation and regular training.

Designing the ICSA

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

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

The implementation of the “no accounting entries without documentation” principle and the separation of performance, approval and recording functions also ensure that only transactions that actually happened are recognised. This is also backed up technically in the SAP FI system, and can therefore be clearly understood by third parties using SAP protocols.

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

A similar process is used for the purchase and sale of securities and other financial instruments. Here, transactions are automatically copied from the trade system into the sub-ledger system. Downstream manual and computer controls ensure that data is copied to the sub-ledger system accurately and in full. In addition, the balances of bank, nostro and security accounts are regularly checked against accounting amounts. Transactions are measured using processes entered in the system. In addition, procedures are implemented that ensure that financial instruments for which prices cannot be derived from an active market can be identified. Fair value is calculated by Risk Controlling and Securitisation Structure Management using recognised methods. The measurement models are reviewed for suitability internally and regularly adapted in line with changing requirements. Risk Management and Securitisation Structure Management determine the factors leading to impairment on long-term investments, calculate the amount of impairment and enter this in the systems.

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

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

Structural and procedural organisation of the annual financial statement process

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

The procedures and measures that apply to the process of preparing and auditing the annual financial statements also apply to the process of preparing the consolidated financial statements. Condensed interim consolidated financial statements and an interim Group management report are also prepared. Based on the proposal by the Supervisory Board, the Annual General Meeting elects the auditor of the single-entity and consolidated financial statements for the 2012/13 financial year and the auditor for the audit review of the condensed consolidated interim financial statements and interim Group management report for the first half of the 2012/13 financial year. The Board of Managing Directors decides whether the condensed consolidated interim financial statements and interim Group management report are to be subject to a review by the auditor. The subsidiaries’ IFRS data for the financial statements at Group level is delivered using reporting packages. The provisions of the accounting manual must be applied in their preparation. To ensure that the reporting packages are consistent with the Group’s centrally prescribed requirements, they are subject to regular internal control, as well as being audited and reviewed decentrally by the local auditors.

6. Events after 31 March 2012 (Supplementary report)

The following new developments have arisen since 31 March 2012:

Mandatory conversion of convertible bonds

In December 2008, IKB Deutsche Industriebank AG issued convertible bonds (ISIN DE000A0SMN11) with a nominal amount of € 123,671,070.72. Following the implementation of several optional conversions, the remaining convertible bonds with a nominal volume of € 146,488.32 were mandatorily converted on 11 April 2012, the final mandatory conversion date as set out in the issue conditions, for a number of no-par value bearer shares at the conversion ratio defined in the issue conditions. The mandatory conversion and an optional conversion in January 2012 increased the total number of voting rights by 58,662, from 633,326,261 to 633,384,923, and the subscribed capital by € 150,174.72, from € 1,621,315,228.16 to € 1,621,465,402.88.

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

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

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

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

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

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

Debt issuance programme

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

SoFFin guarantees

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

Changes in the Group

In April 2012, the investment fund partner Fond Eurobonds, Luxembourg, was fully liquidated.

Reconciliation of interests and redundancy scheme

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

Bonds relating to Greece

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

7. Outlook

Future general economic conditions

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

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

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

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

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

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

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

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

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

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

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

Opportunities of future development

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

IKB believes there are good prospects for an expansion of its activities in the areas of consulting, hedging and credit products. However, owing to the restructuring costs and the start-up costs for new business activities, it will take some time before the reorganisation is also reflected positively in the income statement. The Greek default has delayed the return to a positive result from ordinary business activities. A positive trend in terms of diversification and an increase in income from new business with improved margins have already been observed. Transactions not covering their costs are being eliminated. The number of customer mandates and the level of income from customer-related commission business have increased.

The complexity and pressures that arose from having a wide range of business areas and subsidiaries will be reduced further, with options for this still being examined. IKB will continue to reduce the complexity of its Group structure and improve the efficiency of all significant processes with a view to cutting costs. In this context, the Bank is planning to reduce the workforce by around 200. Another important factor in cost development will be the efficient implementation of the extensive changes that will result from the large number of regulatory projects.

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

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

Net assets

At 14.5% and 9.7% respectively, the overall capital ratio (solvency ratio) and tier I capital ratio of IKB AG are lower than in the previous year but still significantly in excess of the current minimum statutory requirements. A main control parameter used to date is the tier I capital ratio, which is well over 8% for IKB AG and the Group, thereby providing a buffer for unexpected isolated events. IKB is contractually required, particularly in respect of SoFFin, to maintain a minimum tier 1 capital of 8%. IKB expects to continue to fulfil this minimum requirement of 8% for IKB AG and the Group. To this end, IKB intends to sell or synthetically hedge additional risk-weighted assets and focus on generating loans in which third parties can also invest. Corresponding initiatives have been launched and others will follow. The Bank's business planning and all of the associated measures depend on the market environment. Significant unexpected losses and market disruptions with the characteristics of a stress scenario could further impact IKB's situation and make it impossible to maintain a tier I capital ratio of 8% without additional measures being taken. For the 2012/13 and 2013/14 financial years, the Bank expects to see a further reduction in loans and advances to customers, as new lending business will be more than offset by repayments in the lending business and asset-side reductions. In the forecast period, the liability side of the balance sheet is expected to be characterised by a reduction in securitised liabilities and an expansion of the funding mix.

Effects of Basel III

One key element of the Basel Committee's reform package is – assuming a corresponding implementation in European and national law – that the minimum requirement for core tier I capital will be raised from 2% to 4.5% and the minimum requirement for total tier I capital will be increased from 4% to 6%. These requirements will have to be met in stages over the period from 1 January 2013 to 1 January 2015. In addition, banks will be required to maintain a capital conservation buffer of 2.5%, covered by core tier I capital and to be gradually built up in the period from 1 January 2016 to 1 January 2019. Furthermore, a counter-cyclical capital buffer is being introduced that will consist of core tier I capital. In line with respective national conditions, this buffer can be between 0% and 2.5%.

In summary, this means that a core tier 1 capital ratio of up to 9.5% is expected by the end of the implementation phase on 1 January 2019, though it remains to be seen what form the counter-cyclical capital buffer will take. To ensure these and other minimum ratios, IKB will essentially manage its total assets by reducing risk assets, transferring risk and building up reserves, such as under section 340g HGB.

IKB's capital and liquidity resources are calculated for the Bank and the Group on the basis of HGB and the applicable regulatory standards and, based on the current legal situation, are likely to be significantly in excess of the Basel III limits not yet endorsed in EU law. As the new regulations are implemented, it will emerge which tier 1 capital ratios banks must strive for in future, which may be above the minimum specifications of international regulatory authorities. The Bank currently expects the significant national transitional provisions to remain unchanged even after an EU regulation introducing Basel III comes into force, at least temporarily.

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

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

Liquidity situation

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

IKB is not reliant on issuing unsecured bearer bonds on the capital market. The market for unsecured bank bonds is on the verge of upheaval anyway, as the regulatory authorities (Basel III, Solvency II) will also reduce key investors' scope for investment. Furthermore, the EU is planning to increase the liability of bond creditors in future.

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

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

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

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

Earnings performance

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

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

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

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

To limit its refinancing costs and ensure its liquidity in the future as well, IKB will continue to diversify its refinancing structure. The key components of this are secured financing, the active utilisation of programme loans and global loans from government development banks, and sustainable deposit business with corporate clients and retail customers.

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

8. Remuneration report

This remuneration report relates to the remuneration of members of the Board of Managing Directors and the Supervisory Board in and for the 2011/12 financial year and presents the organisation of the remuneration systems in and for this financial year. The design of the remuneration report takes into account the regulations of the German Commercial Code and the principles of the German Corporate Governance Code.

On the basis of the Ordinance on the Supervisory Requirements for Institutions' Remuneration Systems (Remuneration Ordinance for Institutions), the Bank has performed a self-assessment and, according to this, is not a major institution within the meaning of this Ordinance. The special requirements of remuneration systems for major institutions therefore do not apply to IKB.

The remuneration system of the Board of Managing Directors

The members of the Board of Managing Directors in the 2011/12 financial year were:

Hans Jörg Schüttler (Chairman of the Board of Managing Directors),

Dr Dieter Glüder,

Claus Momburg,

Dr Michael H. Wiedmann.

The total remuneration of members of the Board of Managing Directors consists of a fixed annual basic salary, a performance-related variable remuneration and additional benefits and pension commitments that are not performance-related. There are no stock option plans or comparable remuneration components. In addition to their fixed annual salary, the members of the Board of Managing Directors Mr Schüttler and Dr Wiedmann receive, an additional gross payment of € 10,000 in lieu of any agreed pension provisions.

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

The entire Supervisory Board regularly reviews the appropriateness of the respective total remuneration.

In order to understand the current structure of the remuneration system, the following aspects that have been in place for a number of years are important: IKB was granted an extended guarantee by SoFFin in August 2009. SoFFin imposed several conditions when granting these funds, including that the members of the Board of Managing Directors of IKB must waive payments in excess of € 500 thousand p.a. from 3 July 2009 to 31 December 2010 and that suitable agreements be put in place to ensure that any claims to subsequent payment do not affect the IKB balance sheet, i.e. that no provisions are recognised or liabilities posted in particular. All members of the Board of Managing Directors who were in office on or after 3 July 2009 issued corresponding waivers for the above period, including to avoid accounting effects until the end of the period agreed with SoFFin (31 December 2010). The waiver of remuneration does not affect additional benefits (e.g. car, insurance, pension instalments, telephone use). Under the agreements reached with SoFFin, subsequent payments are only permitted after the SoFFin guarantees have expired – currently this would be in 2015.

Non-performance-related remuneration components

The non-performance-related basic annual salary is paid as a monthly salary. Owing to the aforementioned SoFFin conditions in connection with the guarantee, the Board of Managing Directors agreements were adjusted effective 1 July 2009. Since then, the basic annual salary of the members of the Board of Managing Directors has been € 500 thousand each.

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

Performance-related remuneration components

In accordance with the recommendations of the German Corporate Governance Code, the remuneration system in place in the 2011/12 financial year consists of fixed and variable components. The variable remuneration component (bonus) involves a risk element – no minimum bonus has been agreed. Thus, the bonus is not an assured remuneration concept, in terms of either its merits or its amount.

The basis for variable remuneration is the attainment of the targets agreed in writing with each active member of the Board of Managing Directors. The entire Supervisory Board has agreed targets with a long-term incentive effect for the coming years with the members of the Board of Managing Directors that are aimed at ensuring the continued existence of the Bank and further developing the current business model. The targets aimed at ensuring the continued existence of the Bank are based on the specifications, conditions and requirements of the EU, SoFFin and the Deposit Protection Fund, and are therefore linked to IKB's strategic objectives in the same way as the targets aimed at the further development of the future business model.

The amount of variable remuneration is stipulated according to the extent to which the targets are achieved. A target bonus has been set for each member of the Board of Managing Directors for 100% attainment. This target bonus can either be increased or reduced to zero depending on actual attainment in the assessment period. Bonus caps have been agreed with all members of the Board of Managing Directors. The bonus is limited to a maximum of 200% in three cases and a maximum of 130% of the target bonus in one other case.

From the 2010/11 financial year onwards, the system of performance-related variable remuneration was adjusted such that the payment of the remuneration is now staggered over several years. If it is later found that the targets agreed with the individual members of the Board of Managing Directors were not met to the extent assumed in the financial year for which variable remuneration was granted, the Supervisory Board can, at its discretion, demand the return of portions of the bonus granted for the financial year concerned not yet due for payment until they fall due.

The bonuses resolved by the Supervisory Board for a financial year are therefore payable in the amount of 40% immediately after the resolution is passed by the Supervisory Board, but not before three bank working days after the adoption of the consolidated financial statements for the financial year for which they are granted. A further 30% of the bonuses is payable 21 bank working days after the adoption of the consolidated financial statements for the first financial year and the further 30% of the bonuses is payable 21 bank working days after the adoption of the consolidated financial statements for the second financial year following the financial year for which the bonus was granted.

The granting of bonuses is also subject to the proviso of any instructions from the BaFin.

Given the situation at the Bank, the Supervisory Board considers this form of variable remuneration for members of the Board of Managing Directors, i.e. granting a bonus for the attainment of agreed targets within a financial year – combined with an option to revise this attainment over a multi-year period and the option of a pro rata reduction in the bonus granted for the financial year in question – to be appropriate, taking into account both the interests of IKB and the legal and regulatory requirements. The targets agreed for IKB's Board of Managing Directors relate to the continued existence of the Bank, which continues to depend on its ability to comply with certain conditions, e.g. those imposed by SoFFin, as well as the further development of the Bank's business model.

With regard to the necessary compliance with and implementation of these conditions in the short term and with regard to the fact that IKB, in its sustained difficult situation, is still dependent on the consistently good work of its current Board of Managing Directors members, the Supervisory Board has resolved the structure for variable remuneration for the members of its Board of Managing Directors described above.

Change of control

The contracts of the members of the Board of Managing Directors in office feature change of control clauses. These clauses state that each member of the Board of Managing Directors is entitled to terminate his contract to the end of the month and resign his office as from the end of his contract in the event of a change of control. The special right of termination can be exercised within six months of a change of control taking place. A change of control occurs if, within the meaning of sections 21 ff. of the *Wertpapierhandelsgesetz* (WpHG – German Securities Trading Act), a person not affiliated with LSF6 Europe within the meaning of sections 15 ff. of the *Aktiengesetz* (AktG – German Stock Corporation Act) acquires more than 50% of voting rights in the company or these shares are attributable to this party.

Payments from third parties

In the last financial year, no member of the Board of Managing Directors received payments or promises of such from a third party in respect of their function as a member of Board of Managing Directors. Furthermore, no remuneration was paid to members of the Board of Managing Directors for assuming executive functions at subsidiaries in the 2011/12 financial year.

Overview of Board of Managing Directors remuneration

Details of the remuneration of the Board of Managing Directors for the 2011/12 financial year in accordance with contractual agreements and the resolutions of the full Supervisory Board are presented in the table below.

Table: Remuneration structure of the Board of Managing Directors

Annual remuneration in € thousand	Basic salary 2011/12 FY	Pension compensation 2011/12 FY	Variable remuneration 2011/12 FY 1)2)	Remuneration in kind/other 2011/12 FY	Total remuneration 2011/12 FY 1)2)
Hans Jörg Schüttler	500.0	120.0	1,000.0	0.3	1,620.3
Dr Dieter Glüder	500.0	-	630.0	9.9	1,139.9
Claus Momburg	500.0	-	460.0	15.2	975.2
Dr Michael H. Wiedmann	500.0	120.0	530.0	2.1	1,152.1
Total	**2,000.0**	**240.0**	**2,620.0**	**27.5**	**4,887.5**

1) The variable remuneration for the 2011/12 financial year has not yet been resolved by the Supervisory Board, but provisions have been recognised in the amount of the target bonuses agreed with the members of the Board of Managing Directors, i.e. a total amount of € 2,620 thousand (Mr Schüttler € 1,000 thousand, Dr Glüder € 630 thousand, Mr Momburg € 460 thousand and Dr Wiedmann € 530 thousand).

2) To the extent that the Supervisory Board resolves the bonuses for the 2011/12 financial year, the bonuses shall be payable to the members of the Board of Managing Directors in the amount of 40% immediately after the resolution is passed by the Supervisory Board, but no earlier than three bank working days after the adoption of the consolidated financial statements for the financial year for which they are granted. A further 30% of the bonuses is payable 21 bank working days after the adoption of the consolidated financial statements for the first financial year and the further 30% of the bonuses is payable 21 bank working days after the adoption of the consolidated financial statements for the second financial year following the financial year for which the bonus was granted.

At its meeting on 28 June 2011, the Supervisory Board defined the bonuses for the members of the Board of Managing Directors for the previous 2010/11 financial year as follows: Mr Schüttler € 1,000 thousand, Dr Glüder € 630 thousand, Mr Momburg € 460 thousand, Dr Wiedmann € 530 thousand. Owing to the SoFFin conditions that the bonuses resolved as subsequent payments for the period in which remuneration was waived by the members of the Board of Directors not be paid out before the guarantees provided by SoFFin expire, the pro rata bonuses resolved by the Supervisory Board on 28 June 2011 for the first nine months of the 2010/11 financial year (75% of the aforementioned bonus amounts for the 2010/11 financial year as a whole) will not be payable until after the SoFFin guarantees expire. The pro rata bonuses for the last three months of the 2010/11 financial year (25% of the aforementioned bonus amounts for the 2010/11 financial year as a whole) were paid out during the period under review.

Payments in the event of termination of employment and pensions

As described above, all the members of the Board of Managing Directors in office in the 2011/12 financial year have a special right of termination for the event of a change of control. Compensation for members of the Board of Managing Directors who exercise this right has not been agreed.

On retirement, the Board of Managing Directors members Dr Glüder and Mr Momburg have a right to a life-long pension. The pension is payable if the respective member's contract (a) ends when or after the member reaches the age of 63, (b) ends before the member reaches the age of 63 on account of long-term disability or (c) ends before the member reaches the age of 63 on the grounds of early termination or non-renewal, whereby the pension is not payable in this case if the respective member refuses an offer to renew his contract at the same or more advantageous (to the member) conditions or if the early termination or non-renewal is for good cause for which that member is responsible, limited to gross negligence or intent. The pension shall also be payable to Mr Momburg and Dr Glüder within the meaning of the case described in (c) in the event of their contracts ending on the basis of a change of control; this does not apply, however, if the Bank exercises its own right of extraordinary termination for good cause.

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

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

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

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

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

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

Table: Pension payments for the Board of Managing Directors

in € thousand	Annual benefits in the event of a pension claim as at 31 Mar. 2012	Addition to the pension provision as at 31 Mar. 2012
Dr Dieter Glüder	375*	583
Claus Momburg	375*	252

* Assuming employment until the member's 63rd birthday

The members of the Board of Managing Directors Mr Schüttler and Dr Wiedmann are not entitled to receive pension benefits from IKB on account of different regulations.

Repayment claims of the company

Each month from May 2008 until May 2010, IKB AG offset the pension claims of the former member of the Board of Managing Directors, Joachim Neupel, against its claim for the return of the overpaid portion of the bonus for the 2006/07 financial year in the amount of around € 451 thousand. Mr Neupel instituted summary proceedings for the payment of his pension benefits for the months from May to July 2008 and prevailed by way of a provisional ruling issued in his favour in December 2008. The effectiveness of the offsetting performed by IKB remained effective in the subsequent proceedings.

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

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

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

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

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

In addition, the company has sued Mr Ortseifen and his wife for payment of back rent and to clear the residential premises rented by Mr Ortseifen and owned by the Bank. These proceedings are currently suspended in light of the proceedings on the validity of the termination of the Board of Managing Directors contract in the aforementioned proceedings.

Former members of the Board of Managing Directors

The total remuneration for former members of the Board of Managing Directors and their surviving dependents amounted to € 3,521 thousand (previous year: € 3,247 thousand). € 44,097 thousand was recognised for pension obligations to former members of the Board of Managing Directors and their surviving dependents (previous year: € 42,441 thousand).

The remuneration system of the Supervisory Board

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

The Chairman of the Supervisory Board receives double and each Deputy Chairman receives 1.5 times the remuneration of a member of the Supervisory Board. The remuneration is further increased for each membership in a Supervisory Board committee by 25% of the remuneration of a Supervisory Board member, and additionally for each chairmanship in a committee by 25% of the remuneration of a Supervisory Board member. This does not include members of the Nomination Committee, who do not receive any additional remuneration for their duties in accordance with the Rules of Procedure of the Supervisory Board. The additional remuneration for committee work cannot exceed the remuneration of a member of the Supervisory Board. Members of the Supervisory Board who belong to the Supervisory Board or a committee for only part of the financial year receive pro rata remuneration for the month or part of a month in which their position was held.

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

The members of the Supervisory Board also have a budget of usually € 2 thousand per financial year, or a higher budget if this is felt by the Board of Managing Directors to be appropriate, in financial support to promote further training activities. Training funds not utilised lapse at the end of each financial year.

Remuneration of the Supervisory Board

The Supervisory Board members will not receive any variable remuneration for the financial year 2011/12 on the assumption that a dividend will not be distributed as a result of the company’s circumstances.

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

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

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

Details on the remuneration of the Supervisory Board for the 2011/12 financial year can be found in the table below:

Table: Remuneration of the Supervisory Board

in € thousand	**Total (fixed remuneration only; variable remuneration will not be paid because no dividend is to be distributed)**
Bruno Scherrer (Chairman)	Waived
Dr Karsten von Köller (Deputy Chairman)	Waived
Stefan A. Baustert	20
Olivier Brahin	Waived
Dr Lutz-Christian Funke	20
Ulrich Grillo	20
Arndt G. Kirchhoff	20
Bernd Klein	20
Dr Claus Nolting	Waived
Dr Thomas Rabe (until 21 Feb. 2012)	18
Nicole Riggers (since 7 Sep. 2011)	12
Dr Carola Steingräber	25
Carmen Teufel	20
Dr Andreas Tuczka	Waived
Ulrich Wernecke	25
Andreas Wittmann (until 7 Sep. 2011)	10
Sub-total	**210**
Value-added tax payable on earnings (VAT)	38
Reimbursement of Supervisory Board expenses (total)	10
Total	**258**

9. Other disclosures

Disclosures in accordance with section 289 (4) HGB

As at 31 March 2012, the share capital of the company amounted to € 1,621,318,914.56 comprising 633,327,701 no-par value bearer shares. All shares convey the same rights. Each share conveys one vote and is the determinant for participation in the company's profit.

By a resolution of the Annual General Meeting on 26 August 2010, the Board of Managing Directors was authorised to acquire and sell treasury shares for the purpose of securities trading until 25 August 2015. The amount of shares acquired for this purpose cannot exceed 5% of the share capital at the end of any one day. Together with the treasury shares acquired for other reasons held by the company or assigned to it in accordance with sections 71a ff. AktG, the shares acquired on the basis of this authorisation cannot exceed 10% of the share capital at any time. This authorisation was not utilised in the 2011/12 financial year.

By way of resolution of the Annual General Meeting held on 26 August 2010, the company was also authorised to acquire treasury shares of up to 10% of the share capital for purposes other than securities trading until 25 August 2015. The shares can be acquired on the stock exchange or by way of a public bid to all shareholders. The acquisition of shares may be carried out using put or call options. Such share acquisitions are limited to shares of a maximum volume of 5% of the share capital at the time of the resolution on this authorisation by the Annual General Meeting on 26 August 2010. The terms of the options must end no later than on 25 August 2015. 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 2011/12 financial year.

By way of resolution of the Annual General Meeting on 28 August 2008, the Board of Managing Directors was authorised, with the approval of the Supervisory Board, to increase the share capital of the company by a total of up to € 500,000,000.00 against cash or non-cash contributions by issuing up to 195,312,500 new no-par value bearer shares until 27 August 2013. With the approval of the Supervisory Board, the statutory subscription rights of shareholders can be disapplied under this authorisation. This authorisation was not utilised in the 2011/12 financial year. The authorised capital was entered in the commercial register on 3 November 2008.

By way of resolution of the Annual General Meeting of IKB AG on 28 August 2008, the Board of Managing Directors was authorised to issue convertible and option bonds with a total nominal value of € 900,000,000.00 and a maximum duration of 20 years by 27 August 2013 and to grant the bearers of these bonds conversion or option rights to up to 48,339,843 no-par-value bearer shares in the company with a stake of up to € 123,749,998.08 in the share capital according to the relevant bond conditions. On 19 November 2008, the Board of Managing Directors of the company resolved to issue subordinate bonds with a total nominal value of up to € 123,671,070.72 with a contingent conversion obligation and contingent conversion privilege for up to 48,309,012 shares in the company from contingent capital with a shareholders' subscription right. A subsidiary of the Lone Star group, LSF6 Rio S.à.r.l., had undertaken to assume all bonds not subscribed to by other IKB AG shareholders. Bonds totalling € 150,174.72 were subscribed to by other shareholders and the remaining amount of € 123,520,896.00 was acquired by Lone Star (LSF6 Rio S.à.r.l.). A bond of nominally € 23.04 entitles the bearer to subscribe to nine new shares from contingent capital at a conversion price of € 2.56 per share. Since 1 July 2009, the conditions for the existence of a conversion obligation and a conversion privilege have been met. As a result, a conversion privilege has existed since this time. A conversion obligation existed on 11 April 2012 at the latest. LSF6 Rio S.à.r.l. exercised its conversion right in full on 2 July 2009. On issuance of the subscribed shares on 14 July 2009, this increased the share capital of the company by € 123,520,896.00 to € 1,621,315,228.16. The increase in share capital was entered in the commercial register on 4 May 2010. In addition, a creditor of the convertible bond exercised its conversion right on 20 January 2012. As a result, and on issuance of the subscribed shares on 30 January 2012, this increased the share capital of the company by € 3,686.40 to € 1,621,318,914.56. Details of the mandatory conversion conducted on 11 April 2012 can be found in the section “Events after 31 March 2012 (Supplementary report)”. The increase in share capital was entered in the commercial register on 2 May 2012.

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

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

By way of resolution of the Annual General Meeting of 26 August 2010, the remaining contingent capital increase from the Annual General Meeting of 28 August 2008 of up to € 229,102.08 (Contingent Capital 2008) was reduced to up to € 150,174.72 divided into up to 58,662 new bearer shares with profit participation rights from the start of the financial year in which they are issued. With the exception of the conversion described, Contingent Capital 2008 remained unchanged. The reduction was entered in the commercial register on 8 November 2010.

By way of resolution of the Annual General Meeting of 26 August 2010, the Board of Managing Directors was authorised, with the approval of the Supervisory Board, to issue bearer convertible and option bonds or combinations of these instruments (referred to collectively below as “bonds”), dated or undated, on one or several occasions up to a total nominal amount of € 400,000,000.00 until 25 August 2015 and to grant the bearers of bonds conversion or option rights to up to 74,874,422 no-par-value bearer shares of the company with a pro rata amount of share capital totalling up to € 191,678,520.32 in line with the issue conditions of the bonds to be stipulated in more detail. This authorisation was not utilised in the 2011/12 financial year. The resolution was entered in the commercial register on 8 November 2010.

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

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

The agreements with the members of the Board of Managing Directors for the event of change of control in the company are presented in the remuneration report. Employees’ employment contracts do not contain any provisions that take effect, change or end as a (direct) consequence of 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.

- In LSF6 Europe Financial Holdings, L.P. (Delaware), Dallas, USA, a company of the Lone Star financial investor, IKB has a main shareholder that supports a continued focus on medium and long-term corporate financing, particularly for German medium-sized enterprises, supplemented by an extended range of capital market and consulting services. In mid-October 2010, Lone Star reported that it was seeking a strategic partner to advance the development of the Bank.

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

Disclosures in accordance with section 312 AktG

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

10. Corporate Governance Declaration in accordance with Sec. 289 a of the German Commercial Code / Corporate Governance Report

In the declaration below, the Board of Managing Directors reports – at the same time also for the Supervisory Board – in accordance with Sec. 289a of the German Commercial Code (*Handelsgesetzbuch – HGB*) on company management and in accordance with item 3.10 of the German Corporate Governance Code (GCGC) on the Company's Corporate Governance.

Declaration of Conformity pursuant to Sec. 161 of the German Stock Corporation Act (*Aktiengesetz – AktG*)

The Board of Managing Directors and the Supervisory Board of IKB declare annually that the recommendations of the Government Commission German Corporate Governance Code – indicated in the text by the word "shall" – have been or are being complied with or which specific recommendations have not or are not being complied with for whatever reasons (Sec. 161 para. 1 s. 1 AktG). The most recent Board of Managing Directors and Supervisory Board Declaration of Conformity dates from 23 February 2012. As with prior Declarations of Conformity, it is accessible at all times to the public in compliance with Sec. 161 para. 2 AktG on the IKB internet site (www.ikb.de) under Investor Relations/Corporate Governance/Declaration of Conformity. It is worded as follows:

> The Board of Managing Directors and the Supervisory Board of IKB Deutsche Industriebank AG ("IKB") hereby declare in accordance with Sec. 161 AktG that the recommendations of the Government Commission German Corporate Governance Code in the version of the Code of 26 May 2010 published by the Federal Ministry of Justice in the official section of the electronic Federal Gazette on 2 July 2010 have been met since the issue of the last Declaration on 10 March 2011 taking into account the Update on 26 July 2011 with the following exceptions:

- Item 3.8 para. 3: Agreement of a deductible of at least 10 % of damages up to at least the level of one and a half times fixed annual remuneration when taking out D&O insurance for the Supervisory Board

  D&O insurance exists for Supervisory Board members, which does not provide a deductible. Responsible action is a duty which is a matter of course for all Company Board members: no deductible is therefore required for the Supervisory Board.

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

  Departmental responsibility of the members of IKB Board of Managing Directors is not regulated in the by-laws for IKB Board of Managing Directors but in a separate Schedule of Responsibilities. This is proposed by the Chairman of the Board of Managing Directors and passed, amended and cancelled by way of resolution by the entire Board of Managing Directors. We consider this method to be more flexible.

- Item 4.2.3 para. 4: In concluding Management Board contracts consideration that payments to a member of the Board of Managing Directors, in the event of premature termination of Management Board contract in the absence of serious cause including fringe benefits, do not exceed the equivalent of two years´ compensation (severance payment cap) and do not compensate more than the remaining term of the contract and that based on total compensation for the past full financial year and if appropriate also on the expected total compensation for the current financial year for calculation of the severance payment cap

  With regard to the principle intention of IKB's major shareholder to sell its shareholding and the restructuring situation of IKB no restriction of a severance payment was agreed with the members of the Managing Board of Directors.

- Item 5.4.1 para. 2: Specification of concrete objectives regarding the composition of the Supervisory Board and stipulation of an appropriate degree of female representation in establishing the said concrete objectives

Due to the intention of IKB's major shareholder to sell its shareholding in IKB it was initially refrained from specifying concrete objectives for the composition of the Supervisory Board. In the Supervisory Board meeting on 23 February 2012 the Supervisory Board decided on concrete objectives for its composition.

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

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

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

  The 3-Month Interim Announcement as of 30 June 2011 was published on 26 August 2011, the 6-Month Report 2011/12 on 28 November 2011 and the 9-Month Interim Announcement as of 31 December 2011 on 20 February 2012. Due to the particular situation of IKB since onset of the crisis at the end of July 2007 and the particular requirements in respect of balance sheet and accounting associated therewith publication could not take place earlier.

The Board of Managing Directors and the Supervisory Board hereby further declare that IKB will comply with the recommendations of the Government Commission German Corporate Governance Code in the version of the Code of 26 May 2010 – with the exception of items 3.8 para. 3, 4.2.1 s. 2 and 4.2.3 para. 4 on the grounds listed above.

Düsseldorf, 23 February 2012

For the Supervisory Board
of IKB Deutsche Industriebank AG

Bruno Scherrer

For the Board of Managing Directors
of IKB Deutsche Industriebank AG

Hans Jörg Schüttler

Relevant information regarding company management practices

German Corporate Governance Code suggestions

IKB principally complies with all suggestions contained in the German Corporate Governance Code – indicated in the Code by the use of terms such as " should" or "can" – and deviates merely in the following points:

- The General Meeting does not resolve on the authorisation of the remuneration system for the members of the Board of Managing Directors (item 2.2.1 para. 2 s. 2 GCGC). The remuneration system for the members of the Board of Managing Directors is described in the remuneration report.
- Representatives appointed by IKB to exercise shareholders' voting rights subject to instructions are reachable during the General Meeting only for those shareholders attending (item 2.3.3 s. 3 half-sentence 2 GCGC). Shareholders not attending the General Meeting have the opportunity to authorise the voting rights representatives to represent them prior to the General Meeting.
- The General Meeting is not transmitted via modern communication media (item 2.3.4 GCGC).

Code of Conduct

The Code of Conduct applies to all IKB Group employees. It reflects the moral values and beliefs of IKB. In order to guarantee a high degree of credibility, integrity, reliability and performance commitment in all activities, the Code of Conduct has been developed as a binding commitment framework for day-to-day business. The principles include minimum requirements in respect of the behaviour of all individuals. The Code of Conduct is published in its current version on the IKB website (www.ikb.de) under Investor Relations/Corporate Governance.

Apart from that, no relevant company management practices in terms of Sec. 289 a para. 2 no. 2 HGB are in effect at IKB which are applied over and above the statutory requirements.

Board of Managing Directors and Supervisory Board Mode of Operation

In accordance with German Stock Corporation Law, IKB with its Board of Managing Directors and Supervisory Board has a dual management and control structure. Company management is based on close, constructive and trusting collaboration between the Board of Managing Directors and the Supervisory Board and an intensive and constant flow of information. This complies with the generally accepted understanding of good Corporate Governance by the Board of Managing Directors and the Supervisory Board.

Management of the Company

The Board of Managing Directors develops the business and risk strategy, ensures implementation thereof in consultation with the Supervisory Board and conducts the business of the Company on its own responsibility. In the course thereof it observes the statutory provisions, the Articles of Association, the by-laws issued by the Supervisory Board, the schedule of responsibilities and the respective contracts of service. In addition, it is bound by the Company interests and is obligated to increase sustainable corporate value. The principle of collective responsibility applies, i.e. members of the Board of Managing Directors jointly bear responsibility for management. Each member of the Board of Managing Directors, however, is allocated responsibility for specific departments.

The Board of Managing Directors is appointed by the Supervisory Board. It currently consists of four members. Mr Schüttler, Chairman of the Board of Managing Directors, is responsible for the departments Treasury, Legal and Compliance, Group Audit, Organisation, Strategic Planning and Investment Management as well as Communications. Dr Glüder's responsibilities comprise Information Technology, Finance, Data Protection and Data Security as well as Taxation. Mr Momburg is responsible for Credit Risk Management and - Controlling, Credit Treasury Operations, Securitisation Structures Management and Human Resources. Dr Wiedmann is responsible for Sales, Products, Industry Groups and Economic Research. Further information regarding individual members of the Board of Managing Directors can be found in the notes under note (62).

The Board of Managing Directors is required to inform the Supervisory Board regularly, promptly and comprehensively regarding all essential business development questions, strategy, company planning, the earnings situation, profitability, compliance, risk situation, risk management and risk controlling. It addresses deviations in the course of business from plans and targets indicating the reasons therefor. In addition, the Board of Managing Directors reports to the Chairman of the Supervisory Board on other important matters as necessary. Transactions of fundamental significance, such as the granting of large exposure loans or the conclusion of company agreements, are subject to Supervisory Board approval in accordance with the by-laws for the Board of Managing Directors issued by the Supervisory Board.

In financial year 2011/12 and until today, no conflicts of interest have arisen between members of the Board of Managing Directors and the Company. The mandates of the members of the Board of Managing Directors are shown in the notes. Transactions with related parties were not carried out.

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

Control of the Company

The Supervisory Board advises and monitors the Board of Managing Directors in its management of the Bank and Group Companies. It fulfils its tasks in accordance with statutory provisions, the IKB Articles of Association and its by-laws.

In accordance with the German One-Third Employee Participation Act (*Drittelbeteiligungsgesetz*), the Supervisory Board consists of two thirds shareholder representatives and one third employee representatives. Shareholder representatives are elected per individual by the General Meeting. In principle, the Supervisory Board comprises ten shareholder representatives and five employee representatives. After Dr Rabe resigned from his office with effect from 21 February 2012 due to his new position as Chairman of Bertelsmann AG, there are currently only nine shareholder representatives on the Supervisory Board. A successor to Dr Rabe is scheduled to be elected by the Annual General Meeting on 23 August 2012. Details regarding the personnel composition of the Supervisory Board and changes in this regard in the past financial year can be found in the management report under “Significant events in the reporting period” and in the notes under note (62).

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

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

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

The current composition of the Supervisory Board meets these requirements even following the departure of Dr Rabe. At its next meeting, the Nomination Committee is expected to examine the proposals for the election of shareholder representatives to the Supervisory Board in terms of the requirements for the individual Supervisory Board members and the composition of the Supervisory Board as a whole. The aforementioned objectives are scheduled to be taken into account in the Supervisory Board's proposals for election to the Annual General Meeting.

The Supervisory Board meets at least twice per calendar half-year and where possible at least once per calendar quarter. It constitutes a quorum if all members have been properly invited and more than half of its members, from whom it must consist overall under the Articles of Association, participate in passing resolutions. As far as statutory provisions or the Articles of Association do not provide differently, the Supervisory Board passes resolutions by simple majority vote. The Supervisory Board mode of operation is regulated in detail in by-laws issued by the Supervisory Board. For efficient organisation of its work, the Supervisory Board has set up a number of committees; the actual composition and mode of operation of which are reported further below in an independent section of this declaration.

The Supervisory Board includes a sufficient number of members who are independent in terms of item 5.4.2 GCGC, i.e. who have no business or personal relations with the Company or its Board of Managing Directors that cause a conflict of interests. However, a proportion of the Supervisory Board members in office in the past financial year have a close relation to other companies with whom IKB maintains business relations. Transactions between IKB and the said companies are conducted in all cases on market terms as between unaffiliated third parties; no transactions were conducted at conditions other than arm's-length conditions in the year under review. These transactions had and/or have no influence in IKB's estimation on the independence of Supervisory Board members close to the said companies. The Supervisory Board members' mandates are shown in the notes. Consultancy and other service and works contracts subject to approval did not exist and do not exist between Supervisory Board members and IKB or Group Companies.

In Supervisory Board deliberations in financial year 2011/12 and to the present day, no conflicts of interest occurred.

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

Risk management

The Board of Managing Directors is responsible for IKB risk management. Proceeding on the basis of the business and risk strategy and risk-bearing capacity, it determines the risk policy principles which are incorporated in IKB risk strategies together with the limit structure. In its determinations, the Board of Managing Directors also takes into account the quality of processes of risk management, in particular control processes as well as concentrations of risk and income.

The Supervisory Board and the Finance and Audit Committee were regularly informed by the Board of Managing Directors in the past financial year about the risk situation at IKB and the overall Group.

Accountancy and financial statement audit

IKB Group accountancy is in accordance with International Financial Reporting Standards (IFRS); the IKB AG annual financial statements are prepared in accordance with the provisions of the German Commercial Code. The financial statement auditor is elected by the General Meeting in accordance with Stock Corporation Act provisions. The Finance and Audit Committee has prepared the Supervisory Board proposal to the General Meeting regarding the election of the financial statement auditor for financial year 2011/12 and the financial statement auditor for a potential review of the condensed financial statements and the interim management report for the first half of financial year 2011/12. In addition, it has obtained from the financial statement auditor the declaration recommended by the German Corporate Governance Code in respect of any existing exclusion or prejudicial grounds (item 7.2.1 para. 1 GCGC) and concluded with him all necessary agreements required in the context of award of audit engagement (item 7.2.1 para. 2, item 7.2.3 paras. 1 and 2 GCGC).

At the IKB Annual General Meeting on 7 September 2011 - as proposed by the Supervisory Board – PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Düsseldorf was elected as auditor of the annual financial statements and the consolidated financial statements for financial year 2011/12 and as auditor for a potential review of the condensed financial statements and the interim management report for the first half of financial year 2011/12.

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

Transparency

IKB abides by the principle of equal treatment. On the IKB internet site (www.ikb.de), private investors may also promptly inform themselves regarding significant dates including current developments (including ad hoc releases) in the Group. In addition, significant processes within the Company are publicised via press releases which are also posted on the internet site. The Company offers all interested parties the option of subscribing to an electronic newsletter which provides information by means of current financial reports including ad hoc releases and press bulletins.

Compliance as an essential Board of Managing Directors responsibility

Compliance as pertains to measures taken to ensure conformity with laws, statutes, regulatory requirements and internal company guidelines is an essential IKB management responsibility. The Board of Managing Directors has introduced a compliance concept for employees which is regularly reviewed and adapted as necessary.

Implementation and compliance with the German Corporate Governance Code are monitored by a Corporate Governance Officer appointed by the Board of Managing Directors in mutual agreement with the Chairman of the Supervisory Board.

General Meeting

Decisions on questions of company management are basically reserved to the Board of Managing Directors, which is advised and monitored by the Supervisory Board. The General Meeting can only decide on questions of company management if the Board of Managing Directors requests it (Sec. 119 para. 2 AktG). However, the General Meeting among other things decides on the appointment of shareholder representatives on the Supervisory Board, appropriation of balance sheet profit, ratification of members of the Board of Managing Directors and of the Supervisory Board and appointment of the financial statement auditor. In addition, any decision regarding amendments to the Articles of Association, which contain binding regulations for Board of Managing Directors and Supervisory Board, is the sole responsibility of the General Meeting. In the course of the General Meeting, individual IKB shareholders exercise their rights and in particular exercise their voting right. Shareholders are informed in accordance with the recommendation contained in item 6.7 GCGC regarding important dates by way of a financial calendar published on the IKB website (www.ikb.de). Shareholders have the option of exercising their voting right in person or by an authorised person of their choice or to have it exercised by a Company voting rights representative subject to instructions (item 2.3.3 s. 3 half-sentence 1 GCGC).

Composition and Mode of Operation of Board of Managing Directors Committees

IKB Board of Managing Directors has not formed any committees.

Composition and Mode of Operation of Supervisory Board Committees

IKB Supervisory Board has formed committees to discharge its tasks; the composition and mode of operation of these committees is reported below.

Supervisory Board Executive Committee

The Supervisory Board Executive Committee issues approval in accordance with the by-laws for the Supervisory Board for a range of transactions for which the Board of Managing Directors requires Supervisory Board approval, e.g. - where appropriate subject to further preconditions - for the acquisition and sale of real estate property, holdings in or formation of companies, granting of large exposure loans or sale of own shares. In addition, the Supervisory Board Executive Committee decides on the basis of its immediate responsibility bestowed upon it in lieu of the Supervisory Board in all cases, in which a deferral of necessary measures to avert material disadvantages for the Company until the next Supervisory Board meeting is not deemed appropriate and where a decision of the plenary Supervisory Board cannot be obtained within the time required. The Supervisory Board Executive Committee met five times in financial year 2011/2012.

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

- Bruno Scherrer (Chairman)
  Senior Managing Director/Head of European Investments, Lone Star Management Europe Ltd., resident in London

- Dr Karsten von Köller
  Chairman of Lone Star Germany GmbH, resident in Frankfurt/Main

- Dr Andreas Tuczka
  Head of European Financial Institutions/Managing Director, Lone Star Management Europe Ltd., resident in Vienna

- Ulrich Wernecke
  Works Council of IKB Deutsche Industriebank AG, resident in Rommerskirchen.

Finance and Audit Committee

The tasks of the Finance and Audit Committee include inter alia the preparation of the audit of the annual and consolidated financial statements, making a recommendation to the Supervisory Board in respect of the election of the auditor, awarding the auditor his engagement and agreeing his remuneration. In addition, the Finance and Audit Committee is engaged in monitoring accounting, the effectiveness of internal control and auditing systems, risk management and questions of compliance. The Chairman of the Finance and Audit Committee reports to the Supervisory Board at the latest in the next meeting on information essential for the Supervisory Board from risk aspects which has been forwarded to the Committee by the Board of Managing Directors. The Chairman of the Finance and Audit Committee is further entitled to obtain information directly from the Head of Group Auditing and the Compliance Officer with involvement of the Chairman of the Board of Managing Directors. The Finance and Audit Committee met six times in financial year 2011/2012.

This past financial year, the Finance and Audit Committee was composed of the following members:

- Dr Karsten von Köller (Chairman)
  Chairman of Lone Star Germany GmbH, resident in Frankfurt/Main

- Dr Claus Nolting
  CEO of COREALCREDIT BANK AG, resident in Munich

- Bruno Scherrer
  Senior Managing Director/Head of European Investments, Lone Star Management Europe Ltd., resident in London

- Dr Carola Steingräber
  Sector Analyst, IKB Deutsche Industriebank AG, resident in Berlin.

Nomination committee

The Nomination Committee has the task of proposing to the Supervisory Board suitable candidates for a Supervisory Board seat in respect of election proposals to be submitted to the General Meeting. The Nomination Committee met once in financial year 2011/12.

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

- Bruno Scherrer (Chairman)
  Senior Managing Director/Head of European Investments, Lone Star Management Europe Ltd., resident in London

- Dr Karsten von Köller
  Chairman of Lone Star Germany GmbH, resident in Frankfurt/Main

- Dr Claus Nolting
  CEO of COREALCREDIT BANK AG, resident in Munich.

Board of Managing Directors and Supervisory Board Remuneration

The remuneration report is shown in the chapter "Remuneration report" of the management report. In accordance with item 4.2.5 GCGC, generally comprehensive explanations of the remuneration system for Board of Managing Directors members including details of the nature of fringe benefits provided by the Company can be found there. Additionally remuneration of Supervisory Board members is shown individualised and structured by components in accordance with item 5.4.6 para. 3 s. 1 GCGC. In the year under review, Supervisory Board members did not receive any further compensation or benefits for services they provided themselves, in particular for consulting and brokerage services, other than their fixed remuneration (item 5.4.6 para. 3 s. 2 GCGC).

Share ownership of board members

Pursuant to Sec. 15 a of the German Securities Trading Act (*Wertpapierhandelsgesetz*), persons with management responsibilities, in particular members of the IKB Board of Managing Directors and Supervisory Board, including persons closely associated with them, are legally obliged to disclose dealings in IKB shares or related financial instruments if the value of transactions conducted by the respective member and persons closely associated with him/her within a calendar year is equal to or exceeds the sum of 5,000 €. No such notifications occurred in the year of the report, nor was there any notifiable ownership as defined in item 6.6 GCGC up until 31 March 2012.

Stock option programmes and similar securities-based incentive systems

At IKB there are no stock option programmes or similar securities-based incentive systems.

Annual Financial Statements of IKB Deutsche Industriebank AG

Balance sheet of IKB Deutsche Industriebank AG as at 31 March 2012

Assets	in €	in € thousand*	31 Mar. 2012 in €	31 Mar. 2011 in € thousand
1. Cash reserve				
a) Cash-in-hand			11,426.94	20
b) Balances with central banks			18,984,194.66	84,535
of which: at Deutsche Bundesbank	*18,979,653.37*	*(84,344)*		
c) Balances in postal giro accounts			0.00	24
			18,995,621.60	**84,579**
2. Loans and advances to banks				
a) Payable on demand			2,291,441,368.01	1,815,668
b) Other receivables			153,407,847.18	279,114
			2,444,849,215.19	**2,094,782**
3. Loans and advances to customers			**18,058,449,374.17**	**20,521,511**
of which: Secured by mortgage	*1,921,021,000.00*	*(1,808,861)*		
Public sector loans	*1,678,722,279.88*	*(2,282,090)*		
4. Bonds and other fixed-income securities				
a) Bonds and notes				
aa) Public-sector issuers			2,089,640,114.48	2,364,350
of which: eligible as collateral at Deutsche Bundesbank	*1,907,469,225.63*	*(2,145,544)*		
ab) Others issuers			5,325,757,810.15	5,236,044
of which: eligible as collateral at Deutsche Bundesbank	*3,744,967,546.90*	*(3,343,958)*		
			7,415,397,924.63	7,600,394
b) Own bonds			2,514,929,763.55	2,934,529
Nominal amount	*2,510,724,000.00*	*(2,929,644)*		
			9,930,327,688.18	**10,534,923**
5. Equities and other non-fixed-income securities			**78,283,941.75**	**29,533**
5a. Assets held for trading			**222,367,502.64**	**74,369**
6. Investments			**12,807,908.78**	**12,823**
of which: Banks	*248,057.15*	*(263)*		
7. Shares in affiliated companies			**777,856,302.73**	**1,077,150**
of which: Banks	*22,986,804.00*	*(267,916)*		
8. Trust assets			**867,470.76**	**873**
of which: Trustee loans	*867,470.76*	*(873)*		
9. Intangible assets				
a) Purchased concessions, industrial and similar rights and assets			15,008,793.16	11,221
b) Goodwill			35,666,285.32	39,989
			50,675,078.48	**51,210**
10. Tangible assets			**6,133,619.35**	**6,964**
11. Other assets			**285,357,333.24**	**383,527**
12. Prepaid expenses			**230,755,292.77**	**68,710**
13. Deferred taxes			**151,600,000.00**	**158,000**
14. Overfunded plan assets			**28,892,635.12**	**40,509**
Total assets			**32,298,218,984.76**	**35,139,463**

* Previous year's figures shown in brackets

Equity and liabilities	in €	in € thousand*	31 Mar. 2012 in €	31 Mar. 2011 in € thousand
1. Liabilities to banks				
a) Payable on demand			723,714,219.45	65,373
b) with agreed term or period of notice			12,484,931,905.72	11,327,947
			13,208,646,125.17	**11,393,320**
2. Liabilities to customers				
a) Other liabilities				
aa) Payable on demand			535,021,808.44	244,429
ab) with agreed term or period of notice			9,648,921,073.32	7,741,073
			10,183,942,881.76	**7,985,502**
3. Securitised liabilities				
a) Bonds issued			**4,788,307,344.24**	**10,706,219**
3a. Liabilities held for trading			**138,866,760.83**	**36,216**
4. Trust liabilities			**867,470.76**	**873**
of which: Trustee loans	*867,470.76*	*(873)*		
5. Other liabilities			**718,857,028.02**	**1,119,265**
6. Deferred item			**298,562,230.02**	**76,494**
7. Provisions				
a) Provisions for pensions and similar obligations			858,698.98	1,556
b) Tax provisions			102,698,181.63	102,833
c) Other provisions			268,576,390.15	355,166
			372,133,270.76	**459,555**
8. Subordinated liabilities			**996,802,932.28**	**1,478,034**
9. Profit participation certificates			**35,793,159.00**	**86,908**
of which: Due within two years	–	*(44,717)*		
10. Fund for general banking risks			**189,697,816.45**	**189,621**
of which: Special item in accordance with section 340e (4) HGB	*77,000.00*	*(–)*		
11. Equity				
a) Subscribed capital				
aa) Share capital			1,621,318,914.56	1,621,315
ab) Silent partnership constributions			–	572
			1,621,318,914.56	1,621,887
Contingent capital	*191,825,008.64*	*(191,828)*		
b) Capital reserve			1,750,681,194.97	1,750,681
c) Revenue reserves				
ca) Legal reserve			2,398,573.84	2,399
cb) Other revenue reserves			21,850,000.00	21,850
			24,248,573.84	24,249
d) Net accumulated losses			-2,030,506,717.90	-1,789,362
			1,365,741,965.47	**1,607,455**
Total equity and liabilities			**32,298,218,984.76**	**35,139,463**
1. Contingent liabilities				
a) Liabilities from guarantees and indemnity agreements			1,957,003,119.18	1,659,240
			1,957,003,119.18	**1,659,240**
2. Other obligations				
a) Irrevocable credit commitments			1,448,863,570.44	1,442,989
			1,448,863,570.44	**1,442,989**

* Previous year's figures shown in brackets

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

Expenses	in €	in € thousand*	**2011/12** in €	2010/11 in € thousand
1. Interest expenses			**2,228,465,304.24**	**2,018,773**
2. Commission expenses			**105,941,822.80**	**130,596**
3. Net trading portfolio expenses			–	**12,867**
4. General administrative expenses				
a) Personnel expenses				
aa) Wages and salaries			107,588,825.06	109,524
ab) Compulsory social security constribution and expenses for pensions and other employee benefits			20,448,901.57	15,923
of which: pension expenses	*7,853,632.31*	*(3,283)*		
			128,037,726.63	125,447
b) Other administrative expenses			118,214,132.88	135,796
			246,251,859.51	**261,243**
5. Amortisation/depreciation and write-downs on intangible and tangible assets			**8,814,251.27**	**7,631**
6. Other operating expenses			**24,570,687.10**	**24,133**
7. Amortisation/depreciation and write-downs on receivables, specific securities and additions to loan losses provisions			**4,281,368.75**	**55,328**
8. Amortisation/depreciation and write-downs on investments, shares in affiliated companies and long-term investment securities			**473,591,303.36**	**115,188**
9. Costs of loss absorption			**–**	**57,522**
10. Extraordinary expenses			**16,866,262.85**	**46,433**
11. Income taxes			**6,942,239.90**	**-53,271**
12. Other taxes not reported under "Other operating expenses"			**1,093,991.64**	**1,834**
Total expenses			**3,116,819,091.42**	**2,678,277**
1. Net loss for the year			**-254,840,568.16**	**-189,946**
2. Loss carryforward from the previous year			**-1,789,362,020.68**	**-1,631,041**
3. Withdrawals from profit participation certificates			**13,123,669.72**	**16,419**
4. Withdrawals from silent partnership contributions			**572,201.22**	**15,206**
Net accumulated losses			**-2,030,506,717.90**	**-1,789,362**

* Previous year's figures shown in brackets

Income	**2011/12** in €	2010/11 in € thousand
1. Interest income from		
a) Lending and money market transactions	2,101,676,777.78	2,045,847
b) Fixed-income securities and debt register claims	228,799,342.84	199,464
	2,330,476,120.62	**2,245,311**
2. Current income from		
a) Equities and other non-fixed-income securities	363,569.56	37
b) Investments	687,681.69	1,143
c) Shares in affiliated companies	192,265,442.88	5,800
	193,316,694.13	**6,980**
3. Income from profit-pooling, profit transfer and partial profit transfer agreements	**211,014,995.08**	**850**
4. Commission income	**54,864,470.97**	**59,890**
5. Net income of assets held for trading	**691,309.67**	**–**
6. Income from reversals of write-downs on investments, shares in affiliated companies and long-term investment securities	**23,913,311.62**	**69,233**
7. Other operating income	**44,930,640.59**	**66,436**
8. Extraordinary income	**2,770,980.58**	**39,631**
9. Net loss for the year	**254,840,568.16**	**189,946**
Total income	**3,116,819,091.42**	**2,678,277**

Notes

Basis of preparation of the annual financial statements

The annual financial statements of IKB Deutsche Industriebank AG (IKB) for the 2011/12 financial year were prepared in line with the provisions of the *Handelsgesetzbuch* (HGB – German Commercial Code) as amended 22 December 2011 in conjunction with the *Verordnung über die Rechnungslegung der Kreditinstitute und Finanzdienstleistungsinstitute* (RechKredV – German Bank Accounting Directive) and in line with the relevant regulations of the *Aktiengesetz* (AktG – German Stock Corporation Act).

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

In the interests of greater clarity of presentation, the additional information on items of the balance sheet and income statement required under statutory regulations and the additional information to be provided either in the balance sheet, the income statement or the notes has been presented in the notes.

Accounting policies

(1) Receivables

Loans and advances to banks and customers are reported at nominal amount, or cost for purchased receivables, less specific and general loan loss provisions (provision for possible loan losses). Differences between the nominal and payment amount are taken to deferred item and prepaid expenses and reversed.

General loan loss provisions are calculated in accordance with the letter from the Federal Ministry of Finance dated 10 January 1994. In so doing, historical credit losses are taken as a basis and multiplied by a cyclical factor in order to accommodate the general economic situation. This factor was lowered from 110% to 100% on account of the improved economic situation. Without reducing the cyclical factor, global valuation allowances would have been € 10 million higher. In order to reflect latent risks of default in financial assets, loans and advances to banks and irrevocable loan commitments, the Bank also recognised a general loan loss provisions for these risks based on an estimated expected loss for the first time with a total amount of € 6 million. This was offset by reversals of € 13 million. The total amount of global valuation allowances is € 111 million after € 118 million in the previous year.

(2) Securities/credit derivatives

Except for securities held for trading, 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). Securities held for trading are reported under “Assets held for trading”.

If non-trading assets are classified as current assets they are measured at not more than the lower of cost of acquisition or at fair value in accordance with section 253 (1) sentence 1 HGB in line with the requirement to reverse impairment losses of section 253 (5) sentence 1 HGB (strict principle of lower of cost or market).

The long-term securities (securities classified as fixed assets) are, for example, government bonds and mortgage bonds, the issues of international industrial firms (corporate bonds) and securities from securitisation transactions, particularly in the form of credit-linked notes (CLNs), which IKB acquired with the intention to hold to maturity. The long-term investments are measured in line with the less strict principle of lower of cost or market value under section 340e (1) sentence 1 HGB in conjunction with section 253 (3) sentence 3 HGB.

The rise in inflation-linked bonds and the associated inflation derivatives due to inflation is recognised in “Bonds and other fixed-income securities” and “Other liabilities”. In cases in which the Bank assumes impairment to be permanent, securities are written down to the lower of cost or market value. The Bank does not consider permanent impairment 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. On account of the requirement to reverse write-downs under section 253 (5) sentence 1 HGB, such write-downs on securities in previous years were reversed to fair value, not exceeding the amortised cost. If significant, the differences between the cost and repayment amount (premiums/discounts) are distributed over the remaining term pro rata temporis.

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

IKB bases its recognition of securities from securitisation transactions – particularly collateralised debt obligations (CDOs) and CLNs – 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 additional risks other than the credit risk of the issuer (embedded derivative). Based on the “IDW position paper on accounting and valuation 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 credit default swap transactions, 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 principals.

If a listed price is available for a security, this is the fair value. Otherwise, the following procedures are used to derive market value and fair value:

Where possible, fair values are calculated on the basis of price information from contractual suppliers while at the same time using suitable methods to check the plausibility of data. Otherwise, the value of securities is calculated on the basis of discounted cash flows that are discounted using the interest rates for securities with the same risk profile.

Impairment requirements for CDO portfolio are calculated on the basis of a fundamental value method. This allows a detailed loss allocation of the underlying credit portfolio, on the basis of which the present value of forecast cash flows is determined. In this process, cash flows are estimated for several default scenarios for the referenced asset-backed securities (ABS). The rankings in the CDO contract ("waterfall") are explicitly taken into consideration. Discounting the forecast cash flows with the coupon of the respective invested tranche results in measurements for the various default scenarios. The default pattern for the referenced ABS securities is estimated in a standard Monte Carlo simulation including rating-based rates of default and correlation parameters. The consistent historic default rates of rating agencies are used in calculating expected defaults. Correlation assumptions are compared with renowned market participants. The previously calculated scenario valuations are now probability weighted, with the result that the final fundamental valuation can be derived.

When using valuation models to determine market and 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.

(3) Assets held for trading

Asset financial instruments held for trading are carried at fair value less a risk deduction. The Bank charges the risk deduction in the amount of the value-at-risk calculated for regulatory purposes. The fair value was calculated in line with the measurement hierarchy of section 255 (4) HGB. The fair value is the amount for which a financial instrument could be exchanged between knowledgeable and willing parties in an arm's length transaction as at the balance sheet date. The market price was used for financial instruments for which there is an active market. If there is no active market that can be used to calculate the fair value, the fair value was calculated using generally recognised measurement methods.

The calculation of value-at-risk is based on a holding period of ten days and a confidence level of 99%. The value-at-risk expresses the loss in value for the portfolio of the Bank over a period of ten days (holding period) which has a 99% probability (confidence level) of not being exceeded. The observation period is 250 bank working days. The risk deduction is calculated at the level of the entire trading portfolio and deducted from the financial instruments of the trading portfolio reported here. This measurement takes into account the creditworthiness of the counterparties. In line with section 340e (4) HGB, an amount of at least 10% of the net income of the trading portfolio must be added to the special reserve "Funds for general banking risks" in line with section 340g and reported there separately each financial year. This reserve can only be reserved to offset the net expenses of the trading portfolio or if it exceeds 50% of the average of the net income of the trading portfolio for the last five years. The Bank has classified all financial instruments with which it intends to generate a short-term trading gain to this portfolio. The criteria for this intention are taken from the regulatory requirements for allocation to the trading book. The change in these internal criteria was reported to the German Financial Supervisory Authority (BaFin) and the Bundesbank with notifications of change in accordance with section 1a (4) sentence 1 KWG as at 12 October 2011. Assets and liabilities held for trading are reported separately. The risk deduction calculated for the entire trading portfolio is deducted from the total portfolio of assets held for trading.

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

Shares in affiliated companies and investments and associates 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) sentence 1 HGB in conjunction with section 253 (3) 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. The Bank does not exercise its option to capitalise internally generated fixed assets in accordance with section 248 (2) sentence 1 HGB.

Tangible assets are written down on a straight-line basis over their useful life. If the market values of individual fixed assets fall below their carrying amount, they are automatically written down if the impairment is expected to be permanent.

Intangible fixed assets purchased from third parties are capitalised at cost and written down pro rata temporis in their year of addition and on a straight-line basis over a standard useful life of five years.

The goodwill acquired in the context of the transfer of the new customer derivative business of our Luxembourg subsidiary (company being wound up due to EU requirements) is the result of comparing the cost against the value of the individual assets of the company less liabilities. In this case, this will be written down over a normal useful life of ten years. In case of permanent impairment it will be written down according. If the reasons for impairment no longer apply, the lower carrying amount of the acquired goodwill is retained. The operating useful life is based on an estimate of the return over time on the basis of the identified components of this goodwill. In particular, these represent customer bases assumed in the acquisition.

Low-value assets with a net value of up to € 150 are written down in full in their year of acquisition and therefore immediately recognised in full as an expense as at the time of acquisition. Low-value assets with a net value of between € 150 and € 1,000 are 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 will even be written down if one of these assets comes loose over five years. The option under section 6 (2) sentence 1 EStG was not exercised.

(5) Securities repurchase agreements

In genuine securities 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.

(6) Overfunded plan assets

In line with section 246 (2) sentence 2 HGB, assets that are withheld from other all creditors and used solely to satisfy pension or similar long-term liabilities are offset against these liabilities; if the fair value of the assets exceeds the amount of the liabilities, this amount is capitalised under a separate line item (excess of plan assets over pension liability).

The assets that are withheld from other creditors and used solely to satisfy pension or similar long-term liabilities are measured at fair value. The measurement of pension liabilities is presented in the accounting methods for provisions.

(7) Liabilities held for trading

Liabilities held for trading were measured at fair value. The market price was used for financial instruments for which there is an active market. If there is no active market that can be used to calculate the fair value, the fair value was calculated using generally recognised measurement methods. The risk deduction is calculated at the level of the entire trading portfolio and deducted from the asset financial instruments of the trading portfolio.

(8) Liabilities

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

In the cases of the Bacchus 2008-1 plc, Dublin, and Bacchus 2008-2 plc, Dublin, transactions that took place in the 2008/09 financial year to generate liquidity, economic ownership was not transferred to the special purpose vehicles in accordance with IDW RS HFA 8. The transferred assets are therefore still reported on the balance sheet with an obligation shown in the same amount under other liabilities.

(9) Provisions

Provisions for pensions and similar obligations

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

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

The Bank discounts pension provisions at flat rate using the average market interest rate for an assumed remaining term of 15 years. The interest rate was announced by the Bundesbank on 18 November 2009 in line with the *Rückstellungsabzinsungsverordnung* (RückAbzinsV – German Ordinance on the Discounting of Provisions). Obligations for securities-linked commitments are carried in the amount of the fair value of the covered funds if a guaranteed minimum amount is exceeded.

The Bank exercises the option under section 67 (1) sentence 1 of the *Einführungsgesetz zum Handelsgesetzbuch* (EGHGB – Introductory Act to the German Commercial Code) to add one fifteenth of the additional provision required on account of the change in the measurement of pension obligations each financial year (see note 24).

Assets were spun off in previous years to secure the obligations from pension fund plans and similar regulations. 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. As the assets are intended solely to cover pension obligations and cannot be accessed by the company or other creditors, the assets were measured at fair value and offset against the relevant obligations. If the fair value of the assets exceeds the associated obligations, an excess of assets over pension liability is reported (see notes 6 and 24). If the fair value of the assets is less than the associated obligations, a provision for pensions and similar obligations is reported. Owing to the interest rate change component of the *Bilanzrechtsmodernisierungsgesetz* (BilMoG – German Act to Modernise Accounting Law), there are interest expenses of € 0.7 million (previous year: € 2.6 million) as part of the compound interest on provisions. In addition, there are further compound interest effects of € 11.6 million reported in interest expenses (previous year: € 11.6 million).

Tax provisions and other provisions

Provisions for taxes and other provisions are recognised in the necessary settlement amount. The necessary settlement amount includes future increases in prices and costs. Provisions for executory contracts are recognised in the amount of the obligation surplus. Provisions with a remaining term of more than twelve months were discounted in line with section 253 (2) HGB using the matched term interest rates of the RückAbzinsV. The provisions for interest on additional tax receivables to the financial authorities and the effects of compound interest on tax provisions are reported under other provisions. € 18.5 million (previous year: € 21.0 million) was reported as interest expenses for compound interest on provisions and € 2.5 million (previous year: € 11.1 million) was reported as interest income for discounting provisions. On first-time recognition of a long-term provision in the income statement, the full settlement amount (gross) of the obligation is recognised as an expense and the discounting of the provision is recognised as income (gross presentation). The expenses for the recognition of provisions for restructuring measures are reported under “Extraordinary expenses” and described in note 42.

(10) Contingent liabilities

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

(11) Derivatives

As executory contracts, derivative financial transactions (swaps, forwards, options) do not have to be reported on the balance sheet – with the exception of trading transactions. 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 values. 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.

The interest derivatives used in the asset/liability management of the general interest rate risk of receivables and liabilities in the banking book are a part of the total interest position together with the other interest-bearing financial instruments as part of the refinancing association. In accordance with IDW ERS BFA 3 and using the present value method taking into account management and risk costs, the present value of the interest-bearing transaction is offset against the carrying amounts. Any overall excess loss would be recognised as a provision for expected losses. A provision for expected losses was not required as a result of this calculation.

Deviating from the previous year, upfront payments on derivatives for which the payments are of an interest nature are now reported as deferred income/prepaid expenses instead of under other assets/liabilities in order to improve the presentation of the net asset situation (see note 27).

(12) Currency translation

In the non-trading portfolio, foreign-currency balance sheet and off-balance sheet transactions are translated in line with the principles of section 340h in conjunction with section 256a HGB. Thus, foreign currency assets and liabilities are translated at the middle spot exchange rate (ECB reference rate) as at the balance sheet date. The currency translation regulation according to of section 256a HGB apply to all traders with the proviso that income resulting from currency translation is reported in the income statement if the assets, liabilities or other futures are particularly covered in the same currency. If the requirements of special cover are not satisfied, currency translation is performed using the regulations that apply to all traders. For a remaining term of one year or less, the unrealised gains on currency translation are recognised in income. If the remaining term is more than one year, the unrealised gains on currency translation are recognised under other liabilities.

For special cover, balance sheet and off-balance sheet assets and liabilities within a currency are compared. According to IDW RS BFA 4, this special cover can only be realized if the currency risk is controlled by a currency position and the individual items are aggregated in a currency position. The Bank assigns non-trading, foreign currency transactions to the currency position of the respective currency and manages them using approved limits. Residual amounts that do not balance out have a remaining term of less than one year and are therefore recognised in income as unrealised gains/losses from currency translation.

In the income statement, in line with section 340a (1) in conjunction with section 277 (5) sentence 2 HGB, income from currency translation is reported under “Other operating income” and expenses from currency translation is reported in “Other operating expenses”. Both are presented separately in the notes (see notes 39 and 40).

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

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

(13) Hedge accounting

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

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

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

The Bank has applied micro hedge accounting. As a method for measuring effectiveness prospectively and retrospectively, the Bank compares the key contract data of the hedged item with those of the hedge. As they match, the changes in the values of the hedged item and the hedging instrument offset each other as anticipated (critical terms match).

(14) Deferred taxes

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

The deferred taxes were measured using tax rates specific to the Bank that were in effect on the balance sheet date or that have already been approved by the legislator and are expected to apply at the time the deferred tax assets and liabilities are realised. In calculating German deferred taxes, a corporation tax rate of 15%, a solidarity surcharge of 5,5% on corporation tax and a trade tax rate of 15.5% were assumed. Deferred taxes for foreign operations are measured using the tax rates that apply there.

Owing to the tax entity structures within the Bank, the deferred tax assets and liabilities resulting from temporary differences at companies within these entities are reported at the level of the Bank (parent entity).

(15) Offsetting in the income statement

In accordance with section 246 (2) sentence 2 HGB, the Bank offsets expenses and income from assets for pensions against expenses and income from interest on or discounting of obligations if the requirements for the netting of assets and obligations are satisfied.

Notes on the balance sheet

(16) 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*				
31 Mar. 2012	97	8	44	5
31 Mar. 2011	206	5	56	12
Loans and advances to customers				
31 Mar. 2012	968	2,137	11,673	3,280
31 Mar. 2011	1,334	3,425	11,535	4,226
Liabilities to banks*				
31 Mar. 2012	1,563	2,842	6,301	1,779
31 Mar. 2011	1,923	1,530	5,599	2,276
Liabilities to customers*				
31 Mar. 2012	1,312	3,194	2,780	2,363
31 Mar. 2011	1,572	1,297	1,180	3,692

* excluding loans and advances or liabilities payable on demand

€ 1,160 million (previous year: € 637 million) of the bonds and other fixed-income securities reported in the balance sheet are payable in the following year. € 2,927 million (previous year: € 5,445 million) of the bonds issued and reported under securitised liabilities are payable in the following year.

(17) Trading portfolio financial instruments

Assets held for trading break down as follows:

in € million	31 Mar. 2012	31 Mar. 2011
Financial instruments		
Derivatives held for trading	129.4	34.3
Loans and advances to banks	59.2	40.3
Bonds and other fixed-income securities	25.4	0.0
Loans and advances to customers	10.1	0.0
Less risk deduction	-1.7	-0.2
Assets/liabilities held for trading	**222.4**	74.4

The trading book derivatives are interest swaps, spot transactions, caps/floors/collars, FX swaps, FX options, FX forwards, credit default swaps, loan trading transactions and swaptions. 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 amount, timing and certainty of cash flows are dependent on the development of interest rates, contractual regulations on payment dates for the respective financial instrument and the credit standing of the respective counterparty.

Liabilities held for trading essentially include derivative financial instruments in the amount of € 138.8 million (previous year: € 32.6 million).

After taking into account a risk deduction, trading activities generated net income of € 0.8 million for the 2011/12 financial year (previous year: net expense of € 12.9 million). This resulted in an addition to a special reserve in accordance with section 340e (4) HGB of € 77 thousand. There therefore remains net income of € 0.7 million.

On 12 October 2011, the Bank changed the criteria for allocation to the trading portfolio and notified the BaFin. Since October 2011, the results of loan trading (loans and advances to customers) have been included in the trading portfolio. This has resulted in a new item in net trading income for the 2011/12 financial year, as shown in the table above. This had no material effect on net trading income for the 2011/12 financial year.

(18) Hedge accounting

The Bank has hedged the majority of its foreign currency risk from negative fair values of certain US$ interest swaps in the amount of US$ 225.4 million (previous year: US$ 251.3 million/HGB carrying amount: € 0.00) by providing collateral (reported under loans and advances to banks) of US$ 214.2 million (previous year: US$ 244.1 million (nominal value)) with the respective counterparty. If there is a match in terms of the nominal amount between the hedged item and the hedge in the amount of the hedged risk and maturity (matching contract terms of the hedged item and the hedging instrument), the effectiveness of the hedged item and the hedging instrument is ensured until maturity. The opposing changes in value offset each other provided that the nominal value of the hedging instrument matches the hedged fair value of the hedged item. An adjustment of the hedge in line with the respective change in the hedged item is provided for in the hedge documentation. The corresponding changes in value relating to the hedged item and the hedging instrument based on the hedged foreign currency risk are not recognised on the balance sheet.

Hedge accounting is not applied to highly probable transactions.

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

(19) Fixed assets

in € million	Cost	Additions	Disposals	Reversals of write-downs	Cumulative write-downs	Write-downs in financial year	Net book value 31 Mar. 2012	Net book value 31 Mar. 2011
Tangible assets	34.8	0.1	0.5	0.0	28.3	0.9	6.1	7.0
Intangible assets	103.1	7.8	0.4	0.0	59.8	7.9	50.7	51.2
Equity investments	13.0	0.0	0.0	0.0	0.2	0.0	12.8	12.8
Shares in affiliated companies	2,081.2	52.0	158.5	3.7	1,200.5	196.5	777.9	1,077.1
Bonds and other fixed-income securities	6,708.6	2,777.8	2,028.5	10.1	441.5	215.0*)	7,026.5	6,338.4
Equities and other non-fixed-income securities	39.6	40.4	0.0	0.0	1.7	1.2	78.3	29.5

* Write-downs for the whole year also contain write-downs on securities disposed of in the financial year.

Fixed assets include bonds and other fixed-income securities and equities with a volume of € 7.1 billion (previous year: € 6.4 billion). These are predominantly issues by international industrial firms (corporate bonds and CLNs), government bonds, mortgage bonds and CDOs and ABS bonds acquired with the intention to hold to maturity.

In total, long-term investments included hidden charges of € 626.0 million (previous year: € 642.9 million) on the balance sheet date. 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 (€ 3,543 million) and the carrying amounts (€ 4,169 million) of securities holdings with hidden charges to be permanent impairment and therefore no write-downs have been recognised.

In the financial year, total write-downs and losses on disposals of € 255.8 million were incurred on fixed asset bonds from the Republic of Greece and first-to-defaults (FTDs) with Greek risks.

The carrying amount of shares in affiliated companies and equity investments did not exceed the fair value. The equity holding in Aleanta GmbH, Düsseldorf, was written down almost in full by € 49.0 million in the reporting year. A write-down of € 192.7 million was recognised on the carrying amount of the equity investment in IKB International S.A. i.L., Luxembourg, in the reporting year on account of the distribution of revenue and capital reserves. € 192.3 million of this write-down on IKB International S.A. i.L. was offset by current income of € 192.3 million. Furthermore, IKB International S.A. i.L. and IKB Lux Beteiligung S.a.r.l. i.L., both Luxembourg, distributed their revenue reserves of € 52.2 million and € 47.0 million respectively to IKB AG. In addition, three companies were integrated into IKB AG: Movesta Development GmbH & Co.

KG, Düsseldorf, IKB Grundstücks GmbH & Co. Objekt Hamburg KG, Düsseldorf, and TUSSA Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Wilhelm Bötzkes Straße KG, Düsseldorf.

Equities and other non-fixed-income securities consist of units in two specialised investment funds within the meaning of the Luxembourg law of 13 February 2007 on specialised investments funds. These two funds are for joint investments, the sole purpose of which is to invest the funds available in line with the principles of risk diversification for joint account and to grant the investors the results of the management of their assets. The funds are structured as an umbrella fund under section 71 of the Luxembourg law of 2007 and offer investors one or more sub-funds under one and the same investment fund. All the sub-funds together make up the fund. Each investor invests in the fund through an investment in a sub-fund. The funds predominantly invest in government and mortgage bonds of the euro area. The total net asset value (fair value) and the carrying amount of the funds was € 78.3 million as at the balance sheet date. No distributions were made in the current financial year. On the basis of the terms of the fund, the units can be returned. The management company can suspend the redemption of units if there are extraordinary circumstances that make it appear necessary to do so in the interests of the investors. Unusual circumstances in this context include closures of key markets and exchanges on which a considerable portion of the fund is invested. In the event of such a closure, the calculation of the value of the funds and the availability of their units will be substantially reduced, disrupted or prevented for a time. The management company has not exercised this right to date.

€ 475.1 million of the total disposals of bonds and other fixed-income securities of € 2,028.5 million relates to the mortgage bonds that were transferred to MATRONA GmbH (MATRONA), Düsseldorf, as consideration for the liability transfer from subordinated liabilities of € 475.1 million (see note 31).

The Bank reclassified securities in the amount of € 820.4 million from current assets to fixed assets in the 2011/12 financial year. Without this reclassification, write-downs of € 13.0 million would have been incurred.

The operating and office equipment is included in tangible assets at € 5.0 million (previous year: € 5.9 million). As in the previous year, this does not include any land or buildings used for banking operations.

(20) 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. 2012	31 Mar. 2011	31 Mar. 2012	31 Mar. 2011	31 Mar. 2012	31 Mar. 2011
Bonds and other fixed-income securities	9,930.3	10,533.0	9,930.3	10,491.6	0.0	41.4
Equities and other non-fixed-income securities	78.3	29.5	0.0	0.0	78.3	29.5

(21) Loans and advances to and liabilities to affiliated companies and investments and associates

in € million	Affiliated companies		Equity investments	
	31 Mar. 2012	31 Mar. 2011	31 Mar. 2012	31 Mar. 2011
Loans and advances to banks	1.8	9.3	0.0	0.0
Loans and advances to customers	2,606.0	2,914.3	48.6	68.7
Other assets	211.7	1.7	0.0	0.0
Liabilities to banks	17.5	203.0	0.0	0.0
Liabilities to customers	227.2	166.3	0.5	1.0
Other liabilities	0.0	65.6	0.0	0.0
Subordinated liabilities	0.0	475.1	0.0	0.0

(22) Trust activities

in € million	31 Mar. 2012	31 Mar. 2011
Loans and advances to customers	0.9	0.9
Trust assets	**0.9**	**0.9**
Liabilities to customers	0.9	0.9
Trust liabilities	**0.9**	**0.9**

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

(23) Subordinated assets

Subordinated assets are included in the following asset item:

in € million	31 Mar. 2012	31 Mar. 2011
Loans and advances to customers	1,055.0	1,071.5

(24) Overfunded plan assets

The excess of plan assets over pension liability breaks down as follows:

Pension system in € million	Plan assets Cost	Plan assets Fair value	Pension liabilitiy	Overfunded plan assets
VO 1979 and 1994	214.1	200.0	172.5	27.6
Deferred Compensation	4.4	4.1	3.3	0.7
Early retirement	4.6	4.3	5.2	0.0
VO 2006	5.9	6.2	5.7	0.6
Work time account model	2.3	2.5	2.5	0.0
Total	**231.3**	**217.1**	**189.2**	**28.9**

The fair value was derived from the net asset value of the funds, which was determined by the investment company as at the balance sheet date in accordance with section 36 InvG. In the context of the first-time adoption regulations of the BilMoG, the option was exercised to distribute the additional amount to the pension provisions evenly over a term of 15 years. In the 2011/12 financial year, one fifteenth of the transfer amount was added to the pension provision. The outstanding addition as at 31 March 2012 was € 53.1 million (previous year: € 57.2 million).

In each case the plan assets for VO 1979 and 1994, the deferred compensation and the early retirement regulation are a German fund within the meaning of the Investmentgesetz (InvG – German Investment Act), the units of which are exclusively held by the Bank and Group companies. IKB AG acquired 2,251,143 (previous year: 2,180,375) of a total of 2,508,023 (previous year: 2,434,647) outstanding units. The fund invests in equities, fixed-income securities and open-ended property funds. The redemption price (fair value) per unit was € 92.63 as at the balance sheet date (previous year: € 95.51). The carrying amount of the units is the fair value. The distribution for the current financial year was € 2.78 per unit (previous year: € 2.82). On the basis of the "General Terms and Conditions", the units can be returned each trading day. The investment company can also suspend the redemption of units if there are extraordinary circumstances that make it appear necessary to do so in the interests of the investors. The investment company has not exercised this option to date.

The sole purpose of the assets of € 217.1 million (previous year: € 214.3 million) spun off under contractual trust arrangements (CTAs) is to cover the pension commitments to employees and obligations arising from deferred compensation, early retirement obligations and the work time account model and to generate current income to compensate the expense incurred. Furthermore, they also serve to secure the above obligations in the event of the Bank's insolvency. Since the 2010/11 financial year, the CTAs have been offset against the pension liability in full in the context of the first-time adoption of the regulations of the BilMoG (see note 6). The remaining difference is reported as an excess of plan assets over pension liability.

(25) Repurchase agreements

As a pension provider, the Bank transferred securities with a nominal value of € 3,844.8 million as at the reporting date (previous year: € 1,486.4 million). IKB did not receive any securities as a pension recipient (previous year: € 160.8 million).

(26) 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 Mar. 2012	31 Mar. 2011
Assets	2,793.5	3,287.1
Liabilities	1,480.0	2,398.1

(27) Other assets and other liabilities

As a result in the adjustment of interest payments on upfront payments of an interest nature, these were reported under prepaid expenses for the first time in the 2011/12 financial year to improve the presentation of the net asset situation. As at 31 March 2012, this resulted in a reduction of around € 232 million year-on-year in other assets due to paid premiums from derivatives transactions. Similarly, there was also a reduction in other liabilities as a result of this of € 175 million in "Upfront payments received".

The significant items under other assets are:

in € million	31 Mar. 2012	31 Mar. 2011
Receivables to affiliated companies	212	2
Receivables from tax authorities	24	31
Receivables to KfW (Kreditanstalt für Wiederaufbau/ Reconstruction Credit Institute)	21	36
Deferred interest on derivative transactions	14	41
Premiums paid in derivative transactions	0	256

The significant items under other liabilities are:

in € million	31 Mar. 2012	31 Mar. 2011
Liabilities to special-purpose entities	516	644
Deferred interest for derivatives transactions	96	346 1)
Liabilities from profit participation certificates	38	0
Adjustment item for currency measurement	27	7
Interest liabilities from subordinated liabilities	14	16
Liabilities from the settlement of payments	5	17
Liabilities to tax authorities	4	7
Liabilities to affiliated companies	0	65

1) Including upfront payments in the previous year

In accordance with IDW RS HFA 8, this item includes liabilities to special-purpose entities of € 516 million (previous year: € 644 million) offset by securities holdings in the same amount as collateral as defined by section 285 no. 1 b) and no. 2 HGB.

The securities transferred to the SPE Rio Debt Holdings (Ireland) Limited, Dublin, by the total return swap (carrying amount as at 31 March 2012: € 130.7 million) are therefore still reported in the balance sheet under bonds and other fixed-income securities and measured in line with the provisions for long-term investments. A provision and a liability of the same amount measured using the same policies as the securities have been reported; the liability is reported under other liabilities.

Deferred interest on the derivative transaction is reported net.

(28) Prepaid expenses and deferred item

Prepaid expenses include € 31 million (previous year: € 51 million) of discounts from liabilities carried at their nominal value deferred in line with section 250 (3) HGB and section 340e (2) sentence 3 HGB. € 191 million (previous year: € 8 million) of this relates to discounts from assuming past liabilities.

Deferred item essentially includes € 40 million (previous year: € 37 million) in differences in accordance with section 250 (2) HGB and section 340e (2) sentence 2 HGB (discounts on receivables recognised at nominal value), € 237 million (previous year: € 19 million) in premiums from interest cap agreements and € 17 million (previous year: € 16 million) in deferred interest income from structured securities. Total discounts include € 9 million (previous year: € 15 million) from the assumption of receivables in the past.

In the previous year, upfront payments on derivatives of an interest nature were reported under other assets/liabilities. They are now reported under prepaid expenses and deferred income to improve the presentation of the net asset situation. Prepaid expenses from such transactions rose by € 175 million as at the end of the financial year. Deferred income rose as at the end of the year to € 232 million.

(29) Deferred tax assets

Deferred tax assets in accordance with section 274 HGB are reported in the amount of € 151.6 million (previous year: € 158.0 million) as at the balance sheet date. This value is essentially based on the differences between the financial accounts and the tax accounts that will reverse in subsequent years. In particular, this relates to provisions for expected losses for embedded derivatives (CDS) recognised in the financial accounts but not in the tax accounts and investment funds of the German Group. Furthermore, deferred tax assets on tax loss carryforwards are taken into account if the losses are sufficiently likely to be offset within the next five financial years from the next year-end reporting date. Local tax rates were used in each case. The resulting tax expenses and relief have been reported net.

(30) Pension provisions

The reported pension provisions of € 0.9 million (previous year: € 1.5 million) relate to early retirement benefits resulting from the net total of obligations of € 5.2 million (previous year: € 5.9 million) and the fund assets of € 4.3 million (previous year: € 4.4 million).

The remainder of the obligation that would have to be recognised for the first time on account of the regulations of the BilMoG in the 2010/11 financial amounts to € 53.1 million (previous year: € 57.2 million) and breaks down as follows:

Pension system in € million	Pension obligation with full consideration of conversion amount	Pension liability	Obligation not yet considered
VO 1979 and 1994	225.1	172.5	52.6
Early retirement obligations	5.2	5.2	0.0
Deferred Compensation	3.4	3.3	0.1
VO 2006	6.1	5.7	0.4
Work time account model	2.5	2.5	0.0
Total	**242.3**	**189.2**	**53.1**

(31) Subordinated liabilities

Subordinated liabilities are eligible as equity within the meaning of the *Kreditwesengesetz* (KWG German Banking Act) and represent € 708 million of the Bank's liable equity (previous year: € 881 million). As at 31 March 2012, there were no ineligible shares in subordinated liabilities in tier II capital, and therefore no shares of the same eligible for use as tier III capital to back market price risks (previous year: € 19 million).

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.

In return for the transfer of mortgage bonds in a corresponding amount by the Bank, MATRONA assumed subordinated liabilities of the Bank with a carrying amount of € 475.1 million, thereby discharging the previous debtor.

The subordinated liabilities amounted to € 1.0 billion (previous year: € 1.5 billion) as at the reporting date. Interest expenses on these amounted to € 49.7 million in the financial year (previous year: € 49.2 million).

Individual items exceeding 10% of the total amount:

Year of issue	Carrying amount in € million	Issue currency	Interest rate in %	Maturity
2003/04	284.0	EUR	4.50	9 Jul. 2013
2005/06	118.7	JPY	2.76	21 Jul. 2035
2006/07	120.0	EUR	1.95	23 Jan. 2017

(32) Profit participation capital

After loss allocation, profit participation capital amounted to € 35.8 million as at the balance sheet date (previous year: € 86.9 million). € 34.2 million of this amount (previous year: € 40.0 million) meets the requirement of section 10 (5) KWG and therefore serves to increase liable equity. The nominal value as at the balance sheet date was € 300.0 million (previous year: € 474.5 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. As at 31 March 2012, profit participation capital with a nominal amount of € 174.5 million (carrying amount: € 38.0 million) became due and was therefore reported under other liabilities.

The loss participation of profit participation certificate bearers or the replenishment of profit participation capital are calculated in different ways on account of the various terms and conditions of profit participation capital. The loss participation of the respective profit participation certificate bearers is calculated on the basis of the pro rata net loss for the year or net accumulated losses (in part not taking into account the loss 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 profit participation certificates break down as follows:

Year of issue	Original nominal value in € million	Issue currency	Interest rate in %	Maturity
2004/05	30.0	EUR	4.50	31 Mar. 2015
2005/06	150.0	EUR	3.86	31 Mar. 2015
2006/07	50.0	EUR	4.70	31 Mar. 2017
2007/08	70.0	EUR	5.63	31 Mar. 2017

After loss participation, no interest was incurred on profit participation certificates for the 2011/12 financial year. Without the net loss for the year or net accumulated losses, interest of € 24.8 million (previous year: € 24.8 million) would have been payable on profit participation certificates in the 2011/12 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 provide for bearers to subscribe to bearer shares in the company. Recessionary and revocation claims have been brought against this resolution on which a verdict has not yet been reached. This has not been entered in the commercial register to date.

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

(33) Fund for general banking risks

Owing to the net income in the trading portfolio of € 0.8 million, there was an addition to the fund for general banking risks in accordance with section 340e (4) HGB of € 77 thousand in the 2011/12 financial year. The fund for general banking risks recognised in previous years in accordance with section 340g HGB is reported at the unchanged amount of € 189.6 million.

(34) Development of capital

1. Treasury shares

By a resolution of the Annual General Meeting on 26 August 2010, the Board of Managing Directors was authorised to acquire and sell treasury shares for the purpose of securities trading until 25 August 2015. The amount of shares acquired for this purpose cannot exceed 5% of the share capital at the end of any one day. Together with the treasury shares acquired for other reasons held by the company or assigned to it in accordance with sections 71a ff. AktG, the shares acquired on the basis of this authorisation cannot exceed 10% of the share capital at any time. This authorisation was not utilised in the 2011/12 financial year.

By way of resolution of the Annual General Meeting held on 26 August 2010, the company was also authorised to acquire treasury shares of up to 10% of the share capital for purposes other than securities trading until 25 August 2015. The shares can be acquired on the stock exchange or by way of a public bid to all shareholders. The acquisition of shares may be carried out using put or call options. Such share acquisitions are limited to shares of a maximum volume of 5% of the share capital at the time of the resolution on this authorisation by the Annual General Meeting on 26 August 2010. The terms of the options must end no later than on 25 August 2015. 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 2011/12 financial year.

No treasury shares were held in the 2011/12 financial year, nor were there any additions or disposals of the same.

2. Equity

By way of resolution of the Annual General Meeting on 28 August 2008, the Board of Managing Directors was authorised, with the approval of the Supervisory Board, to increase the share capital of the company by a total of up to € 500,000,000.00 against cash or non-cash contributions by issuing up to 195,312,500 new no-par value bearer shares until 27 August 2013. With the approval of the Supervisory Board, the statutory subscription rights of shareholders can be disapplied under this authorisation. This authorisation was not utilised in the 2008/09 to 2011/12 financial years. The authorised capital was entered in the commercial register on 3 November 2008.

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

By way of resolution of the Annual General Meeting of IKB AG on 28 August 2008, the Board of Managing Directors was authorised to issue convertible and option bonds with a total nominal value of € 900,000,000.00 and a maximum duration of 20 years by 27 August 2013 and to grant the bearers of these bonds conversion or option rights to up to 48,339,843 no-par-value bearer shares in the company with a stake of up to € 123,749,998.08 in the share capital according to the relevant bond conditions. On 19 November 2008, the Board of Managing Directors of the company resolved to issue subordinate bonds with a total nominal value of up to € 123,671,070.72 with a contingent conversion obligation and contingent conversion privilege for up to 48,309,012 shares in the company from contingent capital with a shareholders' subscription right. A subsidiary of the Lone Star group, LSF6 Rio S.à.r.l., had undertaken to assume all bonds not subscribed to by other IKB AG shareholders. Bonds totalling € 150,174.72 were subscribed to by other shareholders and the remaining amount of € 123,520,896.00 was acquired by Lone Star (LSF6 Rio S.à.r.l.). A bond of nominally € 23.04 entitles the bearer to subscribe to nine new shares from contingent capital at a conversion price of € 2.56 per share. Since 1 July 2009, the conditions for the existence of a conversion obligation and a conversion privilege have been met. As a result, a conversion privilege has existed since this time. A conversion obligation existed on 11 April 2012 at the latest. LSF6 Rio S.à.r.l. exercised its conversion right in full on 2 July 2009. On issuance of the subscribed shares on 14 July 2009, this increased the share capital of the company by € 123,520,896.00 to € 1,621,315,228.16. The increase in share capital was entered in the commercial register on 4 May 2010. Also, a further creditor of the convertible bond exercised its conversion right on 20 January 2012. As a result, and on issuance of the subscribed shares on 30 January 2012, this increased the share capital of the company by € 3,686.40 to € 1,621,318,914.56. With reference to the mandatory conversion implemented on 11 April 2012, refer to the chapter “Events after 31 March 2012 (Supplementary report)”. The increase in share capital was entered in the commercial register on 2 May 2012.

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

By way of resolution of the Annual General Meeting of 26 August 2010, the remaining contingent capital increase from the Annual General Meeting of 28 August 2008 of up to € 229,102.08 (Contingent Capital 2008) was reduced to up to € 150,174.72 divided into up to 58,662 new bearer shares with profit participation rights from the start of the financial year in which they are issued. With the exception of the conversion described, the Contingent Capital 2008 remained unchanged. The reduction was entered in the commercial register on 8 November 2010.

By way of resolution of the Annual General Meeting of 26 August 2010, the Board of Managing Directors was authorised, with the approval of the Supervisory Board, to issue bearer convertible and option bonds or combinations of these instruments (referred to collectively below as “bonds”), dated or undated, on one or several occasions up to a total nominal amount of € 400,000,000.00 until 25 August 2015 and to grant the bearers of bonds conversion or option rights to up to 74,874,422 no-par-value bearer shares of the company with a pro rata amount of share capital totalling up to € 191,678,520.32 in line with the issue conditions of the bonds to be stipulated in more detail. This authorisation was not utilised in the 2011/12 financial year. The resolution was entered in the commercial register on 8 November 2010.

3. Capital reserve

The capital reserve was reported unchanged at € 1,750.7 million in the financial year.

4. Revenue reserves

The revenue reserves still amount to € 24.2 million.

5. Hybrid capital instruments (silent partnership contributions)

As at 31 March 2012, the hybrid tier I capital after loss allocation amounted to € 0.0 million (previous year: € 0.6 million). 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 € 0.6 million in the financial year as a result of the loss participation (previous year: € 15.2 million). The replenishment of the repayment amount after loss participation is expressly provided for when certain conditions are met.

As in the previous year, no interest was paid on hybrid capital instruments.

6. Development of capital

in € million	1 Apr. 2011	Withdrawals	Additions	Distribution of loss for year	31 Mar. 2012
a) Subscribed capital					
aa) Share capital	1,621.3	0.0	0.0	0.0	1,621.3
ab) Silent partnership contribution	0.6	-0.6[1])	0.0	0.0	0.0
	1,621.9	-0.6	0.0	0.0	1,621.3
b) Capital reserve	1,750.7	0.0	0.0	0.0	1,750.7
c) Revenue reserves					
ca) Legal reserve	2.4	0.0	0.0	0.0	2.4
cb) Other revenue reserves	21.9	0.0	0.0	0.0	21.9
	24.3	0.0	0.0	0.0	24.3
d) Net accumulated losses	-1,789.4	0.0	0.0	-241.1	-2,030.5
Capital	**1.607,5**	**-0.6**	**0.0**	**-241.1**	**1,365.8**
For information purposes:					
Unutilised					
authorised capital [2)]	500.0	0.0	0.0	0.0	500.0
contingent capital [2), 3)]	191.9	-0.1	0.0	0.0	191.8

Some totals may be subject to discrepancies due to rounding differences.
1) Loss participation of the silent partnership contributions for the 2011/12 financial year
2) The data shown is the same as the data entered in the commercial register. These values could still change on account of the actions for annulment. In this context please see the comments under point 2 in note 34.
3) The effects of exercising the conversion right on unutilised authorised capital amount to € 4 thousand.

In line with the notification submitted to the banking regulatory authorities as at the balance sheet date, the regulatory equity funds as per the German Banking Act amounted to a total of € 2.2 billion (previous year: € 2.7 billion). The calculation of equity assuming the set balance sheet values produced a value of € 2.2 billion (previous year: € 2.6 billion).

Distribution restriction

The distribution restrictions break down as follows:

in €	Gross income	Deferred tax assets	Deferred tax liabilities	Amounts reserved for distribution
Unrealised gains on plan assets for pensions	397,041.73	0.00	-6,220.65	-6,220.65
Recognition of deferred taxes		157,173,145.28	-5,566,924.63	151,606,220.65
Total	**397,041.73**	**157,173,145.28**	**5,573,145.28**	**151,600,000.00**

(35) Significant shares in voting rights

The Bank had received the following notifications in accordance with section 21 of the German Securities Trading Act as at 31 March 2012:

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

(36) Contingent liabilities/other obligations

On the balance sheet date, contingent liabilities of € 1,957.0 million (previous year: € 1,659.2 million) also included CDSs (Bank as pledgor) under guarantees and warranties. Here, IKB has assumed the default risk for a pre-defined credit event for specific credit portfolios.

The risk of the utilisation of contingent liabilities is assessed on the basis of parameters from credit risk management. Provisions are recognised if utilisation is expected in full or in part due to the deterioration of the credit standing of a borrower. On the basis of the current credit standing, utilisation of the reported contingent liabilities is not expected. Details on the process within credit risk management are explained in the risk report of the management report.

By way of the liability transfer by MATRONA and with regard to the subordinated liabilities, the Bank issued a warrant for MATRONA, whereby it assumes liability for MATRONA's payment obligations in connection with the transfer of subordinated liabilities by MATRONA (see note 31).

Furthermore, derivative components of structured products (CDS) reported under "Bonds and other fixed-income securities" are also included in the item "Guarantee and warranty agreements" at € 0.8 billion (previous year: € 0.8 billion). Provisions of € 0.1 billion (previous year: € 0.2 billion) were recognised for these products as part of the measurement of embedded CDS transactions reported off-balance sheet.

IKB AG and IKB Beteiligungen GmbH assumed guarantees as part of the sale and transfer agreement for 50% of shares in Movesta Development GmbH in December 2009. These include, for example, the transferred GmbH shares and the proper settlement of and compliance with obligations from the past (including issuing tax returns).

On 31 March 2012, the "Other obligations" line item of € 1,448.9 million (previous year: € 1,443.0 million) included commitments of up to one year of € 837.7 million (previous year: € 611.7 million) and commitments of more than one year of € 617.1 million (previous year: € 831.3 million). There were provisions for commitments totalling € 5.9 million on 31 March 2012.

Notes on the income statement

(37) 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 the trading portfolio and other operating income breaks down among the different geographical markets as follows:

in € million	2011/12	2010/11
Federal Republic of Germany	2,629.4	2,278.6
Europe not including Germany	220.8	87.2
Total	**2,850.2**	**2,365.8**

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

(38) 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.

(39) Other operating income

Other operating income essentially includes income from a close-out agreement on swaps of € 20.0 million (previous year: € 0.0 million), overheads charged to Group companies of € 5.8 million (previous year: € 7.2 million) and income from the reversal of provisions of € 14.8 million (previous year: € 18.3 million).

(40) Other operating expenses

This item essentially includes the following:

in € million	2011/12	2010/11
Addition to provision for expected losses	12.8	1.6
Rental expenses	4.9	15.9
Currency gains from non-trading book transactions	1.8	3.6
Addition to provision from damages	1.6	0.0
Catering, entertainment and canteen expenses	0.9	1.0

(41) Income from profit transfer agreements

This predominantly relates to the profit transfer by IKB Beteiligungen GmbH of € 210.4 million (previous year: loss absorption of € 57.5 million), which, in the amount of € 193.4 million, essentially resulted from the contribution of capital shares in MATRONA at market value to IKB Private Equity GmbH by way of an additional non-cash payment in its capital reserve.

(42) Extraordinary income and expenses

This includes expenses for the reimbursement of legal costs to KfW in connection with the settlement of portfolio investments in the amount of € 1.7 million. This item also includes the earnings effect of the transfer to provisions as part of the restructuring measures. In total, the expenses for the restructuring in the reporting period amounted to € 11.1 million. This includes expenses for the termination of employment agreements, provisions for rent and for early retirement obligations. Furthermore, extraordinary income includes higher realisation proceeds from intragroup receivables of € 2.8 million.

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

(43) Income taxes

Income tax expenses of € 6.9 million (previous year: income of € 53.3 million) was incurred in the reporting year.

In particular, the expenses result from the € 6.4 million reduction in deferred tax assets recognised. Taxes on income relate exclusively to the ordinary activities of the Bank.

Other disclosures

(44) List of shareholdings of IKB Deutsche Industriebank AG

List of shareholdings of IKB Deutsche Industriebank AG in accordance with section 285 no. 11 and 11a HGB		Financial year 2011/12 (31 Mar. 2012)				
		Financial year	Letter of comfort	Equity interest in %	Equity in € thousand	Result in € thousand
1.	**Domestic subsidiaries (fully consolidated)**					
	Aleanta GmbH, Düsseldorf	1 Apr. - 31 Mar.		100.0	1,463	229
	Equity Fund GmbH, Düsseldorf	1 Apr. - 31 Mar.		100.0	13,521	0
	Erste Equity Suporta GmbH, Düsseldorf	1 Apr. - 31 Mar.		100.0	1,296	0
	IKB Autoleasing GmbH, Hamburg	1 Apr. - 31 Mar.	X	100.0	14,000	0
	IKB Beteiligungen GmbH, Düsseldorf	1 Apr. - 31 Mar.	X	100.0	724,966	0
	IKB Data GmbH, Düsseldorf	1 Apr. - 31 Mar.	X	100.0	15,000	1,109
	IKB Equity Capital Fund GmbH, Düsseldorf	1 Apr. - 31 Mar.	X	100.0	31,353	2,110
	IKB Grundstücks GmbH & Co.Objekt Holzhausen KG, Düsseldorf	1 Jan. - 31 Dec.	X	100.0	4,930	538 3)
	IKB Grundstücks GmbH, Düsseldorf	1 Jan. - 31 Dec.	X	100.0	112	-15
	IKB Leasing Berlin Gesellschaft mit beschränkter Haftung, Erkner	1 Apr. - 31 Mar.	X	100.0	8,000	0
	IKB Leasing Gesellschaft mit beschränkter Haftung, Hamburg	1 Apr. - 31 Mar.	X	100.0	60,056	0
	IKB Private Equity GmbH, Düsseldorf	1 Apr. - 31 Mar.	X	100.0	479,867	0
	IKB Projektentwicklung GmbH & Co. KG i.L., Düsseldorf	1 Jan. - 31 Dec.	X	100.0	-3,020	-6,441 3)
	IKB Struktur GmbH, Düsseldorf	1 Apr. - 31 Mar.		100.0	103,750	0
	IMAS Grundstücks-Vermietungsgesellschaft mbH, Düsseldorf	1 Apr. - 31 Mar.	X	100.0	2,919	31
	Istop 1 GmbH, Düsseldorf	1 Apr. - 31 Mar.		100.0	122,525	0
	Istop 2 GmbH, Düsseldorf	1 Apr. - 31 Mar.		100.0	155,025	0
	Istop 4 GmbH, Düsseldorf	1 Apr. - 31 Mar.		100.0	190,025	0
	Istop 5 GmbH, Düsseldorf	1 Apr. - 31 Mar.		100.0	91,525	0
	ISTOS Beteiligungsverwaltungs- und Grundstücks- Vermietungsgesellschaft mbH, Düsseldorf	1 Jan. - 31 Dec.	X	100.0	78	2
	ISTOS Dritte Beteiligungsverwaltungs- und Grundstücks-Vermietungsgesellschaft mbH & Co. KG, Düsseldorf	1 Jan. - 31 Dec.		100.0	271	-8 3)
	ISTOS Erste Beteiligungsverwaltungs- und Grundstücks-Vermietungsgesellschaft mbH & Co. KG, Düsseldorf	1 Jan. - 31 Dec.	X	100.0	25	-9 3)
	ISTOS Zweite Beteiligungsverwaltungs- und Grundstücks-Vermietungsgesellschaft mbH & Co. KG, Düsseldorf	1 Jan. - 31 Dec.		100.0	136	-9 3)
	Matrona GmbH, Düsseldorf	1 Apr. - 31 Mar.		100.0	525	0
	Projektbeteiligung TH GmbH & Co. KG, Düsseldorf	1 Jan. - 31 Dec.		89.8	22	6 3)
	Tempelhofer Hafen GmbH, Düsseldorf	1 Jan. - 31 Dec.		94.9	-10,675	-1,865
	Zweite Equity Suporta GmbH, Düsseldorf	1 Jan. - 31 Dec.		100.0	70,080	0
2.	**Foreign subsidiaries (fully consolidated)**					
	IKB Capital Corporation, New York 4)	1 Apr. - 31 Mar.		100.0	2,594	265
	IKB Finance B.V., Amsterdam	1 Apr. - 31 Mar.	X	100.0	-2,678	120
	IKB Funding LLC II, Wilmington	1 Apr. - 31 Mar.	X 2)	100.0	21,336	12,805
	IKB Funding LLC I, Wilmington	1 Apr. - 31 Mar.	X 2)	100.0	2,734	2,215
	IKB International S.A. i.L., Luxembourg	1 Apr. - 31 Mar.	X	100.0	27,853	-3,413
	IKB Leasing Austria GmbH, Vienna	1 Jan. - 31 Dec.		100.0	438	33
	IKB Leasing CR s.r.o., Prague 9	1 Jan. - 31 Dec.		100.0	4,243	-695
	IKB Leasing Finance IFN SA, Bucuresti	1 Jan. - 31 Dec.		100.0	1,194	-816
	IKB Leasing France S.A.R.L., Marne La Vallée Cedex 4	1 Jan. - 31 Dec.		100.0	702	-85
	IKB Leasing geschlossene Aktiengesellschaft, Moscow	1 Jan. - 31 Dec.		100.0	3,369	2,252
	IKB Leasing Korlátolt Felelösségü Társaság , Budapest	1 Jan. - 31 Dec.		100.0	2,676	-1,545
	IKB Leasing Polska Sp.z.o.o, Poznan (Posen)	1 Jan. - 31 Dec.		100.0	8,182	1,789
	IKB Leasing S.R.L. , Bucharest / Sektor 1	1 Jan. - 31 Dec.		100.0	394	108
	IKB Leasing SR, s.r.o, Bratislava	1 Jan. - 31 Dec.		100.0	1,061	-929
	IKB Lux Beteiligungen S.à.r.l, Luxembourg	1 Apr. - 31 Mar.	X	100.0	8,479	0
	IKB Pénzügyi Lízing zártkörüen müködö Részvénytársaság, Budapest	1 Jan. - 31 Dec.		100.0	794	-458
	IKBL Renting and Service S.r.l., Lainate (Milano)	1 Jan. - 31 Dec.		100.0	990	-10
	STILL LOCATION S.à.r.l., Marne La Vallee Cedex 4	1 Jan. - 31 Dec.		100.0	13,421	-1,659

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

		Financial year	Letter of comfort	Equity interest in %
3.	**Other German companies (not included due to immateriality)[1)]**			
	Bella GmbH, Düsseldorf	1 Apr. - 31 Mar.		100.0
	Boxhagener Str. 76/78 Berlin GmbH i.L., Düsseldorf	1 Jan. - 31 Dec.		100.0
	Brunnenstraße 105-109 Berlin Grundbesitz GmbH, Münster	1 Jan. - 31 Dec.		94.9
	Büroprojekt sechste Verwaltungsgesellschaft mbH i.L., Düsseldorf	1 Jan. - 31 Dec.		100.0
	Büroprojekt vierte Verwaltungsgesellschaft mbH, Düsseldorf	1 Jan. - 31 Dec.		100.0
	Eaton Place 98 London GmbH, Norderfriedrichskoog	1 Jan. - 31 Dec.		100.0
	Einsteinufer 63-65 Berlin GmbH i.L., Düsseldorf	1 Jan. - 31 Dec.		100.0
	Feldmühleplatz 1 Verwaltungsgesellschaft mbH, Düsseldorf	1 Jan. - 31 Dec.		100.0
	FRANA Grundstücks-Vermietungsgesellschaft mbH, Düsseldorf	1 Jan. - 31 Dec.		100.0
	GAP 15 GmbH, Düsseldorf	1 Jan. - 31 Dec.		92.8
	GARUMNA GmbH, Düsseldorf	1 Apr. - 31 Mar.		100.0
	HARPE Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Schloß Schweinsburg KG, Düsseldorf	1 Jan. - 31 Dec.		88.7
	HAUSTUS Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Yachtzentrum Berlin KG, Düsseldorf	1 Jan. - 31 Dec.		94.7
	IKB Projektentwicklungsverwaltungsgesellschaft mbH i.L., Düsseldorf		X	100.0
	IKB SWE GmbH, Düsseldorf	1 Apr. - 31 Mar.		100.0
	ILF Immobilien-Leasing-Fonds Verwaltung GmbH & Co. Objekt Boxdorf KG, Düsseldorf	1 Jan. - 31 Dec.		93.4
	ilmenau center Verwaltungsgesellschaft mbH, Düsseldorf	1 Jan. - 31 Dec.		100.0
	INCO Ingenieur Consult Geschäftsführungsgesellschaft mbH, Düsseldorf	1 Jan. - 31 Dec.		100.0
	INCO Ingenieur Consult GmbH & Co. KG, Düsseldorf	1 Jan. - 31 Dec.		100.0
	Istop 3 GmbH, Düsseldorf	1 Jan. - 31 Dec.		100.0
	MD Capital Solingen Verwaltungsgesellschaft mbH, Düsseldorf	1 Jan. - 31 Dec.		100.0
	MD Capital Stromstrasse Verwaltungsgesellschaft mbH, Düsseldorf	1 Jan. - 31 Dec.		100.0
	MD Capital Verwaltungs GmbH, Düsseldorf	1 Jan. - 31 Dec.		100.0
	MD Objekt Lorsch Verwaltungs GmbH, Düsseldorf	1 Jan. - 31 Dec.		100.0
	MD Objekt Solingen Verwaltungsgesellschaft mbH, Düsseldorf	1 Jan. - 31 Dec.		100.0
	MD Objekt Stromstrasse Verwaltungsgesellschaft mbH, Düsseldorf	1 Jan. - 31 Dec.		100.0
	MFRSI Beteiligungsholding Verwaltungsgesellschaft mbH, Düsseldorf	1 Jan. - 31 Dec.		100.0
	Objekt Pankow Verwaltungsgesellschaft mbH i.L., Düsseldorf	1 Jan. - 31 Dec.		100.0
	Paxum GmbH, Düsseldorf	1 Apr. - 31 Mar.		100.0
	RAVENNA Vermögensverwaltungs AG, Berlin	1 Jan. - 31 Dec.		100.0
	Restruktur 1 GmbH i.L., Düsseldorf	1 Jan. - 31 Dec.		100.0
	Restruktur 2 GmbH i.L., Düsseldorf	1 Apr. - 31 Mar.		100.0
	Restruktur 3 GmbH, Düsseldorf	1 Apr. - 31 Mar.		100.0
	Robert Adams Str. 12 London GmbH i.L., Norderfriedrichskoog	1 Jan. - 31 Dec.		100.0
	SEQUANA GmbH, Düsseldorf	1 Apr. - 31 Mar.		100.0
4.	**Foreign companies (not inlcuded due to immateriality)[1)]**			
	Eukelade G.m.b.H., Luxembourg	1 Apr. - 31 Mar.		100.0
	Helike G.m.b.H., Luxembourg	1 Apr. - 31 Mar.		100.0
	IKB Funding Trust II, Wilmington	1 Apr. - 31 Mar.		100.0
	IKB Funding Trust I, Wilmington	1 Apr. - 31 Mar.		100.0
	Kore G.m.b.H., Luxembourg	1 Apr. - 31 Mar.		100.0
	Valin Funds GP S.à.r.l., Luxembourg	1 Apr. - 31 Mar.		100.0
	Valin Funds S.C.A,, SICAV-SIF, Luxembourg	1 Apr. - 31 Mar.		100.0
5.	**German associated companies (measured at equity)[1)]**			
	Linde Leasing GmbH, Wiesbaden	1 Jan. - 31 Dec.		30.0
	MD Capital Beteiligungsgesellschaft mbH, Düsseldorf	1 Jan. - 31 Dec.		50.0

1) The information in accordance with section 285 no. 11 HGB on equity and results is not shown for companies not included in the consolidated financial statements in accordance with section 286 (3) sentence 1 no. 1 HGB.

		Financial year	Letter of comfort	Equity interest in %
6.	**Other German companies (not measured at equity)[1]**			
	alu-druckguss GmbH & Co. Brandenburg KG, Brieselang	1 Jan. - 31 Dec.		49.0
	alu-druckguss Verwaltungs GmbH , Brieselang	1 Jan. - 31 Dec.		49.0
	Argantis GmbH, Cologne	1 Jan. - 31 Dec.		50.0
	Argantis Private Equity GmbH & Co. KG, Cologne	1 Jan. - 31 Dec.		28.9
	Argantis Private Equity Gründer GmbH & Co. KG, Cologne	1 Jan. - 31 Dec.		36.5
	AWEBA Werkzeugbau GmbH Aue, Aue	1 Jan. - 31 Dec.		25.1
	AxIT AG, Frankenthal/Pfalz	1 Jan. - 31 Dec.		29.9
	Chemtura Verwaltungs GmbH, Bergkamen	1 Jan. - 31 Dec.		50.0
	equiNotes Management GmbH, Düsseldorf	1 Jan. - 31 Dec.		50.0
	EWEKO GmbH, Hattingen	1 Jan. - 31 Dec.		30.1
	FMD Feinmechanik GmbH, Weilheim	1 Apr. - 31 Mar.		49.0
	FUNDIS Projektentwicklungsholding GmbH & Co. KG, Düsseldorf	1 Jan. - 31 Dec.		50.0
	FUNDIS Verwaltungsgesellschaft mbH, Düsseldorf	1 Jan. - 31 Dec.		50.0
	GIP Management GmbH & Co. KG, Eschborn	1 Jan. - 31 Dec.		47.5
	GIP Verwaltungs GmbH, Eschborn	1 Jan. - 31 Dec.		50.0
	GIP WestSite-Entwicklung GmbH & Co. KG, Eschborn	1 Jan. - 31 Dec.		47.5
	Hafenspitze Verwaltungsgesellschaft mbH, Hamburg	1 Jan. - 31 Dec.		25.0
	ilmenau center GmbH & Co. KG, Lüneburg	1 Jan. - 31 Dec.		50.0
	MFRSI Beteiligungsholding GmbH & Co. KG, Düsseldorf	1 Jan. - 31 Dec.		50.0
	microTEC Gesellschaft für Mikrotechnologie mbH, Duisburg	1 Jan. - 31 Dec.		48.2
	Mike's Sandwich GmbH, Hamburg	1 Jan. - 31 Dec.		35.6
	MM Mezzanine Beteiligungsberatung GmbH i.L., Düsseldorf	1 Apr. - 31 Mar.		50.0
	MOTORRAD-ECKE GmbH, Villingen-Schwennigen	1 Jan. - 31 Dec.		38.9
	OCP GmbH Office Chemie Produktion, Hattingen	1 Jan. - 31 Dec.		25.1
	ODS Business Services Group GmbH, Hamburg	1 Jan. - 31 Dec.		32.0
	Projektgesellschaft Justus-von-Liebig-Straße mbH, Kronberg / Taunus	1 Jan. - 31 Dec.		50.0
	Vermögensverwaltungsgesellschaft DVD Dassow GmbH, Dassow	1 Jan. - 31 Dec.		30.0
7.	**Foreign associated companies (not measured at equity)[1]**			
	Alu Druckguss Sp.z.o.o., Nowa Sól	1 Jan. - 31 Dec.		49.0
	Infinigate Holding AG, Rotkreuz	1 Jan. - 31 Dec.		24.5
8.	**German equity investments in corporations and partnerships in which the interest exceeds 5% of voting rights[1]**			
	ae group ag, Gerstungen	1 Jan. - 31 Dec.		12.4
	AXA Immoselect Hauptverwaltungsgebäude GmbH Co Objekt Düsseldorf Uerdinger Straße KG, Düsseldorf	1 Jan. - 31 Dec.		5.1
	CoBaLe Immobilien GmbH & Co. Objekt Stuttgart KG	1 Jan. - 31 Dec.		5.1
	Feldmühleplatz 1 GmbH & Co. KG, Düsseldorf	1 Jan. - 31 Dec.		5.1
	Global Safety Textiles HoldCo One GmbH, Maulburg	1 Jan. - 31 Dec.		8.8
	Oechsler Aktiengesellschaft, Ansbach	1 Jan. - 31 Dec.		10.0
9.	**Foreign equity investments in large corporation in which the interest exceeds 5% of voting rights[1]**			
	EPL Acquisitions (SUB) N.V. in liquidatie, AZ Amsterdam	1 Jan. - 31 Dec.		5.7
	Old HG Limited, Berkshire	1 Apr. - 31 Mar.		6.1
	PSE Newco Limited, Yeadon Leeds	1 Jan. - 31 Dec.		5.7
	Ring International Holding AG, Vienna	1 Jan. - 31 Dec.		9.4
10.	**Special-purpose entities (special-purpose entities included in the consolidated financial statements in line with IAS 27/SIC 12)**			
	Bacchus 2008-1 Plc, Dublin 2			
	Bacchus 2008-2 Plc, Dublin 2			
	IKB Partner Fonds, Luxembourg			
	Partner Fonds Euro Bonds, Luxembourg			
	Partner Fonds Europa Renten Teilfonds II, Luxembourg			
	Partner Fonds Europa Renten Teilfonds I, Luxembourg			
	Partner Fonds Government & Covered Select, Luxembourg			
	RIO DEBT HOLDINGS (IRELAND) LIMITED, Dublin 2			

1) The information in accordance with section 285 no. 11 HGB on equity and results is not shown for companies not included in the consolidated financial statements in accordance with section 286 (3) sentence 1 no. 1 HGB.

(45) Disclosure of auditor's fees in line with section 285 no. 17 HGB

The total fee for audits of financial statements calculated by the auditor for the 2010/11 financial year is stated in the consolidated financial statements of IKB Deutsche Industriebank AG and is therefore not reported in the notes to the annual financial statements in accordance with section 285 no. 17 HGB.

(46) Other financial obligations

Other financial obligations essentially relate to rental, lease and other agreements and amounted to a total of € 256.5 million (previous year: € 288.9 million) on 31 March 2012. € 1.0 million (previous year: € 0.7 million) of this amount related to affiliated companies. As at the balance sheet date there were no payment obligations for equities, GmbH shares or other shares.

Long-term rent and lease agreements

The Bank has concluded rental agreements for properties used for banking operations for the head office in Düsseldorf and its branches and for the maintenance of these properties. € 236.7 million (previous year: € 256.3 million) of total other financial obligations relates to payment obligations under such rent agreements for the rental period. IKB has recognised provisions for expected losses from pending transaction the event that the expenses exceed the benefit of the rental agreement. The risk or opportunity lies in the fact that after the end of a limited rent agreement, the contract can be extended or a follow-up agreement can be concluded at less advantageous or more advantageous conditions.

In leases, the right to use an asset is transferred from the lessor to the lessee against regular payments. IKB has concluded leases for operating and office equipment assets. Payment obligations from future payments in connection with leases amount to € 6.6 million (previous year: € 9.1 million).

Purchase commitments for services

The Bank has concluded service agreements for ongoing banking operations. The obligations to purchase services occurring after 31 March 2012 amount to € 6.6 million (previous year: € 16.4 million). There is a risk with service agreements that the terms of the agreement are less favourable than at the time the agreement is fulfilled or that the costs of the agreement exceed the economic benefit.

Payment obligations to the Deposit Protection Fund

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.

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

Subsequent assessment of bank levy

In the event that the Bank generates net profits in future, it is possible for the bank levy to be subsequently reassessed, with the result that the bank levy exceeds the minimum contribution already paid (subsequent assessment). This can result in the outflow of financial assets in future. The possible subsequent assessment contribution for the 2011 and 2012 periods amounts to € 11 million in total. Please see note 61 (Bank levy) for information on the calculation of the bank levy.

(47) Off-balance sheet transactions

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

Special purpose entities in connection with securitisation transactions

IKB has entered into various contractual positions in connection with the establishment of special purpose entities. The purposes of the SPEs were the synthetic transfer of risks (e.g. promise mobility) or a transfer of assets to generate liquidity (e.g. Bacchus 2008-1 and Bacchus 2008-2).

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

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

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

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

Various assets were sold in connection with the implementation of the EU conditions. Part of the implementation of the EU conditions related to the reduction of the credit portfolio in connection with sales of receivables with a volume of € 345 million (previous year: € 685 million). Guarantees were issued in some cases which are reported in the relevant off-balance sheet line items (see note 36). The off-balance sheet risks lie in the liability for the legal validity of both this receivable and the collateral associated with it.

Derivatives

As at the balance sheet date there are obligations from contingent and non-contingent forwards. These are essentially for hedging interest and currency risks and lead to future inflows or outflows of cash. Please also see the notes on derivatives and futures (notes 51 and 52).

(48) Related party disclosures

Transactions with related parties were conducted at standard market terms. There were no significant transactions at non-standard market conditions that would have been reportable in line with section 285 no. 21 HGB.

(49) 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.

In addition to the existing letter of comfort, IKB issued an obligation to ensure sufficient capital and liquidity resources for IKB Projektentwicklung GmbH & Co. KG, Düsseldorf, in the 2011/12 financial year.

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

(50) Transfer of collateral for own liabilities

Fixed-interest securities with a nominal value in the amount of € 3.0 billion (previous year: € 6.1 billion) have been assigned as collateral for the ECB tender business and for the general collateral pool with Eurex Repo GmbH. In addition, credit receivables were lodged at Deutsche Bundesbank in the amount of € 0.2 billion (previous year: € 0.6 billion). Securities with a nominal value in the amount of € 3.8 billion were transferred in genuine repurchase agreements as at the reporting date (previous year: € 1.4 billion). Securities with a nominal value in the amount of € 0.5 billion (previous year: € 0.5 billion) were lodged with SIX SIS Ltd., Switzerland, as collateral for repo transactions with various Swiss counterparties.

On the balance sheet date, credit facilities totalling € 4.8 billion (previous year: € 2.2 billion) had been utilised.

IKB AG transferred a total of € 9,074.7 million (previous year: € 9,770.2 million) in loans and advances to customers and financial assets to other banks (particularly KfW) as collateral.

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

Securities with a nominal value of € 184.2 million (previous year: € 197.0 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 connection with trading on the EUREX Deutschland exchange, securities with a nominal value of € 22.0 million (previous year: € 22.0 million) have been pledged with Barclays, London, to cover margin obligations.

Securities with a nominal value in the amount of € 417.4 million (previous year: € 87.4 million) have been pledged to KfW, Frankfurt/Main, to help hedge joint business concepts and cash collateral of € 230.0 million has been provided (previous year: € 230.0 million). Further securities with a nominal value of € 165.0 million (previous year: € 141.0 million) were pledged as collateral to various banks to hedge global loans.

Securities with a nominal volume of € 0.7 billion (previous year: € 0.9 billion) that were transferred to Rio Debt Holdings are also subject to a restriction on disposition.

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. These include loans and advances to customers of € 157.5 million (previous year: € 276.3 million) for the special-purpose entity Bacchus 2008-1 and of € 358.1 million (previous year: € 367.2 million) for the special-purpose entity Bacchus 2008-2.

(51) 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 portfolios. Derivative instrument trading is only conducted to a limited extent. The amount of interest rate risk is restricted by a limit system approved by the Board of Managing Directors and monitored on a daily basis in risk management. In addition, the volume of forward and derivative transactions is restricted by counterparty limits.

The interest rate risks of securities, loans and the associated refinancing funds are managed in the investment portfolios and the credit refinancing portfolio. Derivatives are used to eliminate or reduce mismatched maturities and interest and exchange rate risks. The derivatives used are predominantly interest derivatives. These interest derivatives have a net negative fair value as at 31 March 2012 of € -1,416.0 million (previous year: € -1,196.0 million). The negative fair values of these derivatives are offset by the positive fair values of loans and interest-bearing securities.

The investment portfolios comprise investments in government and sovereign bonds, mortgage bonds, bank bonds, corporate bonds and promissory note loans. They are used to secure the Bank's liquidity and therefore predominantly include securities used by the ECB for tender transactions or in GC pooling as collateral. Investments are mostly hedged against changes in interest rates by interest swaps. The reduction of these positions over past financial years has also left a portfolio of simple interest rate derivatives that is largely interest-risk neutral and contributes significantly to the negative fair value of derivatives at IKB.

(52) Fair values of derivatives

Derivatives business in € million	Nominal	Fair value		
	31 Mar. 2012	positive 31 Mar. 2012	negative 31 Mar. 2012	Total
Interest rate swaps	46,804.3	2,081.6	-3,479.0	-1,397.4
Forward rate agreement	13,971.4	17.7	-10.1	7.6
Credit derivative	1,509.1	0.4	-281.5	-281.1
of which: embedded derivatives*	(855.7)	(0.0)	(-257.3)	(-257.3)
Cross currency swap	1,084.6	108.0	-136.2	-28.2
FX swap	933.0	3.8	-3.7	0.1
Swaption	910.0	11.2	-13.6	-2.4
Forward interest rate swap	852.7	11.2	-12.8	-1.6
Cap/floor	641.1	4.7	-5.0	-0.3
FX option	176.7	6.2	-8.2	-2.0
Forward bond	35.0	0.0	0.0	0.0
Currency forwards	31.7	0.4	-0.6	-0.2
Forward cross currency swap	10.0	1.6	-1.7	-0.1
Forward forward deposits	1.1	0.0	0.0	0.0
Bond option	0.1	0.1	0.0	0.1
Bid-ask effects	0.0	0.0	-7.4	-7.4
Total	**66,960.8**	**2,246.9**	**-3,959.8**	**-1,712.9**

* Provisions of € 116 million (previous year: € 194 million) were recognised as a provision for possible loan losses for embedded derivatives.

Trading book derivatives:

Derivatives business in € million	Nominal	Fair value		
	31 Mar. 2012	positive 31 Mar. 2012	negative 31 Mar. 2012	Total
Interest rate swap	4,048.6	89.4	-111.4	-22.0
Forward interest rate swap	843.8	19.0	-7.5	11.5
FX option	752.2	5.1	-5.3	-0.2
Swaption	330.0	4.6	-5.4	-0.8
Currency forwards	298.0	4.8	-2.8	2.0
FX swap	291.5	2.7	-3.2	-0.5
Cap/floor	211.4	3.7	-3.2	0.5
Forward bond	14.0	0.1	0.0	0.1
Total	**6,789.5**	**129.4**	**-138.8**	**-9.4**

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 CDSs 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 CLNs. In line with market practice, the reported fair values include deferred accrued interest. The accrued interest for swaps is reported in assets and liabilities held for trading. The upfront payments for investment book derivatives are reported in prepaid expenses and deferred income.

(53) 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 (Group) management report.

(54) Remuneration of the Board of Managing Directors

For the 2011/12 financial year, the remuneration of the Board of Managing Directors breaks down as follows: € 2.0 million relates to fixed remuneration, € 1.0 million – subject to a resolution by the Supervisory Board – to variable remuneration, € 0.2 million to pension compensation and € 28 thousand to additional benefits. The variable remuneration for the 2011/12 financial year has not yet been resolved by the Supervisory Board, but provisions have been recognised in the amount of the target bonuses agreed with the members of the Board of Managing Directors, i.e. a total amount of € 2.6 million. If and to the extent that the Supervisory Board resolves the bonuses for the 2011/12 financial year, 40% of bonuses will become payable immediately after the resolution by the Supervisory Board, but not before three bank working days after the adoption of the consolidated financial statements for the financial year for which they are granted; a further 30% of bonuses will become payable 21 bank working days after the adoption of the consolidated financial statements for the first financial year and the remaining 30% of bonuses 21 bank working days after the adoption of the consolidated financial statements for the second financial year following the financial year for which the bonus was granted. Subject to the proviso that the Supervisory Board resolves the variable remuneration in the amount of the target bonuses, the total remuneration of the Board of Managing Directors for the 2011/12 financial year will amount to € 4.9 million.

Please see the remuneration report in the Group management report for the presentation of the remuneration for the members of the Board of Managing Directors.

(55) Former and retired members of the Board of Managing Directors

The total remuneration for former members of the Board of Managing Directors and their surviving dependents amounted to € 3.5 million (previous year: € 3.2 million). In the 2011/12 financial year, € 44.1 million was recognised for pension obligations to former members of the Board of Managing Directors and their surviving dependents (previous year: € 42.4 million).

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

(56) Remuneration of the Supervisory Board

The total remuneration of the members of the Supervisory Board (including VAT) for the 2011/12 financial year amounted to € 258 thousand (previous year: € 257 thousand). This includes reimbursed expenses of € 10 thousand (€ 10 thousand).

The remuneration of employee representatives on the Supervisory Board – not including the above remuneration for work on the Supervisory Board – amounted to a total of € 362 thousand in the reporting period (previous year: € 408 thousand).

(57) Remuneration of the Advisory Board

The members of the Advisory Board received € 289 thousand (previous year: € 258 thousand), including VAT. The prior-year figures were reported € 84 thousand too low in the previous year.

(58) 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: € 0.1 million).

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

	2011/12	2010/11
Men	702	675
Women	357	353
Total	**1,059**	**1,028**

(60) 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 23 February 2012 and made this permanently available to the shareholders on the company's website, www.ikb.de.

(61) Bank levy

When the Restrukturierungsfondsgesetz (German Act on the Creation of a Restructuring Fund for Banks) came into effect on 31 December 2010, the German Financial Market Stabilisation Authority created a restructuring fund as a government fund. The intended volume of this fund is € 70 billion. The restructuring fund serves to stabilise the financial market by overcoming portfolio and system threats. The RStruktFG is specified further by the Restrukturierungsfonds-Verordnung (RStruktFV – German Restructuring Fund Ordinance), which regulates the legal requirements for assessing annual and extraordinary contributions and the details of the assessment process.

The enterprises liable to pay contributions are all banks within the meaning of section 1 (1) KWG with a banking licence that must comply with RechKredV regulations and that were authorised under the KWG to conduct banking business as at 1 January of the year of contribution. As at 30 September of each calendar year, these banks must pay an annual contribution (section 1 (1) f RStruktFV) in the amount of the total of certain liability items and the total of the derivatives reported in the notes.

The calculation of the annual contribution will be based on the adopted annual financial statements for the last financial year prior to 1 March of the respective year of contribution (section 1 (3) RStruktFV). For IKB, owing to its different financial year, this is ordinarily the adopted annual financial statements as at 31 March of the financial year prior to the year of contribution.

The RStruktFV provides both a cap (the so-called “reasonable limit”) and a minimum amount for the calculated annual contribution, whereby a liable enterprise must pay a minimum contribution of 5% of the calculated annual contribution (section 3 (2) RStruktFV). The minimum contribution must also be paid if the reasonable limit is lower.

If the calculated annual contribution exceeds the reasonable limit or if only the minimum contribution is paid, the difference (post-assessment amount) between the notional annual contribution and the actual contribution paid must be repaid in subsequent contribution years (section 3 (3) sentence 1 RStruktFV). Contributions that are no reassessed in the subsequent five contribution years no longer have to be charged (section 3 (3) sentence 4 RStruktFV).

Post-assessment amounts will be subsequently repaid in subsequent contribution years in an amount such that the total of the annual contribution for the current contribution year and the post-assessment contributions for previous years does not exceed the reasonable limit (section 3 (3) sentence 2 RStruktFV).

IKB's annual contribution amounts to € 5.0 million (previous year: € 8.5 million). On account of its results for the 2010/11 financial year, IKB must pay only the minimum contribution of € 0.2 million (previous year: € 0.4 million), which has been recognised in full as a liability as at 31 March 2011. The difference as against the previous year is due to the change in the calculation specifications of the RStruktFV (as at 25 July 2011) and the reduction in the equity and liabilities relevant to the contribution.

(62) 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.

The Supervisory Board

Chairman

Bruno Scherrer, London
Senior Managing Director/Head of European Investments, Lone Star Management Europe Ltd.

a) COREALCREDIT BANK AG (Chairman)
Düsseldorfer Hypothekenbank AG (Deputy Chairman)

Deputy Chairman

Dr Karsten von Köller, Frankfurt
Chairman Lone Star Germany GmbH

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

b) W.P. Carey & Co. LLC

Members

Stefan A. Baustert, Krefeld
Managing Director of RENA GmbH

a) NYCON ENERGY AG (Deputy Chairman)

b) AptarGroup

Olivier Brahin, London
Head of European Real Estate Investments, Lone Star Management Europe Ltd.

a) COREALCREDIT BANK AG

Dr Lutz-Christian Funke, Oberursel
Director of KfW, Head of Business Strategy division of KfW Bankengruppe

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

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

a) *Baumarkt Praktiker Deutschland GmbH*
mateco AG
Praktiker Bau- und Heimwerkermärkte Holding AG

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

Arndt G. Kirchhoff, Attendorn
Managing Partner of KIRCHHOFF Automotive GmbH

a) *DEKRA SE*
KOSTAL Verwaltungsgesellschaft mbH

b) *DAL Deutsche Afrika Linien GmbH & Co. KG*
DEG – Deutsche Investitions- und Entwicklungsgesellschaft mbH
Großhaus GmbH (since 1 April 2011)
LEWA Attendorn GmbH

Bernd Klein, Mönchengladbach
Employee representative

Dr Claus Nolting, Munich
CEO of COREALCREDIT BANK AG

Dr Thomas Rabe, Berlin (until 21 February 2012)
CEO of Bertelsmann AG

a) *Arvato AG (Chairman since 23 January 2012)*
BMG RM Germany GmbH (Chairman)
Druck- und Verlagshaus Gruner + Jahr Aktiengesellschaft (Chairman since 1 January 2012)
Symrise AG (Chairman since 18 May 2011)

b) *Bertelsmann Capital Investment (S.A.)*
Bertelsmann Digital Media Investments S.A.
Bertelsmann Inc.
Edmond Israel Foundation
RTL Group S.A.
Springer Science + Business Media S.A.

Nicole Riggers, Düsseldorf (since 7 September 2011)
Employee representative

Dr Carola Steingräber, Berlin
Employee representative

Carmen Teufel, Neustetten
Employee representative

Dr Andreas Tuczka, Vienna
Head of European Financial Institutions, Managing Director Lone Star Management Europe Ltd.

a) *Düsseldorfer Hypothekenbank AG*

Ulrich Wernecke, Rommerskirchen
Employee representative

Andreas Wittmann, Munich (until 7 September 2011)
Employee representative

Board of Managing Directors

Hans Jörg Schüttler
(Chairman)

b) IKB Autoleasing GmbH
IKB Leasing Berlin GmbH
IKB Leasing GmbH
IKB Private Equity GmbH

Dr Dieter Glüder

b) IKB Data GmbH (Chairman)

Claus Momburg

b) MD Capital Beteiligungsgesellschaft mbH (Chairman)
Tempelhofer Hafen GmbH & Co. KG (Chairman since 15 April 2011)
IKB Autoleasing GmbH
IKB Leasing Berlin GmbH
IKB Leasing GmbH
IKB Private Equity GmbH

Dr Michael H. Wiedmann

b) IKB Private Equity GmbH (Chairman)
IKB Autoleasing GmbH
IKB Leasing Berlin GmbH
IKB Leasing GmbH

Offices held by employees

As at 31 March 2012, the following employees were represented in the statutory supervisory boards of large corporations:

Dr Reiner Dietrich
Tricor Packaging & Logistics AG

Dr Annette Littmann (until 30 June 2011)
Dortmunder Stadtwerke AG

Klaus Runzer
ae group ag
Oechsler AG

Düsseldorf, 22 May 2012

IKB Deutsche Industriebank AG
The Board of Managing Directors

Hans Jörg Schüttler

Dr. Dieter Glüder

Claus Momburg

Dr. Michael H. Wiedmann

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 IKB Deutsche Industriebank Aktiengesellschaft, Düsseldorf, for the financial year from 1 April 2011 to 31 March 2012. 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 section 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW – Institute of Public Auditors in Germany). 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.

Düsseldorf, 31 May 2012

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

(Mark Maternus)	(ppa. Michael Meteling)
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, 22 May 2012

IKB Deutsche Industriebank AG
The Board of Managing Directors

Hans Jörg Schüttler	Dr. Dieter Glüder
Claus Momburg	Dr. Michael H. Wiedmann

Note on forward-looking statements

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

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

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