Annual Financial Statements and Management Report of IKB Deutsche Industriebank AG 2010/2011

IKB Deutsche Industriebank

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Management Report of IKB Deutsche Industriebank AG

1. Business and general conditions

The global financial market crisis is now entering its fifth year. The focus is shifting more and more towards public-sector deficits, which have risen substantially in many countries. 2010 was above all a year of government debt crises with the solvency of some euro nations increasingly being questioned. The financial crisis and, from 2010, the debt crisis, have left a lasting mark on the international banking system. At the same time, on the capital markets uncertainty and the crisis of confidence also persisted.

Regardless of these problems, the global economy continued its ongoing recovery. The emerging nations are still setting the pace for the world's economy. They were barely affected by the financial market crisis or the budget consolidation pressure and are performing at pre-crisis levels. The trend is still rising in the industrialised nations as well. However, the effects of the financial market crisis are still being felt here: In spite of massive impetus from fiscal policy, the adjustments in the real estate sector and the necessary efforts to counter public and private debt are hampering economic development significantly in some cases. In the euro area in particular, economic performance has diverged greatly owing to the relatively high government debt. Driven by high indebtedness, especially the peripheral states are seeing very weak development.

In light of the uncertain economic development, monetary policy in the euro zone and the US retained its expansive alignment in the reporting period, even though concerns of rising inflation increased as commodities prices rose sharply around the world. In the booming emerging markets in particular, there was growing fear of significant inflation and economic overheating. Asset prices in these countries have frequently been overvalued in the past, to be followed by an abrupt correction sooner or later.

General conditions for the core business

There was major progress in the recovery of the German economy in 2010. With GDP growth of 3.6%, a considerable amount of the decline in production caused by the crisis in 2009 (GDP: -4.7%) was reversed. The first quarter of 2011 also continued to perform dynamically (up 1.5% on the previous quarter). The key mainstay of the economic recovery was the revived demand for exports on the global markets. It was particularly helpful that German companies diversified their sales by region at an early stage and are now profiting to a large extent from the upward trend in the emerging economies.

As early as 2010, the momentum of the export business had extended to domestic demand. Taken together, domestic demand related to investment and consumption accounted for approximately two thirds of the growth in the entire economic output in 2010.

As a result of this development, there was a particularly sharp increase in the demand for equipment – a key factor driving demand for loans. Following the slump in 2009 (down 23%), investments in equipment and machinery rose by almost 11%, but were still significantly below pre-crisis levels. The increasing capacity utilisation at companies should contribute to a lasting recovery in equipment investments.

In addition, the German labour market proved highly robust during the crisis owing to programmes such as reducing working hours. In September 2010, the number of the unemployed fell below 3 million for the first time – as it last did in the spring of 1992 during the reunification boom. For the year as a whole, the average unemployment rate was 7.7% and the number of people in employment climbed to 40.5 million, a level not seen since reunification. The current expansion in employment is giving rise to hopes of a more lasting revival in private consumer spending. Overall, the recovery in Germany has broadened to encompass all sectors of the economy. Fortunately, the rise in business insolvencies rose less sharply overall in 2010 (up 3%) than had been anticipated given the deep economic slump.

IKB's main international markets posted GDP growth in 2010 – though the extent of this varied (UK: 1.3%; France: 1.5%; Italy: 1.3%, all figures as against previous year). While Spain, which is still suffering greatly from a property and construction crisis, generated minor GDP growth from quarter to quarter, the figure for 2010 as a whole was still only -0.1%. Owing to the drastic deterioration in the budget situation, financial policy in most industrialised nations has been forced to swing round to consolidation, which could harm further economic recovery.

Events on the financial markets in the past year were defined by the debt crisis in the euro area in particular. Matters came to a head in May 2010 when the markets for government bonds from the peripheral nations of the euro zone threatened to dry out in some cases. To avoid exacerbating the situation, extensive stabilisation measures were implemented.

With the assistance of the International Monetary Fund (IMF), the heads of state of the EU set up the preventive European Financial Stability Facility (EFSF), which was increased further over the course of the year. In addition, the European Stability Mechanism (ESM) will provide liquidity assistance beyond 2013. However, this is tied to strict consolidation conditions.

Overall, a critical development was averted in spring 2010. In contrast to the preceding phase of the financial crisis, the latest disruptions left little impact on the real economy. The recovery – thanks also to the extensive stability measures of the EU – remained intact. Nonetheless, the turbulence that followed in the wake of the debt crisis shows how sensitively the financial markets are still reacting. In spite of the bailout, there was still speculation regarding a possible debt restructuring by individual PIIGS states (Portugal, Ireland, Italy, Greece and Spain), which was reflected in rising risk premiums on the bonds of those states. After Greece, Ireland and Portugal in particular came under pressure. The negative rating outlook for the US has also triggered uncertainty of late. If the debt crisis lingers, it is expected to depress the financial markets for years.

The international banking system is still ailing. The persistent mistrust towards financial institutes is also being reflected in heightened EU bank stress tests. In addition, a law was introduced in Germany to restructure and reorganise banks while establishing a restructuring fund. The law should ensure that banks minimise risks and bear the costs of any future bank crises themselves by charging a bank levy. The bank levy to be paid is based on the adopted HGB annual financial statements; the basis of measurement is determined by a Restructuring Fund Ordinance. The Bundesrat has yet to hold a final vote on the ordinance.

Regardless of the continued existence of considerable vulnerabilities, the German banking system was in a better general condition in 2010 than other countries. According to Deutsche Bundesbank's financial stability report, the risk situation had relaxed somewhat and the once feared credit crunch failed to materialise. The strong economic upswing supported the credit standing of domestic debtors. The credit quality of global capital market players also improved. However, some state debtors have lost creditworthiness as a result of the debt crisis.

Despite the relative improvement in the situation, the German banking system continues to face considerable burdens. According to the Deutsche Bundesbank, there is lingering refinancing pressure and competition in the short-term refinancing of banks. In addition, Basel III is heightening the requirements for equity and liquidity. In this context, banks must retain significantly more and better quality equity for lending. Against this backdrop, a functional securitisation market for banks and companies is vital. While this showed signs of recovery in 2010, options are far more limited than they were before the crisis broke out.

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 of severe global financial crisis. Key risks have been gradually reduced. Lending business without real customer relationships and very long-term project and export financing activities are no longer being actively continued. The Bank has been completely refocused on its traditional customer base – particularly German SMEs with sophisticated financing requirements.

Its business model has been expanded parallel to this. IKB no longer just offers its corporate clients (with sales upwards of € 50 million) credit financing, but an increasingly wider range of capital market and advisory services (such as derivatives, placements, M&A, restructuring advisory) that allow them to optimise their financing structure and grant them access to the capital market. In terms of acquisition finance, IKB works closely with private equity companies. As new business shows (increase in new lending business at IKB AG including the Leasing Group in the 2010/11 financial year: from € 3.0 billion to € 3.7 billion), IKB is satisfying the requirements of its existing customers, some of whom have been with IKB for decades, with this new approach.

IKB has a nation-wide 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. As at 31 March 2011, the Bank held an estimated 8% share in the market for long-term corporate loans to the German manufacturing industry. For public subsidy loans, which are of particular benefit to SMEs, the market share is much higher in some areas. IKB's main competitors are larger banks in Germany and abroad on a market undergoing great upheaval on account of the financial crisis, the intervention by the EU 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. Thus, IKB is 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. Accordingly, the ratings for this asset class are becoming less significant.

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 own customers with sufficient funding, whether short-term or medium-term financing or equity, will be organised on the capital market to an increasing degree;
- that strict price discipline is needed and that customers will therefore also face higher credit costs than in pre-crisis times.

To compensate for the aid provided by public-sector sources, IKB must satisfy extensive EU requirements (see section 2). IKB has gone on the offensive in implementing these requirements, even though they have meant substantial internal costs and losses on the disposal of assets. When the implementation has been completed by 30 September 2011 as scheduled, IKB will be able to focus all its energies on its business model. IKB will continue to reduce the complexity of the Group's structure to cut costs and, by contrast, build capacity (infrastructure, personnel) to manage its target customers.

Segments

The previous segment structure was dissolved at the end of the 2009/10 financial year as it was no longer consistent with the strategic repositioning or management of IKB. Since 1 April 2010, the Group's reporting has therefore been 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 the Bank's lending and leasing business. This includes regular loans and public programme loans, IKB Leasing Group business and mezzanine financing for companies by 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 the Bank's advisory activities in the fields of M&A, structuring, restructuring, structure/income optimisation and private equity. This sub-segment is a new product offering for IKB and will be expanded further in future. The Capital Markets sub-segment also bundles the range of capital market solutions in the area of equity and liabilities lending, risk management solutions in the customer derivatives area, the management of customer deposits for institutional and private investors, the structuring of the Bank's securitisation transactions and advisory and structuring services for securitisation for third parties.

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, the Bank's portfolio investments that represent the Bank's investments in securitisation products including first loss pieces, and the Bank's proprietary trading activities. Credit exposures that are no longer included in the strategic portfolio and assets of the Bank not related to customers and managed as investments are also assigned to the Treasury and Investments segment. These portfolios are to be reduced through active portfolio management while preserving equity.

In addition to the administrative expenses of head office units, the **Head Office/Consolidation** segment shows extraordinary factors as earnings components and asset positions.

2. Significant events in the reporting period

Implementation of EU conditions

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.

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

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

Specifically, the conditions are as follows:

- discontinuation of the Real Estate Finance segment (discontinuation of new business as at 31 December 2008; 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 (active 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 may be relocated to IKB AG in Düsseldorf up to a maximum of € 3.2 billion) and discontinuation of new business by 1 December 2010,

- winding-up of IKB'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.

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

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

- The credit volume of Real Estate Finance was reduced to € 2.1 billion as at 31 March 2011. IKB is assuming that the reduction target set by the EU requirement for 30 September 2011 will therefore be met. The winding-up of the other Real Estate Finance segment subsidiaries named is currently being advanced and/or has been completed (IKB Immobilien Management GmbH). Much of the staff reorganisation associated with this has already been implemented. New business has been discontinued.

- 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. IKB intends to wind up Movesta Development GmbH. No new business has been performed.

- IKB CC: The credit portfolio was reduced in full by way of sale. The company's liquidation has been initiated.

- 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 must remain with the company as they cannot 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 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 € 0.3 billion as at 31 March 2011.

- The total assets of the Group as at 31 March 2011 are expected to have been reduced to considerably less than € 33.5 billion.

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's objectives.

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

IKB has taken organisational precautions to comply with these requirements. The EU Commission has been informed of the status of implementation. To date, IKB has complied with the requirements.

Repayment of all Rio portfolio loans

With the exception of a small number of portfolio exposures and those that were in the process of being wound up, IKB sold the portfolio investments on its balance sheet, which also contained some sub-prime risks, to the special-purpose entity Rio Debt Holdings (Ireland) Ltd. (Rio Debt Holdings) in 2008. IKB partially financed the special-purpose entity by retaining the first loss pieces, meaning that it limited its own risk of further loss. The loans assumed by the special-purpose entity to finance the purchase price as a whole – including the first loss tranche held by IKB – with a total original volume of a good € 900 million have now been paid back ahead of schedule thanks to repayments and disposals at favourable conditions. As at 31 January 2011, this tranche including the right to additional proceeds (equity kicker) was transferred to IKB PE. The current income and the income from the settlement of the portfolio still held by the special-purpose entity will be divided between IKB PE and LSF Aggregated Lendings S.A.R.L., Luxembourg, a company of the Lone Star Group. The Lone Star Group also includes the main shareholder of IKB, LSF6 Europe Financial Holdings, L.P., Delaware, Dallas/USA (LSF 6 Europe).

Return of SoFFin guarantees

On 7 October 2010, SoFFin had approved a limited buy-back of SoFFin-guaranteed bonds and a corresponding reduction in the guarantee volume. In this context, a total of € 500 million was returned ahead of schedule – € 100 million from the SoFFin-guaranteed bond maturing on 29 April 2011 and a € 200 million each in the SoFFin-guaranteed bonds maturing on 27 January 2012 and 13 March 2012. This meant that the guarantee fees payable to SoFFin were reduced by utilising available liquidity reserves.

The current maturity structure of the SoFFin-guaranteed bonds – after the repayment and return of the € 0.9 billion maturing in April 2011 – is presented in the Supplementary report (section 6).

Lone Star's intention to sell

In the middle of October 2010, Lone Star reported that it is seeking a strategic partner to advance the development of the Bank.

The Board of Managing Directors of IKB is providing constructive support for this project and using the necessary resources to provide the information required. Finding a partner and shareholder for the accelerated implementation and further development of IKB's new business model is in the long-term interests of the Bank.

Changes in the Group

IKB AG acquired from IKB Beteiligungen GmbH (IKB Beteiligungen) its share in IKB Immobilien Management GmbH (IKB Immobilien Management), Düsseldorf. In order to satisfy EU requirements, IKB Immobilien Management was then incorporated into IKB AG by way of transformation and subsequent exit of the general partner.

Further, IKB Grundstücks GmbH & Co. Objekt Uerdinger Straße KG was dissolved by way of incorporation without settlement effective 31 December 2010 following the exit of its general partner.

In the financial year, Aleanta GmbH (Aleanta), Düsseldorf, was created by hiving off assets of IKB Beteiligungen GmbH, Düsseldorf, and included in the consolidated financial statements as a subsidiary of IKB AG.

As a component of its liquidity provision, IKB invested a total of € 811.1 million in various investment funds organised as an umbrella fund in the 2010/11 financial year. The partner fund, Europa Renten, Luxembourg, consists of two independent reinvestment funds under a joint issue document. The total market value of the company on 31 March 2011 was € 778.5 million. Furthermore, the partner fund Euro Bonds, Luxembourg, was set up in March 2011, initially with just one sub-fund; its market value was € 29.8 million as at the balance sheet date.

IKB's limited partner interest in IKB Grundstücks GmbH & Co. Objekt Degerloch KG was 94.9% sold as at 31 July 2010.

Other significant transactions

In connection with the implementation of requirements imposed by the European Commission for the restructuring of IKB, all rights and obligations of a total of three silent participation agreements between IKB International S.A. and Deutsche Bank Luxembourg S.A. (Deutsche Bank Luxembourg) of 16 November 2000 were transferred from IKB S.A. to IKB AG by way of assumption of agreement on 30 September 2010. Prior to this, the respective meetings of owners had approved unanimously approved the transfer of the silent participation certificates issued on a trust basis by Deutsche Bank Luxembourg (ISIN XS0119317823, XS0119814456 and XS0119317740). As per agreement, the silent participations that ended on 31 March 2010 were repaid after loss participation in the following amounts on 17 November 2010:

- ISIN XS0119317823 (nominally € 45 million) at € 8.6 million
- ISIN XS0119814456 (nominally € 15 million) at € 2.9 million
- ISIN XS0119317740 (nominally € 10 million) at € 1.9 million

Legally relevant events

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

The debt issuance programme (DIP) was updated on 21 December 2010. Thus, IKB has a valid basic prospectus under which it can flexibly manage its issues. This has extended its range of possible refinancing instruments.

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.

Personnel changes

Mr. Olivier Brahin, Dr Lutz-Christian Funke, Mr. Ulrich Grillo and Dr Andreas Tuczka, whose terms in office ended after the Annual General Meeting on 26 August 2010, were re-elected to the Supervisory Board by way of resolution of the Annual General Meeting on 26 August 2010.

As per the terms of his appointment, Mr. Jürgen Metzger left the Supervisory Board at the end of this Annual General Meeting. Dr Carola Steingräber was elected to the Supervisory Board as a new employee representative. Mr. Ulrich Wernecke, whose term of office also ended with this Annual General Meeting, was re-elected to the Supervisory Board. Owing to the ending of his employment relationship as a result of having reached the age limit, Mr. Wolfgang Bouché left the Supervisory Board from 31 January 2011. Mr. Bernd Klein joined the Supervisory Board as a substitute member on 1 February 2011.

Annual General Meeting on 26 August 2010

The Annual General Meeting of IKB AG for the 2009/10 financial year was held in Düsseldorf on 26 August 2010. 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 under www.ikb.de. Legal suits described under “Legal risks” in the risk report are pending against individual resolutions by the Annual General Meeting.

Current rating situation

The rating agency Moody’s confirmed the following ratings for IKB on 17 August 2010: long-term rating: Baa3, short-term rating: Prime-3, financial strength individual rating: E, outlook: negative. Owing essentially to the German Bank Restructuring Act that came into effect at the start of 2011, the rating for the subordinated debt of IKB was downgraded from Ba2 to Caa2, outlook stable on 17 February 2011. On 19 April 2011, Moody’s downgraded its rating – mainly as a result of the reduction in government support assumed by the agency – to long-term Ba2, negative outlook and short-term non-prime.

The rating agency Fitch confirmed the following on 26 January 2011: long-term rating BBB-, short-term rating F3, outlook negative, financial strength individual rating E. The rating for subordinated debt was downgraded from BB+ to B+, outlook negative, also on account of the changing legal conditions. On 13 April 2011, Fitch again confirmed the long-term rating BBB-, negative outlook and short-term rating F3.

The current rating situation is as follows:

Table: IKB Rating

		Long-term	Short-term	Financial strength	Outlook/ rating watch
Moody‘s	17 Aug. 2010	Baa3	P-3	E	Negative
	19 Apr. 2011	Ba2	Non-Prime	E	Negative
Fitch	26 Jan. 2011	BBB-	F3	E	Negative
	13 Apr. 2011	BBB-	F3	E	Negative

3. Net assets, financial position and results of operations

Business development

The new business volume of IKB AG including the Leasing Group climbed to € 3.7 billion in the reporting period (previous year: € 3.0 billion). The rise is essentially due to a recovery in credit demand. While payments in subsidies business did not match the previous year's level at around € 1.0 billion, the volume in equity finance increased significantly to € 1.6 billion (previous year: € 0.5 billion).

The IKB Leasing Group, which operates nationally and internationally in the field of equipment leasing, achieved a new business volume of € 0.9 billion (previous year: € 0.7 billion). In particular, the company benefited from the expansion of the economy and the recovery in investment activities in Germany. It operates in nine countries (Germany, France, Austria, Poland, Romania, Russia, Slovakia, Czech Republic, Hungary) through 14 leasing companies. The results of the Leasing Group are included in the annual financial statements of IKB AG through profit transfer agreements.

Drawings on revolving facilities and the utilisation of existing commitments from exposures no longer included in the strategic portfolio resulted in payments of € 0.2 billion (previous year: € 0.4 billion).

As a result of the EU conditions of reducing the Group's total assets and scaling back or discontinuing certain business activities, the Bank's credit portfolio shrank further. Receivables with a total volume of around € 680 million were sold in the 2010/11 financial year.

The Bank's advisoryng business, which comprises the areas of M&A, structuring, restructuring, structure/income optimisation and private equity on the one hand and capital market and risk management solutions for customers on the other, generated net interest and commission income of € 11.2 million in the reporting period (previous year: € 3.7 million).

To broaden the Bank's funding basis, retail customers have been offered the option to invest overnight and fixed-term deposits at attractive conditions since mid-March 2011.

Earnings performance

The earnings situation of IKB AG improved significantly. The net loss for the year declined by 46% or € 159 million year-on-year to € 190 million. Extraordinary factors, which are essentially due to the Bank's crisis, the lingering financial market crisis and the implementation of the EU conditions, still played a major role in the earnings performance. In addition, the first-time effects due to the adoption of the *Bilanzrechtsmodernisierungsgesetz* (BilMoG – German Act to Modernise Accounting Law) were also reported as an extraordinary factor in this financial year. As in the previous year, the result of portfolio investments was positive, which means that, looking back, holding firm against the (distress) sale of individual investments while the crisis was at its height was advantageous for the Bank. The strong economic recovery in Europe, particularly Germany, has resulted in a significantly lower provision for possible loan losses for IKB AG in its traditional operating lending business. In addition, however, there were write-downs on the carrying amount of investments and loss absorption at subsidiaries on account of their investments (mainly property investments). The public-sector debt crisis in the euro area did not have any notable effect on the annual financial statements as the holdings of securities with debtors in Southern and Eastern European EU nations are held as fixed assets and IKB is not assuming permanent impairment, due in part to the intervention of the EU states to date.

The income statement of IKB AG reported a net loss for the year of € 190 million (previous year: net loss of € 349 million). Adjusted for extraordinary factors, the net loss for the year was € 39 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 2010/11**	**Extraordinary factors**				**Adjusted income statement 2010/11**	**Unadjusted income statement 2009/10**
		Portfolio investments	Restructuring	BilMoG	Other		
Net interest income (not including current income from shares, investments, etc.)	226	88		-10		148	191
Net fee and commission income	-71		-126			55	-5
Net trading portfolio expenses	-13					-13	-8
Current income from shares, equity participation and shares in affiliated companies and income from profit transfer agreements	8				6	2	7
Personnel expenses	-125					-125	-126
Other administrative expenses	-143		-20			-123	-120
Write-downs and value adjustments on receivables and additions to provisions in the lending business	-64					-64	-421
Write-downs/reversals of write-downs on securities in the liquidity reserve	8		-10			18	157
Write-downs and losses on/reversals of write-downs and income from securities held as fixed assets	10					10	32
Write-downs, value adjustments and reversals of write-downs on equity participations and shares in affiliated companies	-56				-57	1	-31
Net other operating income (including costs of loss absorption)	-15	30	6	7	-59	1	-20
Result from ordinary business activities	**-235**	**118**	**-150**	**-3**	**-110**	**-90**	**-344**
Extraordinary result	-6	-8	-8	10		0	-9
Tax income	51					51	4
Net loss for the year	**-190**	**110**	**-158**	**7**	**-110**	**-39**	**-349**
Loss participation of profit-participation certificates and silent partnership contributions	32						98
Loss carryforward from previous year	-1,631						-1,380
Net accumulated losses	**-1,789**						**-1,631**

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

Net interest income climbed by € 35 million year-on-year to € 226 million. The improvement is due to portfolio investments (extraordinary factor). The compound interest on the junior loan to the special-purpose entity Rio Debt Holdings recognised as a zero-bond generated income of € 88 million (previous year: € 9 million) on account of the early repayment. By contrast, this includes net interest costs of € 10 million (extraordinary factor) on account of the changes in the legal situation following the introduction of the BilMoG, including for pension obligations. Adjusted for extraordinary factors, net interest income declined by € 10 million year-on-year to € 148 million. In addition to lower earnings contributions for the equity participations already reduced, the main reason for the decline in adjusted net interest income is also the long-term decrease in assets required under the EU conditions (reduction of consolidated total assets.

At € -71 million, net fee and commission income was down significantly on the previous year (€ -5 million). The main reason for this was the guarantee commission of € 126 million payable to SoFFin, after a lower average guarantee volume of € 74 million was incurred in the previous year. Adjusted for guarantee commission, net fee and commission income amounted to € 55 million, down on the previous year's figure of € 69 million. This is due to lower internal commission income from guarantee credit business with IKB International S.A. (business discontinued due to EU requirements) and lower commission income from credit derivative transactions. However, commission income from credit consulting increased, thereby showing a stable trend.

The net trading portfolio expense was € 13 million. In particular, this is due to the negative market value development in derivatives. The prior-year figure shown in the table (net expenditure on financial operations) is based on accounting before the BilMoG came into effect and therefore cannot be fully compared with the current value.

Current income from shares, equity participations and profit transfer agreements of € 8 million (previous year: € 7 million) includes an advance distribution of € 6 million (extraordinary factor) by the spun-off subsidiary Aleanta and investment income totalling € 2 million.

Personnel expenses amounted to € 125 million, slightly lower than the previous year's figure of € 126 million. The average headcount declined by 23 FTEs as against the previous year to 1,028.

Other administrative expenses rose mainly as a result of investments in the Bank's repositioning by € 23 million to € 143 million. Other factors include the costs of external legal consulting. There were also costs in this financial year in connection with the handling of the crisis and consulting costs for implementing the restructuring measures arising from the EU conditions. These amounted to € 20 million and were reported as an extraordinary factor.

At € 64 million, loan loss allowances (net risk provisioning) declined sharply on the previous year's figure of € 421 million, mainly as a result of the good economic performance. The strong decline in risk provisioning has been observed for all credit sub-portfolios that IKB holds. Risk provisions include € 126 million in net additions to individual loan loss provisions, provisions and write-downs (previous year: € 400 million). Expenses of € 18 million were incurred on the sale of receivables to satisfy EU conditions. € 62 million of the general loss provision was reversed, reducing it from € 180 million to € 118 million.

The item "Write-downs/reversals of write-downs on securities in the liquidity reserve" shows net income of € 8 million and is therefore down € 149 million on the prior-year figure of € 157 million. The previous year's figure was largely defined by reversals of write-downs on structured securities in portfolio investments and income from the recognition of derivative financial transactions in connection with securities transactions. In the 2010/11 financial year, a loss of € 10 million on the acquisition of the Bank's bonds in connection with the early return of SoFFin-guaranteed bonds was reported as an extraordinary factor.

There was net income from disposals and reversals of write-downs of € 10 million in long-term investments (previous year: € 32 million).

Write-downs and reversals of write-downs on equity participations and shares in affiliated companies resulted in a net expense of € 56 million (previous year: expense of € 31 million). This is essentially due to a write-down on the investment carrying amount of IKB Projektentwicklung of € 62 million and reversals of write-downs totalling € 5 million for the subsidiaries IKB International and IKB CC (extraordinary factors).

The other operating result (including costs of loss absorption) improved by € 5 million year-on-year to € -15 million. The previous year's figure was essentially dominated by loss absorption for IKB Beteiligungen, which was partially compensated by income from the reversal of provisions for IKB CC.

The other operating result was again greatly influenced by various extraordinary factors in the 2010/11 financial year:

- Portfolio investments: There was total income of € 30 million from the transfer of the first loss piece from Rio Debt Holdings (including the equity kicker) at market value to IKB PE in the amount of € 25 million − for further information please see note (16) − and from the reimbursement of legal costs by KfW Bankengruppe (KfW) in the amount of € 5 million.

- Restructuring: Provisions for legal costs were reversed in the amount of € 6 million.

- BilMoG: Owing to the new commercial law regulations, the reporting of earnings effects from pension obligations has changed with the result that an amount of € 7 million is reported as other operating income.

- Other extraordinary factors: Expenses of € 59 million related to loss absorption for IKB Beteiligungen and provisions for expected losses in connection with IKB Projektentwicklung, particularly for the letter of comfort issued for the company.

The total extraordinary result of € -6 million (previous year: € -9 million) relates in full to extraordinary factors. Expenses for the reimbursement of legal costs to KfW Bankengruppe in the amount of € 8 million were incurred in the context of the settlement of the portfolio investment. Expenses for restructuring provisions of € 3 million were incurred. Furthermore, the transfer of the assets of IKB International to IKB AG − due to the closure of the above subsidiary in line with EU requirements − resulted in expenses of € 5 million. Net extraordinary income of € 10 million was generated from the adoption of the regulations of the BilMoG.

€ 53 million of the net tax income of € 51 million related to taxes on income (essentially from the recognition of deferred tax assets) while € -2 million related to other taxes.

The net loss for the year improved by € 159 million to € 190 million. The net loss after adjustment for extraordinary factors of € 39 million clarifies this positive development. In the 2010/11 financial year, profit participation certificates and silent partnership contributions of IKB AG in the amount of € 32 million shared in the losses, which led to a loss after loss participation of € 158 million. Including the loss carryforward of € 1,631 million, the net accumulated losses amounted to € 1,789 million.

Net assets

In line with planning, the total assets of IKB AG continued to decline in the 2010/11 financial year on account of the EU requirement of a reduction of consolidated total assets. On the balance sheet date, total assets were down by € 5.2 billion as against the previous year to € 35.1 billion.

The gross credit volume (see also risk report) amounted to € 32.9 billion on 31 March 2011, € 6.7 billion down 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 advances to banks declined by € 2.9 billion to € 2.1 billion. This development mainly relates to the reduction of loans to the subsidiary IKB International S.A., which in turn relates to its closure as at 31 March 2011.

Loans and advances to customers were down by a net amount of € 1.4 billion at € 20.5 billion. The decline is due to the cutbacks in customer lending business as part of the implementation of the EU conditions (e.g. for real estate finance).

Bonds and other fixed-income securities fell by a net amount of € 1.0 billion to € 10.5 billion, due mainly to maturities and disposals. The portfolio includes own issues acquired in the amount of € 2.9 billion (previous year: € 2.8 billion).

The € 0.2 billion decline in equities and other non-fixed-income securities is due to the change in reporting owing to the new accounting regulations under the BilMoG. These are committed assets for pension obligations that are now offset against the corresponding obligations (see notes 6, 9, 20 and 25 for more information).

Equity and liabilities

Liabilities to banks declined by € 1.6 billion to € 11.4 billion. The main reasons for the decline are the reduction of term deposits at the subsidiary IKB International S.A. in the amount of € 0.9 billion and the drop in committed refinancing of other banks by € 0.6 billion.

Amounts due to customers rose by € 0.8 billion to € 8.0 billion on account of the greater level of customer term deposits received.

Holdings of securitised liabilities fell by € 3.0 billion to € 10.7 billion. € 2.5 billion of this related to maturities and € 0.5 billion to the return of issues guaranteed by SoFFin.

Other liabilities contracted by € 0.7 billion to € 1.1 billion. This essentially results from repayments and disposals in connection with liabilities to special-purpose entities.

Provisions dropped by a total of € 0.6 billion to € 0.5 billion. Pension provisions were down by € 0.2 billion on account of the first-time adoption of the BilMoG. The decline in other provisions of € 0.4 billion relates almost entirely to significantly reduced risk provisioning for off-balance sheet lending business.

Equity declined by € 152 million to € 1,607 million (previous year: € 1,759 million), essentially as a result of the net loss for the year of € 190 million. Other revenue reserves increased by € 22 million due to the effects of the first-time adoption of the BilMoG. In line with the notification submitted to the banking authorities as at the balance sheet date, regulatory equity capital amounted to a total of € 2.7 billion. The calculation of equity capital based on the final carrying amounts produced a figure of € 2.6 billion. Derived from this, the tier I capital ratio was 10.2% with an overall capital ratio of 15.6%.

Hidden charges, amounting in net terms to € -1,062 million at the reporting date, 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 as a result of changes in interest rate volatilities. This will lead, at least in part, to reductions in net interest income or losses on disposal in future financial years.

Financial position

The liquidity situation at IKB is stable. Factors contributing to this included the utilisation of the SoFFin guarantees, the substantial reduction in assets and the increase in deposits by customers. IKB has returned SoFFin guarantees of € 0.5 billion in this financial year. It should still be noted that the money and capital markets are only functioning to a limited extent. Thus, mainly collateralised borrowing is possible as a financing option. Looking ahead to a more positive market performance in future, IKB also updated its debt issuance programme in December 2010 so as to be able to float issues on the capital market on an unsecured basis as well. Furthermore, IKB launched its online service, “IKB direkt” for retail customers (www.ikbdirekt.de) on 15 March 2011. IKB has thus created a further source of refinancing with this offering.

Overall assessment

Overall, the business performance and the situation in the 2010/11 financial year improved as against the previous year. This improvement can be seen in both the adjusted and unadjusted earnings and is essentially due to the good economic development and the significant reduction in risk provisioning this has entailed. At the same time, it must be reiterated that the earnings situation is still being defined to a considerable extent by the restructuring and the EU requirements. However, these issues, referred to as extraordinary factors, will decrease appreciably, as has the amount of commission to be paid to SoFFin, for example. The reduction of risk positions and the diversification of the funding mix are aiding further development. Commission income is stable, new lending business has recovered and payments have increased.

4. Risk report

Risk management organisation

Individual tasks and areas of responsibility are outlined and documented in risk management rules and regulations, which specify the principles of the risk management system at IKB, taking into consideration statutory requirements and specific organisational instructions. The business and risk strategy outlook in addition to the measures derived from this are set out in the business and risk strategy, which is updated at least annually.

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 activities 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 significant of these is the Risk and Capital Committee, which is responsible for planning the risk profile and the development of capital resources, monitoring capital utilisation on an ongoing basis and optimising refinancing. This Committee is composed of the members of the Board of Managing Directors as well as heads of the Economic Research, Credit Risk Management, Risk Controlling, Finance and Financial Markets & Treasury divisions and meets at least quarterly. The Chief Risk Officer is Chairman of this Committee and the Chief Financial Officer is Deputy Chairman.

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

Credit Risk Management. The key tasks of Credit Risk Management include activities associated with the credit approval process to be carried out independently of front-office, as well as developing and monitoring Group-wide standards for the lending business and ongoing risk monitoring of credit exposure. 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.

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. Furthermore, this central division is responsible for the administration of the special purpose entity Rio Debt Holdings (Ireland) Limited in addition to meeting the extensive contractual commitments of IKB in connection with the Rhineland Funding conduit ("Rhineland Funding")[1] and the Havenrock Limited and Havenrock II Limited special purpose entities[2] . This central division is also responsible for reporting on these transactions in the context of overall risk management at IKB.

Monitoring earnings development and capital resources. The Finance division prepares monthly performance analyses for existing and new business in the context of performance controlling and presents these to the Board of Managing Directors on a weekly basis, where 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 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 processes in the lending and trading business. There is also a focus on loan reviews on a case-by-case basis. Group Audit also carries out special audits as required by order of the Board of Managing Directors. The Board of Managing Directors receives ongoing reports on the audit findings. In its annual report, Group Audit informs the Board of Managing Directors of the significant and serious audit findings and their processing status in summarised format. The member of the Board of Managing Directors responsible for Group Audit then informs the Supervisory Board of current developments and results at least once a year. 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 management.

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

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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 invest 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 arises on utilisation of the liquidity lines. IKB acts as an administrator for the Havenrock companies.

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”. As part of the planned introduction of Murex as a new trading system, the implementation and approval of the scenario matrix method is currently being worked on.

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 KWG)

Regulatory capital situation in € million	**as at 31 Mar. 2011**	**as at 31 Mar. 2010**	**as at 31 Mar. 2009**
Risk-weighted assets	16,776	19,265	24,718
Market risk equivalent	663	313	613
Operational risk	782	1,100	1,324
Risk position	**18,221**	**20,678**	**26,655**
Tier I capital	2,120	2,257	2,276
Tier II capital	919	1,030	1,245
Tier III capital	0	0	35
Deductions [1)]	-149	-216	-236
Equity capital	**2,890**	**3,071**	**3,320**
Tier I ratio in %	11.2	10.4	8.1
Overall capital ratio in %	15.9	14.9	12.5

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

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

Regulatory capital situation in € million	**as at 31 Mar. 2011**	**as at 31 Mar. 2010**	**as at 31 Mar. 2009**
Risk-weighted assets	16,053	17,790	21,656
Market risk equivalent	324	23	355
Operational risk	581	780	956
Risk position	**16,958**	**18,593**	**22,968**
Tier I capital	1,746	1,943	2,021
Tier II capital	913	1,023	1,152
Tier III capital	19	2	20
Deductions [1)]	-41	-195	-209
Equity capital	**2,637**	**2,773**	**2,984**
Tier I ratio in %	10.2	9.9	8.3
Overall capital ratio in %	15.6	14.9	13.0

Some totals may be subject to discrepancies due to rounding differences.
1) Deductions as at 31 March 2011 relate solely to securitisation positions.

At 10.2% at individual Bank level and 11.2% at Group level, the tier 1 capital ratios have risen again as against the previous year. They are still above the regulatory minimum tier 1 capital ratio of 4.0%. At IKB AG, the tier 1 capital ratio increased in spite of the additions to loans and derivatives, which were transferred from Luxembourg in line with EU requirements. At 15.6% at individual Bank level and 15.9% at Group level, the overall capital ratio is also higher than the regulatory minimum of 8.0%.

The Board of Managing Directors expects it to be possible to meet both statutory minimum requirements and the minimum requirements imposed by SoFFin and the Auditing Association of German Banks (including a tier I ratio of 8%) in the future (see also Outlook). Although the main data is now known following the approval of Basel III, it remains uncertain in the medium term as to how the numerous regulation projects intended by national and international banking authorities will affect equity composition and requirements overall.

The decline in risk-weighted assets as at 31 March 2011 is essentially the result of the reduction of total assets in line with the conditions imposed by the EU on the one hand, and scheduled repayments at the same time as limiting new business on the other.

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

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

Risk cover. From an equity capital provider perspective in the meaning of a going concern approach, only the capital components that exceed a benchmark specified by the Bank subject to risk-weighted assets can be used as risk cover. In contrast to regulatory tier 1 capital, benchmark capital only includes capital components such as profit participation certificates and silent partnership contributions with a discount on prudence grounds to reflect a possibly lower quality of liability. The risk horizon for the risk forecast within the risk tolerance calculations is twelve months. As a result of this, interest and volatility-driven unrealised losses expected within the next twelve months on the basis of the forecast interest developments are deducted when calculating risk cover. In line with a paper published by Deutsche Bundesbank and the BaFin on the range of practice in calculating risk tolerance, in a departure from the previous year, certain interest-driven hidden losses incurred outside the risk horizon are also deducted when calculating risk cover. Spread-driven hidden charges for long-term investments are still not taken into consideration as these are intended to be held in the long term. If a negative operating result occurs in the analysis period, this is deducted from cover assets.

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

Table: Components of risk cover

Equity capital provider perspective			**Lender perspective**		
in € million	**31 Mar. 2011**	**31 Mar. 2010[2]**	**in € million**	**31 Mar. 2011**	**31 Mar. 2010[2]**
"Core capital"[1]	1,286	1,110	"Core capital"	511	550
Pro rata profit participation certificates and silent partnership contributions	356	366	Profit participation certificates and silent partnership contributions	558	553
			Subordinated capital	996	995
Benchmark capital	-955	-1,005			
Risk cover	**688**	**471**	**Risk cover**	**2,065**	**2,099**

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

1) "Core capital" includes share capital, reserves, net retained profits/loss carryforward and the planned operating result of the next twelve months. Hidden charges are deducted from risk cover. The two values for the previous year have been adjusted as against the Group management report as at 31 March 2010 as the core capital as at 31 March 2010 was reported too low.

2) Prior-year figures adjusted due to change in method.

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

- Owing to the better operating result as against the previous year's planning and changes in methods for including hidden charges, the core capital is higher in the equity provider perspective than in the previous year. If the core capital had already been calculated using the same methods in the previous year, it would have been € 163 million higher. However, the positive effect of the better operating result is offset in the lender perspective by the rise in hidden charges not included in the equity lender perspective.

- Reduction of the minimum required benchmark capital in the equity provider view for total Bank risk on account of the reduction in risk-weighted assets (see also "Regulatory capital situation" table).

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

In order to calculate "unexpected" counterparty default risk ("expected" counterparty risk is accounted for in risk provisioning planning), the Bank applies a self-developed credit portfolio model (see also "Quantifying the credit risk"), which is developed further on an ongoing basis. The statistical parameters included here necessarily take into account economic effects.

Market price risk is calculated as the integrated value-at-risk (VaR) by way of historical simulation assuming a holding period of one year for the entire portfolio of the Bank, taking into account all relevant risk factors (interest, exchange rates, credit spread, volatility). Here, too, the Bank regularly develops the methods used for risk quantification.

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

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

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

The liquidity risk in the form of unexpectedly high refinancing costs is derived from expert estimates and has been included in risk tolerance calculations in the equity provider perspective since 31 March 2011. Given the assumption that in the event of the Bank's liquidation, timely refinancing could not be guaranteed even at greater cost, this risk is not included in the lender perspective.

Interactions between risks (diversification effects) are taken into account when pooling individual risks in an omnibus item. To satisfy the more stringent regulatory requirements for the inclusion of diversification effects, the Bank has analysed the assumptions on which interactions were based in the past financial year and calculated them on the basis of empirical data that can be transferred to the individual risk situation of the Bank.

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

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

Table: Economic capital requirements – equity capital provider perspective

	31 Mar. 2011		**31 Mar. 2010**	
	in € million	**in %**	**in € million**	**in %**
Counterparty default risk	198	51	226	54
Market price risk	71	18	89	21
Operational risk	29	8	29	7
Business risk	72	19	75	18
Liquidity risk	16	4	-	-
Total	**387**	**100**	**419**	**100**
Minus diversification effects	-98		-108	
Overall risk position	**289**		**311**	
Risk cover	**688**		**471**[1)]	

Some totals may be subject to discrepancies due to rounding differences.
1) Prior-year figures adjusted due to change in method

The total risk position declined as against the previous year to € 289 million. However, it should be noted that the risk of an unexpected increase in refinancing costs (liquidity risk) was also included in the past financial year for the first time. The decline in the total risk position is due to both the active reduction of counterparty risk and the reduction of market price risks. However, the positive economic development forecast for 2011 also plays a role in counterparty risk, which is expressed in a decline in default projections.

Even without taking into account the risk-reducing diversification effects between risk categories, risk cover is still by far sufficient to cover the economic capital requirements of unexpected risks over the risk horizon. Utilisation of risk cover in excess of benchmark capitalisation was 42% as at 31 March 2011 and has therefore decreased significantly as against the previous year's figure (66% as at 31 March 2010).

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. 2011		31 Mar. 2010	
	in € million	in %	in € million	in %
Counterparty default risk	764	47	821	56
Market price risk	609	37	391	27
Operational risk	97	6	84	6
Business risk	158	10	165	11
Total	**1,628**	**100**	**1.462**	**100**
Minus diversification effects	-308		-166	
Overall risk position	**1,321**		**1,296**	
Risk cover	**2,065**		**2,099**[1)]	

Some totals may be subject to discrepancies due to rounding differences.
1) Prior-year figures adjusted due to change in method

Although, here too, the counterparty risk was down significantly on the previous year's figure, in contrast to the equity provider perspective, the total risk position rose slightly by 2% to € 1,321 million in the non-subordinated lender perspective. This was due to market price risk, which rose significantly as a result of the massive spread widening observed in the wake of the European debt crisis.

The risk cover assets declined slightly as against the previous year's reporting date as a result of the rise in spread-driven hidden charges. The utilisation of risk cover assets climbed to 64% and was therefore up slightly on the previous year's level (62%).

Forecast calculations and stress tests. In light of the great uncertainty on the capital markets with regard to the further development of some states in the euro area and lessons learned in the financial crisis, the Bank is also performing its own stress tests in addition to various forecast calculations.

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

It should be noted as regards the stress tests that even the normal historic simulation as at 31 March 2011 includes stress components such as market changes due to the European debt crisis. The analysis of the economic and macroeconomic stress scenarios shows that, in the more extreme scenarios, the risk assets will no longer be able to cover the total risk position in either the equity provider or the lender perspective. These scenarios include, for example, the disintegration of the euro area with repercussions for the entire EU economic area and the macroeconomic stress scenario of stagnation, in which economic growth remains well below the potential growth level in the medium term as well.

Risk strategy

The individual risk strategies are a component of the integrated business and risk strategy. They set the framework to which IKB's business activities are geared. All risk strategies were revised with regard to the new business outlook and economic situation in the 2010/11 financial year.

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 credit ratings in new business 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, the IKB regional focus will also remain on Germany. Outside Germany, its activities (except for leasing) are currently limited to Western Europe, particularly France, Italy and Spain. With regard to its target customers in the high-end SME segment, industry diversification is also highly significant. In assessing its limits, the Bank looks at both the significance of the industry to the German economy and an analysis of the industry in terms of its forecast development.

Market price risk strategy. In derivatives business with customers, with regard to possible market price risks, the Bank focuses on providing interest and currency derivatives to support the interest and currency management of its customers. This is supplemented by the development of a brokerage model by accepting securities issued by customers in the trading book with the aim of promptly reselling them to third-party investors. For trading book transactions the Bank largely restricts itself to highly liquid products in the currencies of euro, US dollar and pound sterling though the maximum risk positions this entails are kept very low.

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

Counterparty default risk

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

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

Credit approval process and individual exposure monitoring. Key tasks within the scope of the credit approval process (front-office-independent credit analysis, loan approval, intensive support, problem exposure processing) are carried out by the 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. Various risk factors are calculated on the basis of the customer credit rating and transaction-specific features, such as the term and collateral, as well as portfolio-related ratios in order to provide important stimulus in the context of portfolio management as soon as new business is acquired. At the same time, a great deal of importance is attached to the mobility of loans, i.e. their eligibility for outplacement.

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

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

Rating process and 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 adjusted 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. A more advanced version of the SME rating developed as part of regular revision has been in use since the end of March 2011.

From the middle of the financial year, the procedure previously used for acquisition finance was replaced by a new system developed for leveraged finance transactions. This involved the development, maintenance and operation of the rating system being 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 and simulations as the focus here is on the amount and sustainability of the cash flow for servicing interest payments and repayments which arise during the project duration. 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.

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. As a result of the current situation on the financial markets, a white list of counterparties with whom transactions may still be carried out has been prepared, in particular to limit the risk of default.

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

Structure of counterparty default risk. At the time of the transition in reporting to the new segments (Credit Products, Consulting and Capital Markets, Treasury and Investments, Head Office) the counterparty risk positions previously analysed separately, term deposits and overnight money, derivatives that are assets and other securities, were integrated into the credit volume in line with the new definition at the same time. By including the further positions, the credit volume was increased by around € 11.7 billion retroactively as at 31 March 2010 from previously € 27.9 billion to € 39.6 billion. As a result of the new definition of the credit volume, the problem exposure rate declined from previously 10.4% (former market segments) to 7.6% retroactively as at March 2010.

The reconciliation from the previous credit volume to the new definition of credit volume is as follows:

Table: Reconciliation from previous to new credit volume

31 Mar. 2010 in € million	**New credit volume**	**Previous credit volume**	**Difference**
Loans and advances to banks	5,018	236	4,782
Loans and advances to customers	21,872	21,872	0
Bonds and other fixed-income securities not including own bonds	8,729	3,126	5,603
Equities and other non-fixed-income securities	209	0	209
Subtotal: balance sheet assets	**35,828**	**25,234**	**10,594**
Contingent liabilities[1)]	1,615	1,571	44
Asset derivatives	1,071	0	1,071
Valuation allowances[2)]	1,062	1,062	0
Gross credit volume	**39,577**	**27,867**	**11,709**

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

The Bank calculated the credit volume as at 31 March 2011 and 31 March 2010 as follows:

Table: Credit volume

Credit volume in € million	**31 Mar. 2011**	**31 Mar. 2010**	**Difference**
Loans and advances to banks	2,095	5,018	-2,923
Loans and advances to customers	20,522	21,872	-1,350
Bonds and other fixed-income securities not including own bonds	7,630	8,729	-1,099
Equities and other non fixed-income securities	0	209	-209
Assets held for trading	74	0	74
Subtotal: balance sheet assets	**30,321**	**35,828**	**-5,507**
Contingent liabilities[1)]	1,080	1,615	-535
Asset derivatives in the non-trading book	752	1,071	-319
Valuation allowances[2)]	770	1,062	-288
Gross credit volume	**32,922**	**39,577**	**-6,655**
For information purposes: Other significant counterparty default risks outside the gross credit volume			
Irrevocable loan commitments	1,443	2,017	-574
Investments and shares in affiliated companies	1,090	973	117

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

Essentially as a result of the implementation of EU requirements, the gross credit volume was reduced by € 6.6 billion (17%). At € 2.9 billion, almost half of the decline relates to loans and advances to banks, which more than halved. This includes refinancing of subsidiaries of the Bank, which was reduced as a result of the implementation of the EU conditions.

Table: Credit volume by size

Size[1)] in € million	31 Mar. 2011 Credit volume		Number[1)]	31 Mar. 2010 Credit volume	
Under € 5 million	2,442	7%	2,464	2,936	7%
Between € 5 million and € 10 million	2,473	8%	343	3,121	8%
Between € 10 million and € 20 million	3,592	11%	262	3,898	10%
Between € 20 million and € 50 million	3,225	10%	107	3,636	9%
Over € 50 million	9,722	30%	55	9,387	24%
Sub-total	**21,454**	**65%**	**3,231**	**22,978**	**58%**
Risk transferred to third parties[2)]	6,708	20%		8,183	21%
Total	**28,162**	**86%**		**31,162**	**79%**
Internal transactions[3)]	4,760	14%		8,415	21%
AG as a whole	**32,922**	**100%**		**39,577**	**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 as per 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 over € 50 million size class is due to investments in short-dated European government bonds. The average exposure in this class is € 177 million (previous year: € 168 million). The largest share of exposures over € 50 million relates to banks (€ 5.4 billion), the public sector (€ 2.5 billion) and portfolio investments (€ 0.5 billion).

The volume of risk transfers was reduced by € 1,475 million to € 6,708 million as a result of repayments.

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

Table: Credit volume by type of collateral

Credit volume in € million	**31 Mar. 2011**		**31 Mar. 2010**	
Property liens and charges	5,145	16%	5,738	14%
Transfers of ownership	477	1%	400	1%
Other collateral[1)]	3,231	10%	5,430	14%
Liquid collateral[2)]	1,255	4%	-	-
Secured credit volume[3)]	**10,108**	**31%**	**11,568**	**29%**
Without collateral	11,347	35%	11,411	29%
Sub-total	**21,454**	**65%**	**22,978**	**58%**
Risk transferred to third parties[4)]	6,708	20%	8,183	21%
Total	**28,162**	**86%**	**31,162**	**79%**
Internal transactions	4,760	14%	8,415	21%
AG as a whole	**32,922**	**100%**	**39,577**	**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) Overnight/term deposits/derivatives (included in unsecured loans in the previous year)
3) Including credit portions beyond collateral value
4) Hermes guarantees, indemnifications, risks transferred

The decline in the secured credit volume is essentially due to loans secured by other collateral and property liens at € 2.2 billion and € 0.6 billion respectively.

As at March 2011, liquid derivatives backed by collateral agreements and the call accounts used to cover derivatives previously reported in unsecured loans were reported under “Liquid collateral” for the first time. Without this reclassification, unsecured loans would have risen from € 11.4 billion to € 12.6 billion. The largest share of unsecured loans relates to banks (€ 5.1 billion), the public sector (€ 2.8 billion) and portfolio investments (€ 0.6 billion). The unsecured loans relating to banks and the public sector predominantly include securities that are assigned to the cash portfolio and are eligible at the ECB.

As in the past, the risk for a majority of the credit portfolio has been transferred. This mainly includes synthetic securitisations, in which the KfW hedges the credit risk, and indemnifications, also predominantly used in the context of KfW programmes. Current risk transfers amount to a total of € 6.7 billion. The Bank is secured against counterparty default risks by means of synthetic securitisations, although these are still reported in the balance sheet and continue to be managed by IKB. At the reporting date, the utilisation of these loans totalled € 4.2 billion, of which € 3.5 billion accounts for loans for which the Bank has only retained first loss risks of € 13.4 million (originally € 15.3 million). Loans with a volume of € 0.7 billion relate to risk transfers, for which only the expected, and parts of the unexpected, loss in the amount of € 33 million (originally € 39 million) have been transferred. This subordination is still considered sufficient.

Geographical structure. As at 31 March 2011, the total credit volume can be broken down by regions as follows:

Table: Credit volume by regions

Regions in € million	31 Mar. 2011 Credit volume		31 Mar. 2010 Credit volume	
Germany	**11,339**	**34%**	**13,072**	**33%**
Outside Germany	**10,115**	**31%**	**9,906**	**25%**
Western Europe	8,379	25%	8,093	20%
Eastern Europe	223	1%	267	1%
North America	1,296	4%	1,291	3%
Other	218	1%	256	1%
Sub-total	**21,454**	**65%**	**22,978**	**58%**
Risk transfers[1)]	6,708	20%	8,183	21%
Total	**28,162**	**86%**	**31,162**	**79%**
Internal transactions	4,760	14%	8,415	21%
AG as a whole	**32,922**	**100%**	**39,577**	**100%**

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

At € 1.7 billion, most of the decline in credit volume relates to Germany.

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

Country ratings[1)] Credit volume in € million	31 Mar. 2011 total[2)]	Country ratings 1-6	7-9	10-12	13-15	16-19
Western Europe	8,379	8,023	166	189	0	0
Eastern Europe	223	152	70	0	0	0
North America	1,296	1,296	0	0	0	0
Other	218	145	18	40	15	0
Total	**10,115**	**9,616**	**254**	**230**	**15**	**0**

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

95% of the credit volume attributed to countries outside Germany was assigned to the six best country risk classes, 1 to 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 the risk classes 10 to 15 essentially relates to Greece (€ 189 million), Turkey (€ 28 million), Iran (€ 15 million) and Egypt (€ 11 million).

Within Western Europe, risks relate to the following states:

Table: Credit volume in Western Europe by risk

31 Mar. 2011 **in € million**	**Credit volume after risk mitigation**	**of which state risks**	**of which banks**	**of which other counterparty risks[1)]**
UK	1,709	0	680	1,030
Italy	1,674	1,160	76	438
Spain	1,509	366	407	736
France	1,491	31	737	722
Ireland	634	49	19	565
Netherlands	267	0	87	180
Switzerland	196	0	61	135
Greece	189	189	0	0
Portugal	166	49	57	61
Sweden	125	0	100	25
Other	417	17	209	191
Total	**8,379**	**1,862**	**2,433**	**4,084**

Some totals may be subject to discrepancies due to rounding differences.
1) Portfolio investments of € 351 million included in Ireland

The Bank also holds five first-to-default securities totalling € 0.2 billion to be repaid in the event of refinanced state debtors defaulting in the form of bonds of that country. Reference countries include Greece, Ireland, Italy and Portugal.

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 and Portugal. Thanks to these support measures by the EU, the Bank does not perceive that these states are exposed to acute default risks at this time.

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 recognised.

Sector structure. In calculating risk by sector IKB evaluates approximately 430 sectors as part of the rating process. This procedure is based on an econometric model which incorporates both macroeconomic national and international developments and sector interrelations. The expertise of the Bank's sector specialists is used here.

Table: Credit volume by sector

Sectors in € million	31 Mar. 2011 Credit volume		31 Mar. 2010 Credit volume	
Industrial sectors	**9,826**	**30%**	**10,784**	**27%**
Energy supply	1,038	3%	1,006	3%
Mechanical engineering	746	2%	784	2%
Services	717	2%	733	2%
Logistics, infrastructure operators	628	2%	724	2%
Retail	618	2%	632	2%
Other	6,080	18%	6,904	17%
Real estate	**1,839**	**6%**	**2,226**	**6%**
Financial sector	**892**	**3%**	**1,336**	**3%**
Banks	**6,117**	**19%**	**6,754**	**17%**
Public sector	**2,779**	**8%**	**1,879**	**5%**
Sub-total	**21,454**	**65%**	**22,978**	**58%**
Risk transfers[1)]	6,708	20%	8,183	21%
Total	**28,162**	**86%**	**31,162**	**79%**
Internal transactions	4,760	14%	8,415	21%
AG as a whole	**32,922**	**100%**	**39,577**	**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 and the real estate area declined by € 0.9 billion and € 0.4 billion respectively. The degree of diversification in the industrial sectors is still high. No one industrial sector accounts for more than 3% of the portfolio. Almost 30% each of real estate financing relates to office and retail property. The rest is distributed almost equally between the other property types. While the banking sector was down by € 0.6 billion, the public sector increased by € 0.9 billion.

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. 2011 Credit volume		31 Mar. 2010 Credit volume	
1–4	8,624	31%	7,420	24%
5–7	3,842	14%	3,424	11%
8–10	4,029	14%	4,465	14%
11–13	2,295	8%	3,811	12%
14–15	689	2%	1,487	5%
Problem exposures[2)]	1,975	7%	2,371	8%
Sub-total	**21,454**	**76%**	**22,978**	**74%**
Risk transferred to third parties[3)]	6,708	24%	8,183	26%
Total	**28,162**	**100%**	**31,162**	**100%**

Some totals may be subject to discrepancies due to rounding differences.
1) Higher rating classes reflect lower creditworthiness
2) Carrying amounts, i.e. after deducting losses from impaired financial assets (securities)
3) Hermes guarantees, indemnifications, risks transferred

The rise in the credit rating levels 1-4 is essentially due to the investments in European government bonds. The significant volume decline in the classes 11-15 is already due in part to the economic recovery. Of the volume decline in these classes, almost half is due to credit rating improvements and almost half is due to credit repayments; around 8% relates to the net figure for migrations to and recoveries from problem exposures. The drop in problem exposures relates to disposals, while the new additions to problem exposures were offset by the decline as a result of recovery and credit repayment.

Identification and management of problem exposures. The management of problem exposures is carried out in specialised management units. 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[3] but to all exposures where, while permanent impairment is not expected, available information indicates that they require special management from units specialising in settlement or restructuring.

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

Table: Problem exposures[1)]

Credit volume	31 Mar. 2011 in € million	31 Mar. 2010 in € million	Change	
			in € million	in %
Impaired (non-performing loans)	1,533	1,762	-229	-13.0%
Non-impaired	442	609	-167	-27.5%
Total	**1,975**	**2,371**	**-396**	**-16.7%**
In % of credit volume not including internal transactions	7.0%	7.6%		

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 2011: € 133 million; 31 March 2010: € 155 million

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

Table: Non-performing loans

Credit volume	31 Mar. 2011 in € million	31 Mar. 2010 in € million	Change	
			in € million	in %
Germany	1,105	1,322	-217	-16.4%
Outside Germany	352	354	-2	-0.6%
Impaired loans	**1,457**	**1,677**	**-219**	**-13.1%**
Securities (impaired financial assets)[1)]	76	85	-10	-11.4%
Impaired (non-performing loans), total	**1,533**	**1,762**	**-229**	**-13.0%**
In % of credit volume not including internal transactions	5.4%	5.7%		

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 2011: € 133 million; 31 March 2010: € 155 million

The decline in non-performing loans predominantly relates to 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

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[3] 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.

in the event of threatened utilisation. Risk provisioning is also recognised in the form of a provision for permanent impairment of CDSs as well as for CDSs embedded in CLNs.

When measuring the value adjustment required, IKB takes into consideration both expectations with regard to future cash flows and the value of the respective collateral. The Credit Risk Management 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. Owing to the economic recovery, this factor was reduced from 163% to 110%. The amount of general loss provions is € 118 million after € 180 million in the previous year.

At € 64 million, the net provision for possible loan losses was € 357 million less than in the previous year (€ 421 million). The decline in risk provisioning is due to the improved economic situation. 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. Moreover, the economic factor used in the calculation of general loss provisions was reduced in this financial year, with the result that € 62 million of general loss provisions were reversed. Net risk provisioning includes € 18 million in connection with the sale of customer receivables to implement EU requirements.

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 Rio equity kicker, economic risks from investments with sub-prime content affect IKB AG only indirectly through the carrying amount of the investment of the receiving company.

In addition, a slight pick-up was observed in the value of IKB's own securitisations. Furthermore, a profit was generated by the transfer of the Rio equity kicker to IKB PE at the market value (€ 90 million) in excess of the cost of IKB AG as at 31 January 2011.

As at 31 March 2011, the portfolio investments and other structured credit products had a nominal volume of € 1,277 million (31 March 2010: € 2,626 million) and comprised:

- Securitisation positions in a nominal amount of € 152 million (31 March 2010: € 162 million) with a carrying amount of € 103 million (31 March 2010: € 100 million) assigned to the strategic core business of the Bank and predominantly deriving from the securitisation of own credits. These assets predominantly have an external rating of sub-B or no 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 nominal volume of € 516 million (31 March 2010: € 903 million, Rio Debt Holdings total € 1,851 million) and a carrying amount of € 26 million (31 March 2010: € 31 million, Rio Debt Holdings total: € 479 million) that were synthetically transferred to Rio Debt Holdings. The junior loan was transferred to IKB PE as at 31 January 2011, which resulted in a reduction of recognised ABS positions of nominally € 377 million. Thus, IKB recognises only the remaining CDOs of ABS synthetically transferred to Rio Debt Holdings, which now have only a very low carrying amount. This does not give rise to any direct risks or opportunities for IKB AG.

- Three positions with a nominal volume of € 77 million assumed by IKB in the course of the financial year as part of the sale of assets from the Havenrock I portfolio. These positions were written down in full as at 31 March 2011.

- Owing to the Lehman insolvency, four synthetic transactions with a nominal value of € 332 million (31 March 2010: € 338 million) and a carrying amount of € 332 million (31 March 2010: € 338 million) are being wound up (one transaction was already wound up). The risks for IKB AG 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 € 303 million as at 31 March 2011. € 103 million of this relates to the securitisation positions from the core business of IKB stated under the first point above (31 March 2010: € 100 million) and € 200 million to the synthetic transactions stated under the second point (31 March 2010: € 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 short-term liquidity requirements in the reporting period – and will continue to do so in future – by secured borrowing on the interbank money market (cash and term deposits), participation in ECB tenders and accepting customer deposits. The volume of new customer deposits also developed positively in the reporting period, now amounting to around € 3.6 billion.

Medium and long-term liquidity was generated by disposals of assets and by issuing promissory note loans guaranteed by the Deposit Protection Fund and term deposits. 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 resources allowed the Bank to buy back € 500 million of its own bonds guaranteed by SoFFin early and to reduce the guarantee volume accordingly.

Depending on the development of its new business, the Bank expects its liquidity requirements to amount to between € 7 billion and € 7.5 billion over the next twelve months. To refinance these requirements, the main options currently available are drawing options at the ECB, accepting liabilities guaranteed by the Deposit Protection Fund 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. Factors could include market developments that allow neither the sale of balance sheet assets nor the expansion of liabilities covered by the Deposit Protection Fund. Rating downgrades could also negatively influence liquidity.

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 daily. Their risk content is measured in a present-value value-at-risk system that forms the basis for limiting market price risks.

Interest rate risk. Interest rate risks exist in potential changes in the value of asset or liability positions in the event of shifts in the risk-free yield curve. IKB applies a variety of instruments to manage and hedge this interest rate risk. It concludes transactions using these 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 at IKB comes particularly as a result of securities and promissory note loans in the investment portfolio, the first loss piece retained from the transaction with Rio Debt Holdings and other remaining portfolio investments.

Volatility risk. Volatility risks exist in potential changes in value for option positions 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.

As part of the ongoing review of its models and methods, the Bank changed its calculations in December 2010 and no longer calculates VaR for daily monitoring for a holding period of ten days but rather – in line with market practice – for a holding period of one day. The confidence level is still 99%. Furthermore, the ongoing development of methods included taking into account the highly varied development of credit spreads observed on the capital market as a result of the European debt crisis by using a more varied measurement of credit spread VaR for government bonds.

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% (liquidation perspective) or 90% (going concern perspective) assuming a holding period of one year for the purposes of risk-bearing capacity (see “Risk-bearing capacity”).

Regular back-testing is carried out in order to test the ability of the models used to make predictions. The Board of Managing Directors is informed of the results of these tests during monthly MaRisk reporting. With regard to the assessment of the model’s forecast quality, there were no outliers 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. 2011	31 Mar. 2010[1)]
Basis point value	**-0.05**	**0.02**
Vega	**0.6**	**-1.0**
VaR – foreign currency	-2.5	-2.6
VaR – interest rate and volatility	-7.5	-12.1
VaR – spread	-41.7	-23.3
Correlation effect	7.8	10.6
VaR total	**-43.9**	**-25.9**

1) To ensure the comparability of values, the VaR figures as at 31 March 2010 were calculated retroactively using the same market price risk methods as those applied on 31 March 2011. In particular, this relates to the calculation of the credit spread risk.

The main driver of market risk is currently credit spread risk from state financing as a result of the massive spread widening observed as a result of the European debt crisis. Interest rate risks were reduced further once again.

The following table shows the development of credit spread sensitivities of securities and derivatives positions over time. The table shows the change in value per basis point of additional credit spread widening.

Table: Development of credit spread sensitivities of securities and derivatives positions

in € million	
31 Mar. 2011	-4.6
31 Dec. 2010	-5.3
30 Sept. 2010	-5.8
30 Jun. 2010	-5.8
31 Mar. 2010	-5.5

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

The loss volume identified in the financial year amounted to a total of € 16.5 million at Group level. Around € 10.7 million of this related to IKB AG. If individual loss amounts cannot (yet) be determined exactly, the values are based on estimates. The Bank currently feels that the greatest operating risks lie in its legal risks (see “Legal risks”). A further risk that should not be underestimated is that entailed by rising, externally driven reporting requirements and ongoing litigation, which lay claim to considerable resources in addition to day-to-day operations or project work and therefore lead to a not insubstantial amount of extra work for employees.

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

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

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

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

Legal risk

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

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

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 € 14.2 million. In addition, further shareholders and investors in other IKB securities have approached the company out of court with claims for damages.

More than 120 of these suits by investors have already been rejected in the first instance by the Düsseldorf Regional Court; these decisions are legally binding in more than 90 of these cases. However, this does not mean that conclusions can be drawn as to the outcome of the other legal proceedings or any decisions by higher courts. However, different civil divisions of the Düsseldorf Higher Regional Court have already dismissed appeals in 14 cases (most recently in three cases on 12 May 2011). The civil divisions declared these cases to be not subject to review; so far, appeals against denial of leave to appeal have been filed with the Federal High Court in three cases. Further appeal rulings favouring the company have already been announced in hearings before the Düsseldorf Higher District Court. Plaintiffs were not awarded damages in any of the crucial cases.

IKB still considers the outstanding claims by investors not yet dismissed (with a remaining provisional value of around € 11.0 million) and the out-of-court claims for damages to be unfounded. Nonetheless, even after more than three 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 10 March 2008, the US Financial Guaranty Insurance Company (FGIC) and its British subsidiary (together FGIC) filed claims against IKB, its (then) subsidiary IKB Credit Asset Management GmbH, Düsseldorf, Havenrock II Limited and Calyon S.A. with a New York court. In the first instance, the plaintiffs applied to be released from contractual obligations in respect of Havenrock II and Calyon totalling up to US$ 1.875 billion. Claims for an unspecified amount of damages were also filed against IKB. IKB held the view that the accusations set out in the court submission are unfounded.

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

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

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

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

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

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

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

Owing to the applicable provisions of procedural law in the UK, IKB is now in disclosure proceedings for both matters. IKB remains of the opinion that the accusations made against IKB by the plaintiffs are unfounded and will defend itself against these actions.

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. Owing to the applicable provisions of US procedural law, IKB has been in disclosure proceedings for both matters since this time. IKB is still of the opinion that the accusations made against IKB by the plaintiffs are unfounded and will defend itself against these actions.

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

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

If IKB culpably violates a specific obligation in the indemnification agreement in connection with a specific claim covered by the indemnification agreement, under certain circumstances, the indemnification claim to this specific claim may be extinguished. The Board of Managing Directors regards the risk of a dereliction of duty as slight. This is because, to assure the contractual obligations of the IKB, the necessary implementation steps for securing behaviour in line with the agreement were specified in detail and documented in writing following in close coordination and cooperation with KfW. The indemnification claims of IKB are also extinguished retroactively if the share sale and transfer agreement or the share transfer in rem between KfW and LSF6 Europe are null and void or one of the parties exercises a right to terminate a legal relationship by unilateral declaration which results in the reversal of the performance rendered in the transaction 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, for market manipulation and breach of trust in particular in July 2009, the competent economic crimes chamber of the Düsseldorf Regional Court handed down a suspended sentence of ten months in July 2010.

According to the information available to the company, an appeal has been filed with the Federal High Court against this first instance ruling.

CDOs arranged by Lehman Brothers. The Bank invested in structured credit products (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 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 in one case in which IKB was not directly involved. While courts of first and second instance in the UK have upheld the validity of this regulation, a first instance insolvency court in the US has granted a violation of basic insolvency law principles. The underlying legal dispute has since been settled out of court between the parties immediately after admission to the court of appeal. Other model proceedings are still ongoing. If the legal opinion of the US insolvency court is upheld in the model proceeding and by the higher instance US and English courts, the measurements of these exposures would have to be adjusted.

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

Recessionary actions against resolutions from General Meetings. A recessionary and revocation claim against resolutions made at the General Meeting held on 28 August 2008 under item 6 of the agenda (election of the Supervisory Board) is currently still pending. The disputed resolutions were unaffected by the court of first instance. The ruling as of 18 May 2011 is not yet final.

The following actions against resolutions made at the Extraordinary General Meeting held on 25 March 2009 are currently (as at 18 May 2011) still pending:

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

The following actions against resolutions made at the Annual General Meeting held on 27 August 2009 are currently (as at 18 May 2011) still pending:

- 2 recessionary and revocation claims regarding agenda item 2 (formal discharge of the members of the Board of Managing Directors),

- 2 recessionary and revocation claims regarding agenda item 3 (formal discharge of the members of the Supervisory Board),

- 1 recessionary and revocation claim regarding agenda item 5 (election of the Supervisory Board),

- 1 recessionary and revocation claim regarding the resolutions on the rejection of the motions brought in the Annual General Meeting to postpone the formal discharge of the Board of Managing Directors and the Supervisory Board and

- 1 recessionary and revocation claim regarding the resolutions on the rejection of the motion brought in the Annual General Meeting to appoint a special auditor.

Regarding the discharge resolutions for agenda items 2 and 3, the plaintiffs have prevailed in the court of first instance in some cases. The ruling is not yet final as at 18 May 2011 as IKB has appealed.

The following actions against resolutions made at the Annual General Meeting held on 26 August 2010 are currently (as at 18 May 2011) still pending:

- 1 recessionary and revocation claim regarding agenda item 2 (formal discharge of the members of the Board of Managing Directors),

- 3 recessionary and revocation claims regarding agenda item 3 lit. a – j (formal discharge of the members of the Supervisory Board),

- 1 recessionary and revocation claim regarding agenda item 3 lit. k (formal discharge of the members of the Supervisory Board),

- 3 recessionary and revocation claims regarding agenda item 3 lit. l (formal discharge of the members of the Supervisory Board),

- 2 recessionary and revocation claims regarding agenda item 3 lit. m (formal discharge of the members of the Supervisory Board),

- 3 recessionary and revocation claims regarding agenda item 3 lit. n - q (formal discharge of the members of the Supervisory Board),

- 1 recessionary and revocation claim regarding agenda item 4 (election of the auditor) and

- 1 recessionary and revocation claim regarding agenda item 5 (election of the Supervisory Board).

Risks in connection with SoFFin conditions

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

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

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

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

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

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

IT risk

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

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

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

Staff training is also a key element of security precautions.

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

Compliance risk

As a bank, IKB is subject to specific legal standards. These include regulations on avoiding conflicts of interest, market manipulation as well as insider trading and money laundering. The organisational requirements of the KWG, regulatory requirements and the minimum requirements for compliance function and the other conduct, organisation and transparency duties arising from sections 31 et seq. of the WpHG (MaComp) passed in 2010 still have to 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.

Compliance functions are coordinated and reported on by the Compliance Board, which commenced its activities in May 2010. The Compliance Board consists of the Board of Managing Directors, the heads of the central divisions of the Bank and the employees entrusted with specific compliance functions. These are the corporate governance officers, the data protection officer, the money laundering officer and the OpRisk officer. 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.

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 holistic 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. In the reporting period, improvement measures were largely implemented for identified optimisation potential. In some cases measures have not yet been completed.

In the money laundering threat analysis, 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 measures implemented in the last reporting period to improve legitimation were largely implemented.

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.

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. In a Code of Conduct updated in the previous year, IKB describes the moral concepts and beliefs of IKB. The principles given in the IKB Code of Conduct include requirements for the conduct of all employees at all locations of the Group. These provide a binding frame of reference for day-to-day business.

Personnel risk

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

As a result of the extensive reorganisation of the Bank, there was a reorganisation of the workplace and a reduction in the number of jobs. Existing structures and deeply-rooted processes were changed and job descriptions modified. 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.

The high rate of staff reduction has now stabilised at a low level. The large reduction in voluntary redundancies by employees is due partly to the labour market conditions and partly to a general stabilisation of the Bank. 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. Also, the new positions created under the restructuring measures have been largely filled by internal reassignments. This was not the case for only a small number of these positions, with the result that the start-up and error risks were limited – particularly in the new central divisions. Overall, the number of new appointments is back to the pre-crisis level.

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. Thus, they are under the close observation of the Board of Managing Directors and the Strategic Planning and Investment Management central division and are continually monitored. Additionally, this includes regularly examining the business strategy, also in the context of the strategic planning process, as well as implementing strategic initiatives and restructuring measures as a result of this. The business model of IKB is currently still restricted by the conditions of the EU Commission in specific areas. By reorienting its business model, including widening its product range for SME customers (primarily 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 successfully position IKB on the market.

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

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

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

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

Participation risk

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

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

The Strategic Planning and Investment Management central division handles and coordinates the operative investment processes. The Legal, Office of the Board of Managing Directors and Compliance central division is responsible for examining and designing all matters relating to company and regulatory law and consults on the legal aspects of strategic decisions and on the performance of shareholder functions. Authority for decisions on strategic investments lies with the Board of Managing Directors as a whole. If the subject of the transaction in question accounts for more than 5% of the liable equity of IKB, the acquisition, disposal or founding of companies must be approved by the Executive Committee of the Supervisory Board.

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

The investment companies are integrated into the implementation of Group-wide business and risk strategy by way of annual investment workshops 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. The investments affected by the conditions of the EU Commission are managed in the context of IKB's winding up projects in terms of their implementation.

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

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

Overall assessment of the risk situation

Overall, the total risk position of IKB improved again in the past financial year. Compared to the previous year, in which extensive provisions for possible loan losses had been required for counterparty risks, the situation has improved significantly as a result of the very good development of the general state of the economy and the resulting risk reduction in classic lending business. After the market price risk was reduced by the extensive reduction of risk positions in the 2009/10 financial year, the credit spread risk increased noticeably as a component of market price risk due to strong fluctuations in risk premiums in connection with the European public debt crisis. The risks of structured credit products, which showed considerable interest gains and recoveries in the reporting period, were further limited by the repayment of the Rio Debt Holdings loan. As at 31 March 2011 and for the forecast period, risk tolerance is ensured for both the equity provider perspective and the lender perspective.

A key challenge for IKB is sufficient financing for its planned business activities and the repayment of outstanding bonds. 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. Secured refinancing on the capital market is another liquidity option for the Bank. Furthermore, the increased and more diversified deposit business with corporate clients and private customers is of growing importance for stabilising refinancing. A surge in 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 still comply with – 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. In material terms, the requirements of the European Commission have already been largely implemented, such that it can be assumed that they will be satisfied and therefore no longer apply by the deadline of 30 September 2011. At 10.2% for IKB AG and provisionally 11.2% for the Group, the tier 1 capital ratio – which has again risen further – still far exceeds the minimum level of 8% required by SoFFin and will presumably remain above this in the forecast period as well. 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.

A crucial factor for the success of IKB is still the extent to which the initial successes with the new business model can be continued, in particular by expanding business with derivatives, customer capital market products and consulting Services. The income generated from this supplements the interest income from traditional lending business, which has increased again with higher overall margins. To date, the development of new business and the growth in net fee and commission income from customer lending and derivatives business has been in line with forecasts.

The good to very good economic performance is currently being confirmed in Germany, which means that fewer defaults are expected. Nonetheless, the economic development remains fragile, as high public debt is encumbering the markets on the one hand (EU and US) and an expansive overall monetary policy is giving rise to fears of inflation and new bubbles on the other. 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. Moreover, the Bank is exposed to the legal risks described.

Based on the positive development to date, the Board of Managing Directors is assuming that IKB's restructuring will continue and can be completed in line with planning. In terms of largely satisfying the key requirements for IKB, its regulatory capital resources and risk-bearing capacity, there is still scope for the further successful implementation of the business model.

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

Applicable legal provisions, accounting standards and first-time adoption

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

Responsibility for the ICSA

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

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

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

The Supervisory Board commissioned PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft to audit the 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 central division at the main site in Düsseldorf. Accounting for the Paris and London branches was transferred in full from the Luxembourg location to Düsseldorf in the current 2010/11 financial year. A majority of the Luxembourg branch's business was taken over by the Düsseldorf head office. The remaining activities of the Luxembourg branch will be performed by the accounting department of the rescue company formed at the Luxembourg location. The centralisation of a majority of bookkeeping at one location facilitates communication, process transparency and process standardisation in accounting. The Finance central division is responsible for the preparation of the annual financial statements and consolidated financial statements. Accounting for the subsidiaries included in the consolidated financial statements is usually performed by the Finance department under 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 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, all internal controls involve a human factor that includes the possibility of errors in the performance of activities or mistakes in estimates or when exercising discretion. Given these limitations, misstatements in the financial statements cannot be identified or prevented with absolute certainty. Furthermore, there is the risk with forecasts of the effectiveness of internal controls in future periods that existing controls will no longer be appropriate owing to changes in circumstances or that the degree of compliance with guidelines and procedures decreases.

Organisation and function

Requirements of the internal control system

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

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

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

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

Use of IT and specifications in the internal control system

IT systems not only have to properly map accounting policies, they must also comply with the generally accepted principles of computerised accounting systems (GoBS) and the generally accepted principles of proper accounting when using information technology (IDW RS FAIT 1). By systematically selecting its systems and contractual agreements, IKB AG ensures that its systems meet these requirements at all times. This is verified by regular internal and external audits. The necessary separation of functions is ensured in the accounting systems used by IKB by only issuing the authorisations required to process tasks. Internal Audit regularly reviews the appropriateness and compliance of the authorisation concept. As part of an internal project, the existing authorisation concept was reviewed in the SAP environment and specified further. 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 properly and on time through the projects initiated. Changes in accounting provisions are drafted into the accounting manuals. Quality assurance of the accounting manuals by external accounting experts ensures that the changes in accounting provisions are incorporated correctly and in full. The accounting effects of new types of transactions and their presentation in accounting are prepared in new product processes and implemented into work flows, possibly with the aid of external experts. As part of an internal project, the chart of accounts of IKB AG was modified and optimised to increase transparency and traceability. In addition to improved traceability in accounting logic for third-party experts, the complexity of posting was also reduced by facilitating proper entry of business transactions by way of a unique derivation from account numbers to balance sheet or income statement line items. In this context, the posting rules of upstream systems was revised and updated to minimise subsequent corrections in the SAP system.

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 was also backed up technically in the current financial year 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 Credit Risk Management and entered in the accounting system.

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

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

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

Structural and procedural organisation of the 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. Please also see the accounting policies in the notes. Where necessary, measurement is performed with the assistance of external experts, e.g. for pension provisions. Current income taxes are calculated by the Taxes department. Full entry of the disclosures in the annual financial statements and the management report is guaranteed by the fact that the necessary data is clearly identified in advance, as are those responsible for providing the information. Using a set quality assurance process defined in organisational instructions and guidelines, this information is checked for plausibility, completeness and consistency from employees up to the CFO.

The procedures and measures that apply to the process of preparing and auditing the annual financial statements also apply to the process of preparing the consolidated financial statements. Condensed interim consolidated financial statements and an interim Group management report are also prepared. The Annual General Meeting decides on the basis of a proposal by the Supervisory Board whether the condensed interim consolidated financial statements and interim Group management report must be reviewed by the auditor.

6. Events after 31 March 2011 (Supplementary report)

The following new developments have arisen since 31 March 2011:

Status of implementation of EU conditions

IKB has also worked continuously to satisfy the EU conditions since 31 March 2011. The current status of its work is described in “Significant events in the reporting period”. On the basis of the requirements and coordination with the authorities in May, IKB is assuming that it has already implemented many of the EU requirements and that there are no material obstacles preventing the satisfaction of the requirements on time by 30 September 2011.

Changes in the Group

IKB Beteiligungen bought all shares in Movesta Development GmbH from MD Capital Beteiligungsgesellschaft mbH, which is 50% held by IKB Beteiligungen and 50% held by KfW IPEX-Bank GmbH. This was completed on 1 April 2011. IKB intends to wind up Movesta Development GmbH.

Repayment of a bond guaranteed by SoFFin

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 past 2010/11 financial year. IKB’s SoFFin guarantee was therefore reduced to a total of € 8.6 billion.

The maturity structure of the bonds issued under SoFFin guarantees is currently as follows:

- € 1.8 billion maturing on 27 January 2012
- € 1.8 billion maturing on 13 March 2012
- € 2.0 billion maturing on 10 September 2012
- € 1.0 billion maturing on 1 February 2013
- € 2.0 billion maturing on 2 February 2015.

Current rating situation

After the end of the 2010/11 financial year, the rating agency Moody’s Investors Service downgraded IKB’s rating on 19 April 2011 – mainly as a result of the reduction in government support assumed by the agency – to long-term Ba2, negative outlook and short-term non-prime. On 13 April 2011, the agency Fitch Ratings had again confirmed the long-term rating BBB-, negative outlook and short-term rating F3.

7. Outlook

Future general economic conditions

Global economic growth is still on the rise but will decelerate. The degree of economic policy restriction is expected to increase in the emerging economies in particular to mitigate the rising inflationary trends. The recovery will continue in the industrialised nations as monetary policy – in spite of possible interest rate hikes – is still expansive and the muting after-effects of the financial crisis are slowly diminishing.

Germany is also still in an upswing and there are many indications that the expansion will remain strong in the coming months. Companies have a good order backlog. Key sentiment indicators for companies are at record levels. Rising income and growing employment should further improve the income situation for private households. In light of this, economic research institutes are anticipating in their joint economic forecast that the upturn on the economy will continue, but more moderately than in 2010. All in all, it is expected that the gross domestic product increases by 2.8% this year and 2.0% next year.

In light of the good economic performance and the increasing utilization of production capacities, there could be a greater focus in 2011 and 2012 on capacity expansions in addition to replacement investments. For this reason, research institutes are expecting a further significant recovery of capital investments in the current year (2011: up 10.5%). Despite this strong momentum, however, the level of the 2008 boom year will not be seen again until 2012.

Private residential construction is also expected to gain sustained momentum. Historically low interest rates, a dearth of profitable and secure investment alternatives, rising rents and increasing employment security are likely to add momentum. Nevertheless, state investments are to be expected as the necessary budget cuts are implemented and economic programmes come to an end with the result that total investment in construction is likely to increase only slightly in 2011 and 2012 by 2.2% and 2.4% respectively.

Hopes are increasingly focussing on consumer spending. As a result of the improved employment market situation and the prospect of wage increases, the current upwards trend is likely to continue, accompanied by a sustainable recovery of private consumer spending – even though this will be muted by incipient inflation and further hikes in interest rates. After only slight increases of 0.5% on average over the past ten years, an increase of 1.2% should be possible in private consumer spending in 2011 and 2012.

Overall, thanks to strong exports and the measures for reform and increased flexibility of recent years, Germany is on a strong growth path. Assuming the global economy continues to expand unimpaired, it may be assumed that the upwards trend in exports and therefore the entire German economy will continue over the next two years. The very strong economic growth forecasted for Germany by research institutes is particularly possible because both exports and domestic demand are generating impetus. Overall, the economic recovery – global and German – has been faster and stronger than expected.

The economic recovery has also taken place in the Western European countries relevant to IKB, albeit with very varied trends. Research institutes are forecasting GDP growth in 2011 of 1.7% in France and 1.1% in Italy. Despite ongoing financial market difficulties, recovery tendencies can also be observed in the UK (GDP growth in 2011: 1.3%), though this is still a long way from its former dynamic growth averaging 2.5% to 3.0%. Spain is still suffering significantly from the consequences of the domestic real estate and construction crisis and thereby the slump in the construction industry in 2010. As a result, the recovery here is relatively weak (GDP growth in 2011: 0.7%). In addition, the necessary savings measures are also squeezing public sector budgets.

Despite the favourable outlook for German industry, there are risks related to future development. Significantly weaker economic trends resulting from the necessary budget consolidation cannot be ruled out. Another fundamental risk arises for the still fragile financial and banking system. The EU debt crisis can always escalate again. In the summer of 2010, the crisis was prevented from spreading to the real economy as a result of massive support measures from the governments and central banks. However, the winter of 2008/09 made it impressively clear just how quickly and severely loss of confidence in the capital market can damage the real global, and therefore, the German economy.

The global economic recovery has increased the focus on inflation risks. In view of the general increase in commodities prices on the fast-growing emerging markets, a further price rise cannot be ruled out. If the economic recovery in the industrial nations also picks up momentum, resulting in greater flexibility for passing on prices, together with a supportive monetary policy this would lead to increased inflationary tendencies. On the booming emerging markets in particular, there are rising concerns over economic overheating and exaggerated asset prices.

The economic recovery is leading to increased demand for financial services. However, the situation is expected to remain difficult for banks and the financial markets. While the constitution of German financial institutes has improved according to the Bundesbank's financial stability report, there are still considerable pressures. The greater equity requirements under Basel III mean that banks will have to maintain significantly more and better quality equity in future. Overall, it is assumed that the consolidation pressure in the banking sector will therefore grow significantly. In light of the heightened regulatory restrictions in lending by banks and much more selective lending policies, financing funds, including both debt and equity capital, will increasingly have to be organised on the capital market. In addition, loan terms are expected to rise as refinancing costs are also set to increase, not least on account of further interest rate hikes by the ECB. Competition for short-term refinancing funds will also remain intense as banks' requirements will continue to clash with those of governments and corporate entities.

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. This has created the basic foundations for leveraging the opportunities emerging in the current financial year, especially as credit demand should develop more dynamically in a stable overall economic environment. Above all, IKB will be able to devote more attention to customer business once it has fulfilled the EU conditions (deadline: 30 September 2011). The costs resulting from implementing the EU requirements by this deadline, which involves the commitment of a high level of resources and material costs, will gradually diminish. The SoFFin guarantee will be gradually repaid further, lowering the currently high commission expenses.

Based on its experiences of recent months, IKB believes there are good prospects for a targeted and sustainable expansion of its activities in the area of consulting, hedging and credit products. However, owing to the restructuring costs and the start-up costs for new business activities, it will still be some time before the reorganisation is also reflected positively in the income statement. A positive trend in diversification and an increase in income from new business have already been observed. The volume of new payments in the 2010/11 financial year is above the level for the same period of the previous year with improved margins. Capital market and consulting business is developing positively, driving up commission income from these activities. 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 has created the right conditions to leverage opportunities in asset/liability management at short notice if the markets permit this and it appears economically feasible. In particular, this includes updating the debt issuance programme for unsecured refinancing, the option to transfer risks, whereby IKB can build on its many years of experience from its own securitisation activities, and the expansion of refinancing using customer deposits on the IKB direkt platform.

The planned sale of IKB by Lone Star could have various consequences for future economic development that cannot be specified in greater detail at present.

A sale could help accelerate the ongoing development of IKB's new business model. The Board of Managing Directors of IKB is supporting the current sales process.

Net assets

At 15.6% and 10.2% respectively, the solvency ratio and tier 1 capital ratio of IKB AG are higher than in the previous year and significantly higher than the current legal minimum requirements – even after taking on the credit and derivatives business of IKB International S.A. Above all, this was helped by the targeted reduction in total assets. A main control parameter used to date is the tier 1 capital ratio, which is well over 8% for IKB AG and the Group, providing an adequate buffer for unexpected, isolated events. IKB is contractually required, particularly in respect of SoFFin, to maintain a minimum tier 1 capital of 8%. IKB anticipates that it will continue to achieve these minimum values. Given the planned increase in new lending business with customers, which will still be more than compensated by repayments in lending to customers, the Bank is assuming a slower decline in loans and advances to customers than in 2010/11 in the 2011/12 and 2012/13 financial years. In the forecast period, the equity and liabilities side of the balance sheet will presumably be dominated by rising retail banking deposits and declining securitised debt in particular.

Effects of Basel III

The Basel Committee's reform package raised the minimum requirement for core tier 1 capital from 2% to 4.5% and the minimum requirement for total tier 1 capital from 4% to 6%. These requirements must be met in stages over the period from 1 January 2013 to 1 January 2015. In addition, banks are required to maintain a capital conservation buffer of 2.5%, covered by core tier 1 capital and to be gradually built up from 1 January 2016 to 1 January 2019. Furthermore, a counter-cyclical capital buffer is being introduced that will consist of core tier 1 capital or other capital to absorb losses in full. 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.

The capital and liquidity resources of IKB are calculated on the basis of HGB and the applicable regulatory standards, and are currently 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 preparations for the implementation of Basel III – including the highly comprehensive regulations that will accompany Basel III temporarily or functionally – will give rise to high costs and complex questions of management. Ultimately, Basel III will also influence the strategies and business models of banks. The actual direction will only emerge over the course of implementation.

Liquidity situation

IKB's refinancing structure will be diversified further. The key components of this are secured financing and broader deposit business with corporate and retail clients.

The future liquidity situation is dependent on the development of new business, the extent to which customers draw on existing loan commitments and the collateral provided for derivatives business. Given the changes in the Bank's business model, its refinancing requirements will be lower than in the past. These factors have been taken into account in the Bank's liquidity scenarios.

IKB has sufficient liquidity resources until well into 2012 even without accessing capital market refinancing thanks to the issues of € 8.6 billion under the SoFFin guarantee, the planned sale of balance sheet assets and deposits by customers. With these resources, IKB would also be able to overcome temporary, unexpected liquidity requirements.

The Bank also has sufficient liquidity for the remainder of 2012 if the refinancing measures currently being eyed, some of which have already been initiated, can be implemented. These include the prolongation of customer deposits – to a greater extent through IKB direkt as well –, the placement of promissory note loans and secured refinancing on the capital market. Further asset sales are also intended.

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

In light of the current ratings (Ba2/BBB- and individual rating E/E), it would make little sense economically to issue 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 be cutting back on key investors' scope for investment. This is another reason why issuing loans is no longer as important for IKB as it was before the crisis.

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

Earnings performance

Although the financial and economic crisis is subsiding, uncertainty remains due to the government debt crisis in euro member states, economic developments in the US and the possibility of an economic slowdown in Germany, all of which could lead to earnings volatility in IKB's business development. There is also a degree of uncertainty concerning the current restructuring of the German banking sector.

The future earnings structure will feature a stronger share of commission income from consulting, derivatives and capital market business. With lower consolidated total assets on account of the EU requirements, net interest income will initially decline and later stabilise in the medium term as new lending business grows. The expenses of the guarantee commission owed to SoFFin will diminish.

The Group's administrative costs will be reduced further following a temporary flare-up owing to investments in infrastructure and the costs of meeting the EU conditions. 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, actively using programme loans and global loans from government development banks and broader deposit business with corporate and retail clients.

The Board of Managing Directors is maintaining its objective of returning to operating profitability in the medium term – starting in the next two financial years depending on economic developments. This will also create the scope to further strengthen tier 1 capital. Furthermore, servicing the compensation agreements in a total amount of € 1,151.5 million and the value recovery rights of the hybrid investors mean that the Group and IKB AG will probably not report any, or only minimal, profit for several financial years to come.

8. Remuneration report

This remuneration report relates to the remuneration of members of the Board of Managing Directors and the Supervisory Board in and for the 2010/11 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 2010/11 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.

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 have issued corresponding waivers for the above period – also 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 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 2010/11 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 Supervisory Board and the members of the Board of Managing Directors have agreed only goals based on the restructuring and stabilisation of the Bank with a multi-year assessment basis and a long-term incentive effect for the coming years. The agreed goals are based on the specifications, conditions and requirements of the EU, SoFFin and the Deposit Protection Fund and are therefore linked to the strategic objectives of IKB.

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.

In order to meet the SoFFin requirements in connection with the guarantee, the members of the Board of Managing Directors in office have waived bonus payments (including the previously agreed minimum bonus) for the period from 3 July 2009 to 31 December 2010. These were the bonuses resolved at that time but not yet paid out for the 2008/09 financial year and all bonuses to be possibly granted in the period until 31 December 2010. As the basic annual salaries of members of the Board of Managing Directors of IKB have been € 500 thousand since 1 July 2009, the remuneration of the members of the Board of Managing Directors was equal to the limited remuneration agreed with SoFFin for the period from 3 July 2009 to 31 December 2010. After the end of the period agreed in the SoFFin conditions for limited remuneration, the Supervisory Board resolved subsequent payments of variable remuneration for members of the Board of Managing Directors for the financial years 2008/09 and 2009/10 on 10 March 2011. In particular, the Supervisory Board took into account the attainment of goals agreed with the members of the Board of Managing Directors over a period of several years. However, in accordance with the SoFFin conditions, the bonuses for the financial years 2008/09 and 2009/10 are only payable after the SoFFin guarantees have expired.

After the system for performance-based variable remuneration was adjusted in the 2009/10 financial year so that the bonuses for members of the Board of Managing Directors were determined taking into account sustainable corporate development as part of a multi-year analysis, the system has now been changed again. From the 2010/11 financial year, the performance-based variable remuneration of members of the Board of Managing Directors granted as part of a multi-year analysis will now be paid out on a staggered basis. 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 in future 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. Owing to the SoFFin conditions that bonuses resolved as subsequent payments for the period in which remuneration was waived by members of the Board of Managing Directors (3 July 2009 to 31 December 2010) not be paid out before the guarantees provided by SoFFin expire – regardless of the staggered payment of bonuses – the pro rata bonuses yet to be resolved by the Supervisory Board for the first nine months of the 2010/11 financial year, namely 75% of the total bonuses for the 2010/11 financial year, will not be payable until after the SoFFin guarantees expire. Only 25% of the total bonuses yet to be determined for the 2010/11 financial year will be payable three bank working days after the adoption of the consolidated financial statements for the 2010/11 financial year. The bonuses granted to the members of the Board of Managing Directors concerned for the period up to 31 December 2010 (including the bonuses for the financial years 2008/09 and 2009/10), that will not initially be paid out on account of the agreements made in the SoFFin guarantee agreement, will be held by IKB until payable, earning interest at the respective three-month interest rate offered to IKB direkt customers. Interest will be calculated from the day after the resolution by the Supervisory Board to grant the bonuses and will be owed to the members of the Board of Managing Directors concerned on payment of the bonuses.

Given the unchanged special situation at the company, 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 the sustainability of this attainment over a multi-year period and the option of pro rata retention of 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. IKB is still in a restructuring phase. The primary goal is the continued existence of the Bank, for which it is still crucial that the conditions imposed by SoFFin, the EU Commission and the Deposit Protection Fund of private banks are complied with.

With regard to the compliance with and the implementation of the conditions of the EU, SoFFin and the Deposit Protection Fund to be guaranteed in the short term and also with regard to the fact that IKB, in its persistently 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 2010/11 financial year.

Overview of Board of Managing Directors remuneration

Details of the remuneration of the Board of Managing Directors for the 2010/11 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 2010/11 FY	Pension compen-sation 2010/11 FY	Variable re-muneration 2010/11 FY[1)] (1 Apr – 31 Dec 2010	Variable remu-neration 2010/11 FY[1)] (1 Jan – 31 Mar 2011)	Remunera-tion in kind/ other 2010/11 FY	Total remunera-tion 2010/11 FY[1)]
Hans Jörg Schüttler	500.0	120.0	750.0	250.0	3.3	1,623.3
Dr Dieter Glüder	500.0	-	472.5	157.5	12.1	1,142.1
Claus Momburg	500.0	-	345.0	115.0	19.9	979.9
Dr Michael H. Wiedmann	500.0	120.0	397.5	132.5	8.7	1,158.7
Total	**2,000.0**	**240.0**	**1,965.0**	**655.0**	**44.0**	**4,904.0**

1) The variable remuneration for the 2010/11 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).

If and to the extent that the Supervisory Board resolves the bonuses for the 2010/11 financial year, the portion of these bonuses relating to the period from 1 April 2010 to 31 December 2010 will become payable after the expiry of the SoFFin guarantees. Only the portion relating to the period from 1 January 2011 to 31 March 2011 will be paid three bank working days after the adoption of the consolidated financial statements for the 2010/11 financial report.

After the end of the period agreed in the SoFFin conditions for limited remuneration, the Supervisory Board set the variable remuneration for the members of the Board of Managing Directors currently in office for the 2009/10 financial year at € 2,590 thousand (Mr. Schüttler € 937.5 thousand, Dr Glüder € 635 thousand, Mr. Momburg € 482.5 thousand and Dr. Wiedmann € 535 thousand) and for the 2008/09 financial year – pro rata temporis for Mr. Schüttler and Dr Wiedmann – at € 1,558 thousand (Mr. Schüttler € 312.5 thousand, Dr Glüder € 650 thousand, Mr. Momburg € 550 thousand and Dr Wiedmann € 45.83 thousand) in its meeting on 10 March 2011. However, owing to the SoFFin conditions, the variable remuneration for the financial years 2008/09 and 2009/10 will not be paid until after the last SoFFin guarantees have expired. The granting of bonuses is also subject to the proviso of any instructions from the BaFin. In addition, the former member of the Board of Managing Directors Dr. Reinhard Grzesik was also paid variable remuneration for his work in the period from 1 April to 3 July 2009 in the 2010/11 financial year in the amount of his contractually agreed pro rata temporis minimum bonus of € 100.75 thousand.

Payments in the event of termination of employment and pensions

As described above, all the members of the Board of Managing Directors in office on 31 March 2010 have a special right of termination for the event of a change of control. Compensation for members of the Board of Managing Directors who exercise this right has not been agreed.

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 2011**	**Addition to pension provision as at 31 Mar 2011**
Dr Dieter Glüder	375*	558
Claus Momburg	375*	281

* 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 to May 2010, IKB offset pension payments owed to the former member of the Board of Managing Directors Mr. Neupel, to the extent permitted by law, against its claim for the return of the overpaid bonus for the 2006/07 financial year. The repayment claim of € 451 thousand expired with the last such transaction in May 2010. In 2008, Mr. Neupel instituted summary proceedings with the Düsseldorf Regional Court for payment of his pension benefits for the months from May to July 2008. A provisional ruling in Mr. Neupel's favour was then issued in December 2008. The company has appealed to have this ruling overturned. In other pending summary proceedings from 2010, also before the Düsseldorf Regional Court, Mr. Neupel is also suing for payment of his pension for the months August 2008 to May 2010 on account of the offsetting. A provisional ruling in Mr. Neupel's favour was 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 to be heard in September 2011.

Furthermore, IKB is countersuing Mr. Neupel in both of the above disputes for compensation for the Bank's expenses for the costs of unjustified and unapproved construction work to the residential building owned by the company and rented by Mr. Neupel and for the Bank's expenses, for which Mr. Neupel is responsible, in connection with the unjustified and unapproved construction work on the residential building rented by Mr. Ortseifen, which is also owned by the Bank (€ 324 thousand in total). There was an evidentiary hearing in connection with the disputed construction work in March 2011; the date for a ruling was set as 31 May 2011.

Since May 2010, IKB has also been offsetting the pension claims of Mr. Neupel for the months of May to July 2008 for which he sued and his current pension claims against the claims for damages for the unjustified construction work. Offsetting has been suspended since April 2011 pending a ruling by the court.

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

Former members of the Board of Managing Directors

The total remuneration for former members of the Board of Managing Directors and their surviving dependents amounted to € 3,247 thousand (previous year: € 3,314 thousand). € 42,441 thousand was recognised for pension obligations to former members of the Board of Managing Directors and their surviving dependents (previous year: € 37,190 thousand).

In addition, as already explained above, the former member of the Board of Managing Directors Dr Reinhard Grzesik was also paid variable remuneration for his work in the period from 1 April to 3 July 2009 in the 2010/11 financial year in the amount of his contractually agreed pro rata temporis minimum bonus of € 100.75 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.

Starting from the 2010/11 financial year, the members of the Supervisory Board also have a budget of usually € 2 thousand per financial year, or a higher budget 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 2010/11 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.

Details on the remuneration of the Supervisory Board for the 2010/11 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
Wolfgang Bouché (until 31 Jan. 2011)	21
Olivier Brahin	Waived
Dr Lutz-Christian Funke	20
Ulrich Grillo	20
Arndt G. Kirchhoff	20
Bernd Klein (since 1 Feb. 2011)	3
Jürgen Metzger (until 26 Aug. 2010)	8
Dr Claus Nolting	Waived
Dr Thomas Rabe	20
Dr Carola Steingräber (since 26 Aug. 2010)	14
Carmen Teufel	20
Dr Andreas Tuczka	Waived
Ulrich Wernecke	25
Andreas Wittmann	20
Sub-total	**211**
Value-added tax payable on earnings (VAT)	36
Reimbursement of Supervisory Board expenses (total)	10
Total	**257**

9. Other disclosures

Disclosures in accordance with section 289 (4) HGB

As at 31 March 2011, the share capital of the Company amounted to € 1,621,315,228.16 comprising 633,326,261 no-par value bearer shares. All shares convey the same rights. Each share conveys one vote and is the determinant for participation in the Company's profit.

By a resolution of the Annual General Meeting on 27 August 2009, the Board of Managing Directors was authorised to acquire and sell treasury shares for the purpose of securities trading until 26 February 2011. The amount of shares acquired for this purpose may not exceed 5% of the share capital at the end of any one day. Together with the treasury shares acquired for other reasons held by the Company or assigned to it in accordance with sections 71a ff. AktG, the treasury shares acquired on the basis of this authorisation may not exceed 10% of the share capital at any time. This authorisation was not utilised in the 2010/11 financial year.

In the Annual General Meeting held on 27 August 2009, the Company was also authorised to acquire treasury shares of up to 10% of the share capital for purposes other than securities trading until 26 February 2011. The shares can be acquired on the stock exchange or by way of a public bid to all shareholders. The acquisition of shares may be carried out using put or call options. Such share acquisitions are limited to shares of a maximum volume of 5% of the share capital at the time of the resolution on this authorisation by the Annual General Meeting on 27 August 2009. The terms of the options must end no later than on 26 February 2011. Together with the treasury shares acquired for trading purposes and other reasons held by the Company or assigned to it in accordance with sections 71a ff. AktG, the treasury shares acquired on the basis of these authorisations may not exceed 10% of the share capital of the Company at any time. In line with a decision by the Board of Managing Directors, the acquired shares can be sold on the stock exchange or in some other way or, in full or in part, called in. These authorisations were not utilised in the 2010/11 financial year.

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 may not exceed 5% of the share capital at the end of any one day. Together with the treasury shares acquired for other reasons held by the Company or assigned to it in accordance with sections 71a ff. AktG, the treasury shares acquired on the basis of this authorisation may not exceed 10% of the share capital at any time. This authorisation was not utilised in the 2010/11 financial year. The authorisation to acquire treasury shares for trading purposes granted by the Annual General Meeting on 27 August 2009 and limited until 26 February 2011 was revoked by way of resolution of the Annual General Meeting on 26 August 2010 for the period from the new authorisation coming into effect.

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 the end of 25 August 2015. The shares can be acquired on the stock exchange or by way of a public bid to all shareholders. The acquisition of shares may be carried out using put or call options. Such share acquisitions are limited to shares of a maximum volume of 5% of the share capital at the time of the resolution on this authorisation by the Annual General Meeting on 26 August 2010. The terms of the options must end 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 may not exceed 10% of the share capital of the Company at any time. In line with a decision by the Board of Managing Directors, the acquired shares can be sold on the stock exchange or in some other way or, in full or in part, called in. This authorisation was not utilised in the 2010/11 financial year. The authorisation to acquire and use treasury shares in line with section 71 (1) no. 8 AktG granted by the Annual General Meeting on 27 August 2009 and limited until 26 February 2011 was revoked by way of resolution of the Annual General Meeting on 26 August 2010 for the period from the new authorisation coming into effect.

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 2010/11 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/or option bonds with a total nominal value of € 900,000,000.00 and a maximum duration of 20 years by 27 August 2013 and to grant the bearers of these bonds conversion or option rights to up to 48,339,843 no-par-value bearer shares in the Company with a stake of up to € 123,749,998.08 in the share capital according to the relevant bond conditions. On 19 November 2008, the Board of Managing Directors of the Company resolved to issue subordinated bonds with a total nominal value of up to € 123,671,070.72 with a contingent conversion obligation and contingent conversion right for up to 48,309,012 shares 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 right have been met. As a result, a conversion right has existed since this time. A conversion obligation shall exist not later than on 11 April 2012, or earlier if the Company falls below certain regulatory financial ratios. LSF6 Rio S.à.r.l. exercised its conversion right in full on 2 July 2009. 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.

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

By way of a further resolution by the Extraordinary General Meeting on 25 March 2009, the Board of Managing Directors was authorised to issue convertible and option certificates and convertible and/or option bonds with a total nominal amount of up to € 900,000,000.00 by 24 March 2014 and to grant the bearers of profit participation certificates or bonds conversion or option rights to shares of the Company with a stake of up to € 618,749,990.40 in the share capital according to the relevant bond conditions. The residual authorisation of 28 August 2008 to issue convertible and/or 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 on which a verdict has not yet been reached. The resolution has not yet been entered in the commercial register.

By way of resolution of the Annual General Meeting of 26 August 2010, the share capital contingently increased by up to € 229,102.08 (Contingent Capital 2008) still existing from the resolution of the Annual General Meeting of 28 August 2008 was lowered to a maximum of € 150,174.72 comprising up to 58,662 new no-par value bearer shares with an entitlement to profits starting from the beginning of the financial year in which they are issued. Otherwise, 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/or option bonds or combinations of these instruments (referred to together as "bonds" hereafter) with a total nominal value of up to € 400,000,000.00 on one or several occasions, with or without a limited term in each case, until 25 August 2015, and to grant the bearers of bonds conversion or option rights to subscribe to a maximum of 74,874,422 no-par value bearer shares of the Company with a proportionate amount of the share capital totalling up to € 191,678,520.32 in accordance with the terms of issue of the bonds. This authorisation was not utilised in the 2010/11 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 the middle of October 2010, Lone Star reported that it is 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 company 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 section 289 a HGB/ corporate governance report

In the following declaration, 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 (DCGC) 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 10 March 2011. 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 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 18 June 2009 published by the Federal Ministry of Justice in the official section of the electronic Federal Gazette on 5 August 2009 have been met since issue of the last Declaration on 30 June 2010 up to the point of entry into force of the new version of the Code of 26 May 2010 on 2 July 2010 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 the 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 6.3 s. 2: Provision to shareholders of all new facts which have been communicated to financial analysts and similar addressees
>
>   In conversations with rating agencies relating directly to the rating of the Bank, due to the significance of the rating for IKB capital market viability and the particular restructuring situation of the Bank, new and as yet unpublished facts were confidentially communicated.
>
> The IKB Board of Managing Directors and Supervisory Board further declare pursuant to Sec. 161 AktG, that the recommendations of the Government Commission German Corporate Governance Code in the version of the Code of 26 May 2010 have been met since publication thereof in the electronic Federal Gazette on 2 July 2010 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 intention of IKB's major shareholder to sell its shareholding in IKB no restriction of the severance payment cap was agreed with the members of the Managing Board of Directors.

- item 5.4.1 para. 2: Definition of concrete objectives regarding the composition of the Supervisory Board and consideration 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 composition of the Supervisory Board.

- item 6.3 s. 2: Provision to shareholders of all new facts which have been communicated to financial analysts and similar addressees

  In conversations with rating agencies which relate directly to the rating of the Bank, due to the significance of the rating for the capital market viability of IKB and the particular restructuring situation of the Bank, new and yet unpublished facts were confidentially communicated.

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

  The Interim Announcement as of 30 June 2010 (first quarter) was published on 26 August 2010, the 6-Month Report 2010/11 on 26 November 2010 and the Interim Announcement as of 31 December 2010 on 28 February 2011. 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, 4.2.3 para. 4, 5.4.1 para. 2, 6.3 s. 2 and 7.1.2 s. 4 var. 2 on the grounds listed above. Further, due to the deviation from the recommendation pursuant to item 5.4.1 para. 2 IKB will deviate from the recommendations of item 5.4.1 para. 3 in the future.

Düsseldorf, 10 March 2011

For the Supervisory Board of IKB Deutsche Industriebank AG	For the Board of Managing Directors of IKB Deutsche Industriebank AG
Bruno Scherrer	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 DCGC). 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 DCGC). 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 transmitted live only in part, namely up to the end of the opening addresses by the Chairman of the Meeting and the Chairman of the Board of Managing Directors, via the IKB internet site (www.ikb.de) (item 2.3.4 DCGC).

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 Board of Managing Directors’ by-laws have been adapted in the expired business year both to the changed recommendations of the German Corporate Governance Code and also to the changed banking regulatory requirements of the Federal Financial Supervisory Authority. 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 and 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 63.

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 2010/11 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 as well as business relationships to related parties are shown in the Notes.

In the event that a public limited company takes out insurance to cover a member of a Board of Managing Directors against risks arising from his professional activity, with effect from 5 August 2009 the German Stock Corporation Act provides that a deductible of a minimum of 10% of damages up to at least a level of 1.5 times fixed annual remuneration of the members of the Board of Managing Directors must be provided for. In accordance with the appropriate transition rules, this applies also with effect from 1 July 2010 to such insurance policies concluded prior to 5 August 2009. IKB has agreed corresponding deductibles for existing insurance policies it holds for the period required with effect from 1 July 2010.

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 actual terms, the Supervisory Board comprises ten shareholder representatives and five employee representatives. Details regarding personnel composition of the Supervisory Board and changes in this regard in the past financial year can be found in the Management Report in chapter “Significant events in the reporting period” and in the Notes under Note 63.

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. The Supervisory Board's by-laws have been adapted in the course of the past financial year to the changed recommendations of the German Corporate Governance Code and the changed requirements of the Federal Financial Supervisory Authority. 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 DCGC, i.e. who have no business or personal relation to the Company or its Board of Managing Directors. 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. 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 including business relationships to related parties 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 2010/11 and to the present day, no conflicts of interest occurred.

In its meeting of 4 March 2010, the Supervisory Board decided on performance of an efficiency audit in accordance with the recommendation contained in item 5.6 DCGC. The results of the efficiency audit were presented in the Supervisory Board Meeting on 30 June 2010.

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.

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. In addition, the Finance and Audit Committee also discussed questions regarding accountancy, inter alia the implementation of new regulatory stipulations.

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 2010/11 and the financial statement auditor for the review of the condensed financial statements and the interim management report for the first half of financial year 2010/11. 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 DCGC) 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 DCGC).

At the IKB Annual General Meeting on 26 August 2010 - 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 2010/11 and as auditor for the review of the condensed financial statements and the interim management report for the first half of financial year 2010/11.

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. With effect from 1 April 2010, Ms Christina Wolff, Head of the Office of the Board of Managing Directors, Banking Law and Corporate Law, was appointed Corporate Governance Officer.

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 DCGC 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 DCGC).

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 six times in financial year 2010/2011.

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

- Bruno Scherrer (Chairman)
  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 am Main

- Dr Andreas Tuczka
  Head of European Financial Institutions, Lone Star Management Europe Ltd., resident in London

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

Finance and Audit Committee

The 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 five times in financial year 2010/2011.

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

- Wolfgang Bouché (until 31 January 2011)
  Works Council of IKB Deutsche Industriebank AG, resident in Rheinberg

- Dr Claus Nolting
  CEO of Corealcredit Bank AG, resident in Munich

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

- Dr Carola Steingräber (since 1 February 2011)
  Industry 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 2010/11.

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

- Bruno Scherrer (Chairman)
  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 chapter "Remuneration Report" of the Management Report. In accordance with item 4.2.5 DCGC, 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 DCGC. 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 DCGC).

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 DCGC up until 31 March 2011.

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 2011

Assets	in €	in € thousand *	31 Mar. 2011 in €	31 Mar. 2010 in € thousand
1. Cash reserve				
a) Cash-in-hand			19,512.88	23
b) Balances with central banks			84,534,994.61	14,626
of which: at Deutsche Bundesbank	*84,343,879.83*	*(14.358)*		
c) Balances in postal giro accounts			24,467.25	41
			84,578,974.74	**14,690**
2. Loans and advances to banks				
a) Payable on demand			1,815,668,323.30	1,627,983
b) Other receivables			279,113,812.76	3,390,147
			2,094,782,136.06	**5,018,130**
3. Loans and advances to customers			**20,521,510,796.20**	**21,871,730**
of which: Secured by property liens	*1,808,861,000.00*	*(5.005.263)*		
Loans to local authorities	*2,282,090,339.47*	*(2.181)*		
4. Bonds and other fixed-income securities				
a) Bonds and notes				
aa) Public-sector issuers			2,364,350,079.96	1,478,254
of which: eligible as collateral at Deutsche Bundesbank	*2,145,544,404.38*	*(1.283.687)*		
ab) Other issuers			5,236,043,670.04	7,250,672
of which: eligible as collateral at Deutsche Bundesbank	*3,343,957,940.44*	*(4.506.903)*		
			7,600,393,750.00	8,728,926
b) Own bonds			2,934,529,278.30	2,854,932
Nominal amount	*2,929,644,137.95*	*(2.857.749)*		
			10,534,923,028.30	**11,583,858**
5. Equities and other non-fixed-income securities			**29,532,920.30**	**209,203**
5a. Assets held for trading			**74,369,369.23**	**-**
6. Investments			**12,822,739.09**	**12,832**
of which: Banks	262,888.46	*(263)*		
7. Shares in affiliated companies			**1,077,149,902.62**	**960,515**
of which: Banks	*267,916,472.00*	*(265.780)*		
of which: Financial service providers	-	*(-)*		
8. Trust assets			**873,470.76**	**879**
of which: Trustee loans	873,470.76	*(888)*		
9. Intangible assets				
a) Purchased concessions, industrial and similar rights and assets			11,220,400.89	
b) Goodwill			39,989,471.42	
			51,209,872.31	**5,503**
10. Tangible assets			**6,964,497.03**	**7,589**
11. Other assets			**383,526,577.24**	**507,826**
12. Prepaid expenses			**68,709,657.34**	**77,436**
13. Deferred taxes			**158,000,000.00**	**86,600**
14. Overfunded plan assets			**40,509,126.22**	**-**
Total assets			**35,139,463,067.44**	**40,356,791**

* Previous year's figures shown in brackets

Equity and liabilities	in €	in € thousand *	31 Mar. 2011 in €	31 Mar. 2010 in € thousand
1 Liabilities to banks				
a) Payable on demand			65,372,677.89	50,072
b) with agreed term or period of notice			11,327,946,722.47	12,926,585
			11,393,319,400.36	**12,976,657**
2. Liabilities to customers				
a) Other liabilities				
aa) Payable on demand			244,428,912.07	126,756
ab) with agreed term or period of notice			7,741,073,091.09	7,055,101
			7,985,502,003.16	**7,181,857**
3. Securitised liabilities				
a) Bonds issued			**10,706,218,622.70**	**13,709,394**
3a. Liabilities held for trading			**36,216,427.01**	**-**
4. Trust liabilities			**873,470.76**	**879**
of which: Trustee loans	*873,470.76*	*(879)*		
5. Other liabilities			**1,119,265,202.59**	**1,848,137**
6. Deferred income			**76,494,393.48**	**75,975**
7. Provisions				
a) Provisions for pensions and similar obligations			1,556,293.67	166,914
b) Tax provisions			102,832,523.88	102,842
c) Other provisions			355,166,432.74	766,701
			459,555,250.29	**1,036,457**
8. Subordinated liabilities			**1,478,034,335.83**	**1,475,355**
9. Profit participation capital			**86,907,967.30**	**103,327**
of which: Due within two years	*44,716,742.41*	*(49.730)*		
10. Fund for general banking risks			**189,620,816.45**	**189,621**
11. Equity				
a) Subscribed capital			1,621,315,228.16	1,621,315
Contingent capital:	*191,828,695.04*	*(229)*		
b) Silent partnership contributions			572,201.22	15,778
c) Capital reserve			1,750,681,194.97	1,750,681
d) Revenue reserves				
da) Legal reserve			2,398,573.84	2,399
db) Other revenue reserves			21,850,000.00	-
			24,248,573.84	2,399
e) Net accumulated losses			-1,789,362,020.68	-1,631,041
			1,607,455,177.51	**1,759,132**
Total equity and liabilities			**35,139,463,067.44**	**40,356,791**
1. Contingent liabilities				
a) Liabilities from guarantees and indemnity agreements			1,659,239,538.75	2,317,952
			1,659,239,538.75	**2,317,952**
2. Other obligations			**1,442,989,001.59**	**2,016,738**

* Previous year's figures shown in brackets

Income statement of IKB Deutsche Industriebank AG for the period from 1 April 2010 to 31 March 2011

Expenses	in €	in € thousand *	2010/11 in €	2009/10 in € thousand
1. Interest expenses			**2,018,773,268.20**	**1,975,905**
2. Commission expenses			**130,595,764.85**	**90,124**
3. Net trading portfolio expenses			**12,866,856.34**	**7,486**
4. General administrative expenses				
a) Personnel expenses				
aa) Wages and salaries			109,524,030.71	98,576
ab) Compulsory social security contributions and expenses for pensions and other employee benefits			15,923,196.10	27,572
of which: pension expenses	*3,283,147.28*	*(14.940)*		
			125,447,226.81	126,148
b) Other administrative expenses			135,795,874.93	114,250
			261,243,101.74	**240,398**
5. Amortisation/depreciation and write-downs on intangible and tangible assets			**7,631,287.36**	**5,956**
6. Other operating expenses			**24,133,405.82**	**17,244**
7. Amortisation/depreciation and write-downs on receivables, specific securities and additions to loan loss provisions			**55,328,051.06**	**263,998**
8. Amortisation/depreciation and write-downs on investments, shares in affiliated companies and long-term investment securities			**115,187,550.17**	**120,073**
9. Costs of loss absorption			**57,522,344.15**	**57,454**
10. Extraordinary expenses			**46,433,131.36**	**9,298**
11. Income taxes			**-53,271,493.16**	**-6,020**
12. Other taxes not reported under "Other operating expenses"			**1,833,758.77**	**2,056**
Total expenses			**2,678,277,026.66**	**2,783,972**
1. Net loss for the year			**-189,946,101.91**	**-348,876**
2. Loss carryforward from the previous year			**-1,631,040,943.77**	**-1,379,704**
3. Withdrawals from profit participation capital			**16,419,051.56**	**43,188**
4. Withdrawals from silent partnership contributions			**15,205,973.44**	**54,351**
Net accumulated losses			**-1,789,362,020.68**	**-1,631,041**

* Previous year's figure shown in brackets

Income	2010/11 in €	2009/10 in € thousand
1. Interest income from		
a) Lending and money market transactions	2,045,846,609.29	1,911,830
b) Fixed-income securities and debt register claims	199,464,145.27	254,990
	2,245,310,754.56	**2,166,820**
2. Current income from		
a) Equities and other non-fixed-income securities	37,401.69	6,415
b) Investments	1,142,691.41	637
c) Shares in affiliated companies	5,800,000.00	-
	6,980,093.10	**7,052**
3. Income from profit-pooling, profit transfer and partial profit transfer agreements	**849,619.60**	**412**
4. Commission income	**59,890,307.85**	**85,297**
5. Income from reversals of write-downs on investments, shares in affiliated companies and long-term investment securities	**69,232,895.15**	**121,042**
6. Other operating income	**66,435,890.75**	**54,472**
7. Extraordinary income	**39,631,363.74**	**-**
8. Net loss for the year	**189,946,101.91**	**348,876**
Total income	**2,678,277,026.66**	**2,783,972**

Notes

Basis of preparation of the annual financial statements

The annual financial statements of IKB Deutsche Industriebank AG (IKB) for the 2010/11 financial year were prepared in line with the provisions of the *Handelsgesetzbuch* (HGB – German Commercial Code) as amended 1 March 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.

In the previous year, the changes to HGB and RechKredV provisions due to the *Bilanzrechtsmodernisierungsgesetz* (BilMoG – German Act to Modernise Accounting Law) were only taken into account where they were mandatory for the 2009/10 financial year. The Bank did not exercise the option of early voluntary adoption in the previous year. From 1 April 2010, IKB must apply all provisions amended by the BilMoG for the first time (section 66 of the *Einführungsgesetz zum Handelsgesetzbuch* – Introductory Act to the German Commercial Code).

The adoption of the HGB regulations amended by the BilMoG led to changes in measurement and reporting. If the previous form of presentation or the previously applied measurement methods change on account of first-time BilMoG presentation, under section 67 (8) sentence 1 EGHGB, the obligations to retain the same measurement methods as applied in the prior-year financial statements (section 252 (1) no. 6 HGB), to consistency of presentation and structure of the balance sheet and the income statement (section 265 (1) HGB) and to state and justify deviations from accounting policies and to present the effects on the net assets, financial position and results of operations separately (section 284 (2) no. 3 HGB) do not apply.

The following line items were added to the balance sheet as a result of the first-time adoption of BilMoG regulations:

- Assets/liabilities held for trading

  Previously, assets and liabilities held for trading were assigned to the corresponding product-based items in line with RechKredV. Assets and liabilities held for trading are now reported separately as appropriate.

- Deferred tax assets

  Deferred tax assets are now reported separately under a line item of the same name.

- Overfunded plan assets

  Assets to satisfy pension liabilities and the corresponding obligations were previously reported without netting. Under BilMoG regulations, these items are reported net. If this results in a surplus of assets over obligations, this amount is recognised under “Overfunded plan assets”.

The Bank is exercising its right of exemption from the adjustment of prior-year figures on first-time adoption of the BilMoG in line with section 67 (8) sentence 2 HGB.

Accounting policies

(1) Receivables

Loans and advances to banks and customers are reported at nominal amount less specific and global write-downs (provision for possible loan losses). Differences between the nominal and payment amount are taken to deferred income and prepaid expenses and reversed. The receivables acquired from IKB International S.A. are carried at cost less specific and global write-downs.

There are global write-downs for deferred credit risks. The calculation of global write-downs is based on past analyses of the credit portfolio and the tax provisions as set out in the circular by the German Federal Ministry of Finance dated 10 January 1994. According to the IDW statement BFA 1/1990 on the recognition of global write-downs for deferred credit risks in the annual financial statements of banks, the calculation of the deferred risk must be multiplied by a factor that allows for the risk observed in the past to be continued into the future. To take into account the anticipated future defaults and the good general economic conditions, the recession premium was reduced from 63% (at the start of the financial year) to 10% and applied to the global write-downs calculated in line with the tax method. The reduction in the recession premium resulted in a partial reversal of the general loss provision of approximately € 61.7 million.

(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 the line item of the same name.

If these assets (not held for trading) are classified as current assets they are measured at the lower of cost of acquisition or at fair value (strict principle of lower of cost or market). 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.

The long-term investments (securities classified as fixed assets) are predominantly 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, 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. 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 impairment permanent for held-to-maturity securities whose fair value is less than the carrying amount on account of strong spread widening as a result of the current market developments with no discernible deterioration in the credit quality of the underlying receivables or on account of liquidity discounts. Therefore they are not written down to the lower fair value. 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 (CDO) and credit-linked notes (CLN) – on the interpretation of the HGB provisions on the recognition of structured products. Such instruments are only recognised separately in line with the statement on accounting of IDW RS HFA 22 “On the uniform or separate recognition of structured financial instruments” when the underlying instrument is linked to a derivative that is subject to risks other than the credit risk of the issuer (embedded derivative). Based on the “IDW position paper on accounting issues in connection with the subprime crisis”, an embedded credit derivative always exists when dealing with a security for which the credit risk of the reference portfolio was transferred to the issuer with a credit default swap (CDS). If the reference portfolio contains credit default swaps, the derivatives embedded in structured securities were reported in the accounting notes as contingent liabilities. In the event of permanent impairment of these securities on account of pending utilisation of the embedded credit derivative provisions for expected losses from executory contracts are recognised and the contingent liabilities reduced by the same amount. If the reference portfolio contains only receivables or securities, the security is recognised as a single asset in line with the general provisions.

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

Measurement of asset-backed securities (ABS)

When using fair values, price data from an external data provider, which is verified by suitable methods, is used for such securities if possible. A present value is determined for the remaining securities on the basis of contractually agreed cash flows using spreads for securities with similar risk profiles.

Measurement of CDO holdings referencing ABS securities with subprime content in particular

The calculation of impairment requirements on these holdings was changed as at the balance sheet date and is now based on a fundamental value method that enables a detailed loss allocation of the underlying credit portfolio. The change in the measurement method resulted from the consideration of changing market circumstances and the updated risk assessment factors on the part of the rating agencies. In its implementation, this led to new parameters in the measurement method and required a change to the model with which a distinction in losses of market value between merely temporary fluctuations and fundamentally calculated losses can be calculated. The positive effect from the measurement adjustment amounted to € 14.7 million. In the measurement of collateralised debt obligations, which reference ABS securities with subprime content and are recognised at amortised cost, the market value is calculated as the present value on the basis of forecast cash flows. In this process, cash flows are estimated for several default scenarios for the referenced ABS securities. 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.

The fair value for CDO holdings, which reference ABS securities with subprime content in particular, is calculated based on forecast cash flows. To do so, cash flows that are influenced in particular by expected defaults, expected losses given default and the option of early loan repayments are estimated for the underlying reference portfolios. Both empirical historical summaries and published estimates by market participants are used. It was assumed for the expected payments assigned to a specific CDO tranche that repayments of the ABS securities will be assigned to the highest-ranking tranche while losses are assigned to the lowest-ranking tranche. In a further step, the individual CDOs are amalgamated to produce a total cash flow. Simplified assumptions regarding the rankings in the CDO contract (“waterfall”) are taken into consideration. In determining the present value for this total cash flow, an additional discount is also recognised for the lack of market liquidity in these securities.

Measurement of other CDO holdings predominantly referencing securities with company risks

The calculation of impairment requirements on these holdings was changed as at the balance sheet date and is now based on a fundamental value method that enables a detailed loss allocation of the underlying credit portfolio. The change in the measurement method resulted from the consideration of changing market circumstances and the updated risk assessment factors on the part of the rating agencies. This led to new parameters in the measurement method and required a change to the model with which a distinction in losses of market value between merely temporary fluctuations and fundamentally calculated losses can be calculated. As at 31 March 2011, the model changes did not lead to any significant changes in value. The market value of corporate CDO papers, which are recognised at amortised cost, is calculated on the basis of a fundamental valuation. This is based on 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 fair value of these CDO securities is calculated on the basis of the usual methods used by market participants for CDOs. If CDO securities reference other CDOs (CDO^2), these are initially combined into a single CDO with an identical risk profile. Any special features are taken into account when determining the lower and upper limits of the loss participation of the single CDO. The key measurement parameters – CDS spreads and correlations for the underlying company risks – were available on the market or were derived from market data and adjusted to any special features of the portfolio structure.

Measurement of first-to-default products

IKB currently holds securities as fixed assets with first-to-default agreements that predominantly relate to Southern or Eastern European states. The risk of default of the underling individual risks is first estimated. If an individual risk or several individual risks in a first-to-default bond are identified as being at risk of default, the necessary write-down on the first-to-default bond in question is determined using a fundamental measurement model that distinguishes between market losses for which the fluctuation in market value is expected to be temporary and fundamental losses. When a risk of default is identified, the probabilities of default are derived from the ratings for the countries concerned. Taking into account assumptions on correlations, the probability of default is calculated for the security concerned and, taking into account an estimated loss given default, the potential loss is determined for the respective security. The market value is then determined on the basis of the nominal amount of the securities after deduction of the potential loss calculated in line with the procedure described. Given the lack of market prices, the fair value is calculated using a measurement model. This is based on credit spreads and recovery rates available on the market and assumptions on the correlation of risks of financial instruments in the reference portfolio.

Measurement of collateralised loan obligations (CLOs)

Impairment requirements are calculated using a fundamental value model that essentially takes into account the probabilities of default assumed for the credit ratings, the time distribution of defaults during the term of a transaction and, in particular, the structural features of a transaction as regards the payment ranking (“waterfall structures”) for the invested securities. To forecast the future cash flows the expected cumulative rate of default is first determined for the respective securitised credit portfolio. The expected default per borrower is calculated on the basis of default rates taken from rating agency models. In addition, the rates of default for borrowers with certain critical features are increased (notching). The market value is then the present value of the forecast cash flows discounted with the calculated effective interest rate.

Given the lack of market prices, the fair value is calculated using a measurement model for securities recognised at fair value. The contractually agreed cash flows are discounted with an interest rate adjusted to the risk of the reference receivables.

Measurement of the loan to Rio Debt Holdings (Ireland) Limited, Dublin

As part of the restructuring of IKB, structured securities (ABS, RMBS, CDO^2, CDO of ABS) were transferred to the special purpose entity Rio Debt Holdings (Ireland) Limited, Dublin, which is included in the consolidated financial statements, in the 2008/2009 financial year. The assumed junior loan was repaid down to € 1 and transferred, with the equity kicker, to IKB Private Equity GmbH through IKB Beteiligungen GmbH as at 31 January 2011 (IKB PE as a contribution to increase capital reserve). Until it was transferred, IKB bore the first-loss risks of this portfolio. With the transfer of the junior loan, the risks and rewards (including the credit risks in particular) of the structured securities were passed to IKB Beteiligungen GmbH. Thus, the structured securities were also derecognised at the Bank on the disposal of the junior loan. Up to and including the time of transfer, the market value and the fair value of the junior loan and the equity kicker were calculated using a measurement model of the Bank. The starting point for measurement is the fair value and the associated market values on the assets side of the Rio SPE. A rate of default is derived from this for each security, which is used to forecast its cash flows. The market and fair values of the loan are calculated using a portfolio model taking into account correlations and the waterfall structure of the transaction. The fair values for residential mortgage-backed securities and commercial mortgage-backed securities (CMBS) transactions were calculated using the method described above for ABS transactions. The fundamental value of the securities regarding the risk retention from RMBS transactions in the past is determined as the present value of discounted forecast cash flows. The discount factor was the nominal interest rate agreed for the security. The fundamental value in terms of the past CMBS transactions was calculated as the present value of the discounted cash flows of the loans on which the transactions are based. The loan-level analysis takes into account the available information on the loan and property specifics and calculates an expected loss taking into account the derived property value less the outstanding credit volume. The security's spread is taken into account for discounting. All rights and obligations of a junior lender and therefore the minimal remaining risks from the write-down of the portfolio were transferred to IKB PE.

Estimates and forecast uncertainty in connection with measurement models

When using measurement 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 credit standing 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 by used 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 each of the last five years. The Bank has assigned 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 BaFin and the Bundesbank with notifications of change in accordance with section 1a (4) sentence 1 KWG as at 31 March 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 investees and investors are carried at the lower of cost or fair value. They are measured in line with the less strict principle of lower of cost or market value under section 340e (1) 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.

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. An exception to this is assets with a cost of less than € 150, which are immediately recognised in full as an expense. 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. Impairment losses are recognised if expected to be permanent. 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.

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.

Low-value assets with a net value of up to € 150 are written down in full in their year 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) Repurchase agreements

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

(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 (overfunded plan assets).

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.

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 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 2005G 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	5.14%
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).

The Bank exercises the option under section 67 (1) sentence 1 EGHGB to add one fifteenth of the amount needed on account of the change in the measurement of pension obligations each financial year. Following the transition, the outstanding amount to be added is € 57.2 million.

Assets were spun off in previous years and the reporting year to hedge the obligations from pension fund plans (VO) 1979 and 1994, deferred compensation, the early retirement regulation, pension fund plan 2006 and those arising from the work time account model. 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. VO 2006 and the work time account model are so-called securities-linked commitments for which the obligation is carried in the amount of the fair value of the covered funds if a guaranteed minimum amount is exceeded. 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 plan assets over pension liability is reported (see notes 6 and 25). 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 BilMoG interest rate, there are interest expenses of € 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.

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 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. € 21.0 million was reported as interest expenses for compound interest on provisions and € 11.1 million was reported as interest income for the discounting of provisions.

(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 prices. 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 remain unmeasured as a component of the total interest position in the context of generally recognised measurement convention. Any overall excess loss would be recognised as a provision for expected losses.

(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 256 a HGB. Accordingly, the currency translation provisions of section 256a HGB apply to all traders with the provison 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. Thus, foreign currency assets and liabilities are translated at the middle spot exchange rate (ECB reference rate) as at the balance sheet date. 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. This criterion can be considered satisfied in line with IDW ERS BFA 4 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 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.

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. Currency translation is performed at the middle spot exchange rate at the balance sheet date. After calculating the fair value in foreign currency, the trading portfolios are translated at the middle spot exchange rate 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 ERS HFA 35 (draft of an IDW position paper on accounting: hedge accounting under commercial law) 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 (critical term match). It is not permitted to apply the net hedge presentation method to securities-linked pension commitments, which are therefore presented using the gross hedge presentation method.

(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, on account of the amendment to HGB by the BilMoG, any net tax expense resulting from this is recognised as a deferred tax liability and any net tax relief resulting from this is recognised as a deferred tax asset. In calculating deferred tax assets, tax loss carryforwards for the next five years are taken into account in loss offsetting. In the past, deferred taxes have resulted from differences that were due to the different period allocation of expenses and income when calculating net profits for accounting purposes compared to tax purposes. 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 not 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 will 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.

(15) Offsetting in the income statement

The Bank exercises the option provided under section 246 (2) sentence 2 HGB to offset expenses and income from assets for pensions against expenses and income from discounting obligations if the requirements for the netting of assets and obligations are satisfied.

(16) Special matters

Sonderfonds Finanzmarktstabilisierung (SoFFin – Financial Market Stabilisation Fund)

In the past financial year, IKB utilised the guarantee for bonds totalling € 10 billion granted by SoFFin in full. The interest on the bonds was reported under interest expenses and the guarantee commission of

€ 126.2 million was reported under commission expenses. In the reporting year, IKB repaid SoFFin guarantees of € 0.5 billion.

Measurement of the loan to Rio Debt Holdings (Ireland) Limited, Dublin

In December 2008, the Bank transferred structured securities and derivatives to the special purpose entity Rio Debt Holdings (Ireland) Limited, Dublin. In this context, a non-interest bearing junior loan was granted to this special purpose entity that participates in the first loss up to its nominal amount and 80% of possible additional proceeds (equity kicker) in connection with the utilisation of the portfolio by the special purpose entity. Other loans preceding the junior loan were granted by third parties. The above loans have since been repaid except for the additional proceeds attributable to the mezzanine piece of 20%. On account of the amount of the retention of credit risks from the granting of the junior loan, economic ownership was not transferred to the special purpose entity in line with IDW RS HFA 8.

As at 31 January 2011, IKB transferred the junior loan and the associated equity kicker to IKB Private Equity GmbH through IKB Beteiligungen GmbH, Düsseldorf (addition to capital reserve). The transfer was at market value. The transfer resulted in a gain of € 24.8 million. Furthermore, compound interest on the junior loan resulted in interest income of € 88.1 million.

As a result of this transaction, the credit risks of the securities for which legal ownership was already transferred to the Rio Debt Holdings (Ireland) Limited, Dublin, special purpose entity in 2008, were also derecognised at IKB AG. Accordingly, the requirements for derecognition under HFA 8 have been satisfied. Thus, securities in the amount of € 93.4 million and a corresponding liability of € 93.4 million were derecognised.

The securities transferred by the total return swap (carrying amount as at 31 March 2011: € 220.5 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.

IKB performed the following restructuring measures in the financial year to implement the EU’s conditions:

Restructuring provisions

The Bank took obligations of restructuring measures and the expected losses from the settlement of continuing obligations into account by the recognition of provisions reported as other provisions. These amounted to € 15.0 million at the start of the financial year. Of this amount, provisions of € 8.5 million were utilised, € 6.2 million was reversed and € 11.7 million was added in the 2010/11 financial year, resulting in provisions of € 12.0 million as at 31 March 2011. The provisions were measured at the necessary settlement amount unless these were for uncertain obligations. Provisions for executory contracts are recognised in the amount of the obligation surplus. Provisions for obligations with a remaining term of more than one year were discounted using the matched term interest rate on the basis of the RückAbzinsV. The expenses of the restructuring measures are reported under extraordinary expenses and described in note 43.

Purchase of the assets and liabilities, existing and new derivatives business of IKB International S.A. by IKB AG and assumption of the silent partnership interests

In accordance with the EU Commission’s ruling of 21 October 2008, as amended 15 May 2009, IKB International S.A. must be actively wound up by 1 April 2011. In accordance with the conditions of the EU Commission, IKB AG therefore acquired the majority of the derivatives and lending business of IKB International S.A. The business of IKB International S.A. for which customers did not consent to the transfer as required has remained at IKB International S.A. The company became a settlement company effective 1 April 2011. The purchase price for the existing business was the fair value of the assets and liabilities concerned.

Existing business was transferred on the basis of individual purchase agreements at different migration dates in December 2010 and February and March 2011. The purchase price for the existing business was the fair value of the assets and liabilities concerned.

The derivatives business comprises future business with existing customers of IKB International S.A. and with new customers. The purchase price was the fair value, which was calculated on the basis of a measurement of derivatives business performed in line with recognised accounting policies. The payments to IKB International S.A. resulting from the purchase price were used by it to repay liabilities to IKB AG and to dissolve derivatives. As at the balance sheet date, the settlement company has retained assets with a carrying amount of € 167.2 million and executory contracts with a fair value of € 23.2 million.

In connection with the implementation of requirements imposed by the European Commission for the restructuring of IKB, all rights and obligations of a total of three silent participation agreements between IKB International S.A. and Bank Luxembourg S.A. (Deutsche Bank Luxembourg) of 16 November 2000 were transferred from IKB S.A. to IKB AG by way of assumption of agreement on 30 September 2010. Prior to this, the respective meetings of owners had unanimously approved the transfer of the silent participation certificates issued on a trust basis by Deutsche Bank Luxembourg (ISIN XS0119317823, XS0119814456 and XS0119317740). As per agreement, the silent participations that ended on 31 March 2010 were repaid after loss participation in the following amounts on 17 November 2010:

- ISIN XS0119317823 (nominally € 45 million) at € 8.6 million
- ISIN XS0119814456 (nominally € 15 million) at € 2.9 million
- ISIN XS0119317740 (nominally € 10 million) at € 1.9 million

Notes on the balance sheet

(17) 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. 2011	206	5	56	12
	31 Mar. 2010	3,080	9	189	112
Loans and advances to customers					
	31 Mar. 2011	1,334	3,425	11,535	4,226
	31 Mar. 2010	1,736	2,968	11,264	5,904
Liabilities to banks *)					
	31 Mar. 2011	1,923	1,530	5,599	2,276
	31 Mar. 2010	3,135	2,922	4,149	2,720
Liabilities to customers *)					
	31 Mar. 2011	1,572	1,297	1,180	3,692
	31 Mar. 2010	1,935	1,316	1,243	2,561

*) Excluding loans and advances or liabilities payable on demand

€ 637 million (previous year: € 1,395 million) of the bonds and other fixed-income securities reported in the balance sheet are payable in the following year. € 5,445 million (previous year: € 2,584 million) of the bonds issued and reported under securitised liabilities are payable in the following year.

(18) Trading portfolio financial instruments

Assets held for trading break down as follows:

Financial instruments	in € million
Derivatives held for trading	34.3
Receivables	40.3
Less risk deduction	-0.2
Assets/liabilities held for trading	**74.4**

The trading book derivatives are interest swaps, caps/floors/collars, FX swaps, FX options, FX forwards 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 include derivative financial instruments in the amount of € 36.2 million.

The trading portfolio reported a net expense of € 12.9 million for the 2010/11 financial year.

On 31 March 2011, the Bank changed the criteria for allocation to the trading portfolio and notified the BaFin. In future, the results of issue business will be included in the trading portfolio. This has no effect on net trading income for the 2010/11 financial year.

(19) Hedge accounting

The Bank has hedged (micro hedge/fair value hedge) the majority of its foreign currency risk from negative fair values of certain US$ interest swaps in the amount of US$ 251.3 million (HGB carrying amount: € 0.00) by providing collateral (reported under loans and advances to banks) of 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.

(20) Fixed assets

in € million	Cost	Additions	Disposals	Reclassifications	Reversals of write-downs	Cumulative write-downs	Write-downs in financial year	Residual carrying amounts 31 Mar. 2011	Residual carrying amounts 31 Mar. 2010
Tangible assets	34.9	0.6	0.5	-	-	28.0	1.1	7.0	7.6
Intangible assets	50.8	52.3	-	-	-	51.9	6.6	51.2	5.5
Equity investments	12.9	-	-	0.1	-	0.2	0.1	12.8	12.8
Shares in affiliated companies	1,907.0	264.8	90.6	-0.1	5.9	1,009.9	63.4	1,077.1	960.5
Bonds and other fixed-income securities	8,157.3	490.7	1,939.4	-	53.8	424.0	1.1	6,338.4	7,682.5
Equities and other non-fixed-income securities	211.6	42.3	0.0	-214.3	0.4	10.5	7.7	29.5	209.2

Fixed assets include bonds and other fixed-income securities and equities with a volume of € 6.4 billion (previous year: € 7.9 billion). These are predominantly issues by international industrial firms (corporate bonds and credit-linked notes), government bonds, mortgage bonds and CDOs and ABS bonds acquired with the intention to hold to maturity.

In total, long-term investments include hidden charges of € 642.9 million (previous year: € 601.1 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 (€ 3,476 million) and the carrying amounts (€ 4,119 million) of securities holdings with hidden charges to be permanent impairment and therefore no write-downs have been recognised.

The reclassification in the amount of € -214.3 million in securities holdings results from netting and the change in reporting due to the provisions of the BilMoG (see also notes 6, 9 and 25).

The Bank did not reclassify any securities holdings in the 2010/11 financial year.

The carrying amount of shares in affiliated companies and equity investments did not exceed the fair value. The equity holding in IKB Projektentwicklung GmbH & Co. KG was written down in full in the reporting year (€ 62.1 million). A provision of € 1.5 million was recognised to cover further losses for this company. Furthermore, IKB Beteiligungen GmbH dissolved its capital reserve of € 25.0 million and distributed these to IKB AG. In addition, IKB Grundstücks GmbH & Co. Objekt Uerdinger Straße KG and IKB Immobilien Management GmbH were integrated into IKB AG in the reporting year.

Equities and other non-fixed-income securities consist of units in a specialised investment fund within the meaning of the Luxembourg law of 13 February 2007 on specialised investments funds. This is a fund 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 fund is structured as an umbrella fund under section 71 of the law of 2007 and offers 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 fund predominantly invests in government and mortgage bonds of the euro area. The net asset value (fair value) per unit was € 98.34 as at the balance sheet date. The carrying amount is € 98.34 per unit. 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 fund and the availability of its units will be substantially reduced, disrupted or prevented for a time. The management company has not exercised this right to date.

The operating and office equipment is included in tangible assets at € 5.9 million (previous year: € 6.7 million). As in the previous year, this does not include any land or buildings used for banking operations.

In the context of the implementation of the EU conditions, the new derivatives business of IKB International S.A. was acquired and is reported as an intangible asset. The purchase price was determined on the basis of a valuation of new derivatives business. The goodwill is expected to be written down over an individual useful life of ten years, over which it will be utilised.

(21) 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. 2011	31 Mar. 2010	31 Mar. 2011	31 Mar. 2010	31 Mar. 2011	31 Mar. 2010
Bonds and other fixed-income securities	10,533.0	11,548.6	10,491.6	11,261.6	41.4	287.0
Equities and other non-fixed-income securities	29.5	209.2	0.0	0.0	29.5	209.2
Shares in affiliated companies	270.3	265.8	0.0	0.0	270.3	265.8

The decline in equities and other non-fixed-income securities as against the previous year is due to the first-time adoption of the regulations of the BilMoG (see also notes 6 and 9).

(22) Loans and advances to and liabilities to affiliated companies and other investees and investors

in € million	Affiliated companies		Equity investments	
	31 Mar. 2011	31 Mar. 2010	31 Mar. 2011	31 Mar. 2010
Loans and advances to banks	9.3	3,217.9	0.0	0.0
Loans and advances to customers	2,914.3	1,935.1	68.7	96.8
Other assets	1.7	2.6	0.0	0.0
Liabilities to banks	203.0	1,137.9	0.0	0.0
Liabilities to customers	166.3	116.7	1.0	0.5
Other liabilities	65.6	65.1	0.0	0.1
Subordinated liabilities	475.1	475.1	0.0	0.0

(23) Trust activities

in € million	31 Mar. 2011	31 Mar. 2010
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.

(24) Subordinated assets

Subordinated assets are included in the following asset items:

in € million	31 Mar. 2011	31 Mar. 2010
Loans and advances to banks	0.0	150.0
Loans and advances to customers	1,071.5	1,014.4

(25) Overfunded plan assets

The overfunded plan assets breaks down as follows:

Pension system in € million	Plan assets Cost	Plan assets Fair value	Pension liability	Overfunded plan assets
VO 1979 and 1994	207.8	199.9	160.3	39.6
Deferred compensation	4.3	4.0	3.6	0.4
Early retirement	4.5	4.4	5.9	0.0
VO 2006	2.3	4.0	3.5	0.5
Work time account model	1.9	2.0	2.0	0.0
Total	**220.8**	**214.3**	**175.3**	**40.5**

The plan assets are funds within the meaning of the *Investmentgesetz* (InvG – German Investment Act). 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 2010/11 financial year, one fifteenth of the transfer amount was added to the pension provision. The addition not transferred amounted to € 57.2 million in the reporting year.

The plan assets for VO 1979 and 1994 are a German fund within the meaning of the InvG, the units of which are exclusively held by the Bank and Group companies. IKB AG acquired 2,180,375 of a total of 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 € 95.51 as at the balance sheet date. The carrying amount of the units is the fair value. The distribution for the current financial year was € 2.82 per unit. 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 € 214.3 million (previous year: € 209.2 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 costs incurred. Furthermore, they also serve to secure the above obligations in the event of the Bank's insolvency. In the 2010/11 financial year, the CTAs were 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.

(26) Repurchase agreements

As a pension provider, the Bank transferred securities with a nominal value of € 1,486.4 million as at the reporting date. In addition, as a pension recipient, IKB received securities with a nominal value of € 160.8 million that it is authorised to sell on or to re-assign. As at the reporting date, this resulted in loans and advances to banks of € 151.4 million. IKB has utilised € 160.8 million of its authorisation to re-sell these assets. In line with the usual conditions for repo agreements, there is a return obligation in the same amount for the securities received.

(27) 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. 2011	31 Mar. 2010
Assets	3,287.1	4,226.7
Liabilities	2,398.1	2,383.3

(28) Other assets and other liabilities

The significant items under other assets are:

in € million	31 Mar. 2011	31 Mar. 2010
Premiums paid in derivative transactions	256	19
Deferred interest on derivative transactions	41	345
Receivables to KfW	36	0
Receivables from tax authorities	31	38
Receivables from affiliated companies	2	3
Rio Debt Holdings equity kicker	0	92

The significant items under other liabilities are:

in € million	31 Mar. 2011	31 Mar. 2010
Liabilities to special-purpose entities	644	1,309
Up-front fees received	346	58
Liabilities to affiliated companies	65	65
Liabilities from the settlement of payments	17	1
Interest liabilities from subordinated liabilities	16	16
Adjustment item for currency measurement	7	50
Liabilities to tax authorities	7	3
Deferred interest on derivative transactions	0	315

In accordance with IDW RS HFA 8, this item includes liabilities of € 644 million (previous year: € 1,309 million) offset by securities holdings in the same amount as collateral as defined by section 285 no. 1 b) and no. 2 HGB.

Owing to the first-time adoption of the regulations of the BilMoG, deferred interest from derivatives business is reported net.

(29) Prepaid expenses and deferred income

Prepaid expenses include € 51 million (previous year: € 60 million) of discounts from liabilities carried at their nominal value deferred in line with section 250 (3) and section 340e (2) sentence 3. € 8 million of this relates to discounts from assuming the liabilities of IKB International S.A.

Deferred income essentially includes € 37 million (previous year: € 31 million) in differences in accordance with section 250 (2) HGB and section 340e (2) sentence 2 HGB (discounts on receivables recognised at nominal value), € 19 million (previous year: € 27 million) in premiums from interest cap agreements and € 16 million (previous year: € 9 million) in deferred interest income from structured securities. Total discounts include € 15 million from the assumption of receivables from IKB International S.A.

(30) Deferred tax assets

Deferred tax assets in accordance with section 274 HGB are reported in the amount of € 158.0 million (previous year: € 86.6 million) for this financial year. 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.

(31) Pension provisions

The reported pension provisions of € 1.5 million relate to early retirement benefits resulting from the net total of obligations of € 5.9 million and the fund assets of € 4.4 million.

The amount of the obligation that would have to be recognised for the first time on account of the regulations of the BilMoG amounts to € 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	216.9	160.3	56.6
Early retirement obligations	5.9	5.9	0.0
Deferred compensation	3.7	3.6	0.1
VO 2006	4.0	3.5	0.5
Work time account model	2.0	2.0	0.0
Total	**232.5**	**175.3**	**57.2**

(32) Subordinated liabilities

Subordinated liabilities are eligible as equity within the meaning of the *Kreditwesengesetz* (KWG German Banking Act) and represent € 881 million of the Bank's liable equity (previous year: € 972 million). Furthermore, an amount of € 19 million (previous year: € 1 million) that cannot be included in tier II capital is used as tier III equity to back market price risks.

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

The subordinated liabilities amount to € 1.5 billion (previous year: € 1.5 billion). Interest expenses on these amounted to € 49.2 million in the financial year (previous year: € 64.1 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	**Euro**	4.50	9 Jul. 2013
2004/05	400.0	**Euro**	3.89	29 Jul. 2033

(33) Profit participation capital

After loss allocation, profit participation capital amounted to € 86.9 million as at the balance sheet date (previous year: € 103.3 million). € 40.0 million of this amount (previous year: € 51.4 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 € 474.5 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.

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

The profit participation certificates break down as follows:

Year of issue	Original nominal value in € million	Issue currency	Interest rate %	Maturity
2001/2002	100.0	**Euro**	6.50	31 Mar 2012
2001/2002	74.5	**Euro**	6.55	31 Mar 2012
2004/2005	30.0	**Euro**	4.50	31 Mar 2015
2005/2006	150.0	**Euro**	3.86	31 Mar 2015
2006/2007	50.0	**Euro**	4.70	31 Mar 2017
2007/2008	70.0	**Euro**	5.63	31 Mar 2017

After loss participation, interest on profit participation certificates of € 0.1 million was recognised in interest expenses for the financial year 2010/11. Without the net loss for the year or net accumulated losses, interest of € 24.8 million (previous year: € 26.3 million) would have been payable on profit participation certificates in the 2010/11 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.

(34) Fund for general banking risks

Owing to the net loss of the trading portfolio of € 12.9 million, there is no addition to the fund for general banking risks in accordance with section 340e (4) HGB in the 2010/11 financial year. The fund for general banking risks recognised in previous years is reported at the unchanged amount of € 189.6 million.

(35) Development of capital

1. Treasury shares

By a resolution of the Annual General Meeting on 27 August 2009, the Board of Managing Directors was authorised to acquire and sell treasury shares for the purpose of securities trading until 26 February 2011. The amount of shares acquired for this purpose may not exceed 5% of the share capital at the end of any one day. Together with the treasury shares acquired for other reasons held by the Company or assigned to it in accordance with sections 71a ff. AktG, the treasury shares acquired on the basis of this authorisation may not exceed 10% of the share capital at any time. This authorisation was not utilised in the 2010/11 financial year.

In the Annual General Meeting held on 27 August 2009, the Company was also authorised to acquire treasury shares of up to 10% of the share capital for purposes other than securities trading until 26 February 2011. The shares can be acquired on the stock exchange or by way of a public bid to all shareholders. The acquisition of shares may be carried out using put or call options. Such share acquisitions are limited to shares of a maximum volume of 5% of the share capital at the time of the resolution on this authorisation by the Annual General Meeting on 27 August 2009. The terms of the options must end no later than on 26 February 2011. Together with the treasury shares acquired for trading purposes and other reasons held by the Company or assigned to it in accordance with sections 71a ff. AktG, the treasury shares acquired on the basis of these authorisations may not exceed 10% of the share capital of the Company at any time. In line with a decision by the Board of Managing Directors, the acquired shares can be sold on the stock exchange or in some other way or, in full or in part, called in. These authorisations were not utilised in the 2010/11 financial year.

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 may not exceed 5% of the share capital at the end of any one day. Together with the treasury shares acquired for other reasons held by the Company or assigned to it in accordance with sections 71a ff. AktG, the treasury shares acquired on the basis of this authorisation may not exceed 10% of the share capital at any time. This authorisation was not utilised in the 2010/11 financial year. The authorisation to acquire treasury shares for the purpose of securities trading granted by the Annual General Meeting on 27 August 2009 and limited until 26 February 2011 was revoked by way of resolution of the Annual General Meeting on 26 August 2010 for the period from the new authorisation coming into effect.

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 the end of 25 August 2015. The shares can be acquired on the stock exchange or by way of a public bid to all shareholders. The acquisition of shares may be carried out using put or call options. Such share acquisitions are limited to shares of a maximum volume of 5% of the share capital at the time of the resolution on this authorisation by the Annual General Meeting on 26 August 2010. The terms of the options must end 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 may not exceed 10% of the share capital of the Company at any time. In line with a decision by the Board of Managing Directors, the acquired shares can be sold on the stock exchange or in some other way or, in full or in part, called in. This authorisation was not utilised in the 2010/11 financial year. The authorisation to acquire and use treasury shares in line with section 71 (1) no. 8 AktG granted by the Annual General Meeting on 27 August 2009 and limited until 26 February 2011 was revoked by way of resolution of the Annual General Meeting on 26 August 2010 for the period from the new authorisation coming into effect.

No treasury shares were held in the 2010/11 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 2010/11 financial years. The authorised capital was entered in the commercial register on 3 November 2008.

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

By way of resolution of the Annual General Meeting of IKB AG on 28 August 2008, the Board of Managing Directors was authorised to issue convertible and/or option bonds with a total nominal 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 subordinated bonds with a total nominal value of up to € 123,671,070.72 with a contingent conversion obligation and contingent conversion right for up to 48,309,012 shares 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 right have been met. As a result, a conversion right has existed since this time. A conversion obligation shall exist not later than on 11 April 2012, or earlier if the Company falls below certain regulatory financial ratios. LSF6 Rio S.à.r.l. exercised its conversion right in full on 2 July 2009. 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.

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/or option bonds with a total nominal value of € 900,000,000.00 by 24 March 2014 and to grant the bearers of profit participation certificates or bonds conversion or option rights to shares of the Company with a stake of up to € 618,749,990.40 in the share capital according to the relevant bond conditions. The residual authorisation of 28 August 2008 to issue convertible and/or 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 on which a verdict has not yet been reached. The resolution has not yet been entered in the commercial register.

By way of resolution of the Annual General Meeting of 26 August 2010, the share capital contingently increased by up to € 229,102.08 (Contingent Capital 2008) still existing from the resolution of the Annual General Meeting of 28 August 2008 was lowered to a maximum of € 150,174.72 comprising up to 58,662 new no-par value bearer shares with an entitlement to profits starting from the beginning of the financial year in which they are issued. Otherwise, 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/or option bonds or combinations of these instruments (referred to together as "bonds" hereafter) with a total nominal value of up to € 400,000,000.00 on one or several occasions, with or without a limited term in each case, until 25 August 2015, and to grant the bearers of bonds conversion or option rights to subscribe to a maximum of 74,874,422 no-par value bearer shares of the Company with a proportionate amount of the share capital totalling up to € 191,678,520.32 in accordance with the terms of issue of the bonds. This authorisation was not utilised in the 2010/11 financial year. The resolution was entered in the commercial register on 8 November 2010.

3. Capital reserve

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

4. Revenue reserves

Revenue reserves increased by € 21.8 million to a total of € 24.2 million in the financial year on account of the first-time adoption of the regulations of the BilMoG.

5. Hybrid capital instruments (silent partnership contributions)

As at 31 March 2011, the hybrid tier I capital after loss allocation amounted to € 0.6 million (previous year: € 15.8 million). It meets the requirements of section 10 (4) KWG and is therefore attributed to regulatory tier I capital. Its nominal value is unchanged at € 400 million.

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

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

The loss ratio is calculated by the ratio of the silent partner contribution to balance sheet equity including profit participation certificates. The repayment claims of the silent partners were reduced by € 15.2 million in the financial year as a result of the loss participation. The replenishment of the repayment amount after a loss participation is expressly provided for when certain conditions are met.

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

6. Development of capital

in € million	1 Apr. 2010	Withdrawals		Additions		Distribution of loss for year	31 Mar. 2011
a) Subscribed capital							
Share capital	1,621.3	0.0		0.0		0.0	1,621.3
b) Silent partnership contribution	15.7	-15.2	1)	0.0		0.0	0.6
	1,637.0	-15.2		0.0		0.0	1,621.9
c) Capital reserve	1,750.7	0.0		0.0		0.0	1,750.7
d) Revenue reserves							
da) Legal reserve	2.4	0.0		0.0		0.0	2.4
dd) Other revenue reserves	0.0	0.0		21.9	2)	0.0	21.9
	2.4	0.0		21.9		0.0	24.3
e) Net accumulated losses	-1,631.0	0.0		0.0		-158.4	-1,789.4
Capital	**1,759.1**	**-15.2**		**21.9**		**-158.4**	**1,607.5**
For information purposes:							
Unutilised							
authorised capital[3)]	500.0	0.0		0.0		0.0	500.0
contingent[3)]	0.2	0.0		191.7		0.0	191.9

Some totals may be subject to discrepancies due to rounding differences.
1) Loss participation of the silent partnership contributions for the 2010/11 financial year
2) Recognition of deferred taxes in equity due to BilMoG transition
3) 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 35.

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 € 2.7 billion (previous year: € 3.0 billion). The calculation of equity assuming the set balance sheet values produced a value of € 2.6 billion (previous year: € 2.8 billion).

Distribution restriction

The distribution restrictions break down as follows:

in €	Deferred tax assets	Deferred tax liabilities	Amounts reserved for distribution
Internally generated intangible assets	0.00	0.00	0.00
Unrealised gains on plan assets for pensions	0.00	-5,863.00	-5,863.00
Recognition of deferred taxes	164,707,499.45	-6,701,636.45	158,005,863.00
Total	**164,707,499.45**	**-6,707,499.45**	**158,000,000.00**

(36) 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 2011:

Date of change	Notifying party	Location	Threshold reached, exceeded or fallen below	Held directly	Held in-directly	Total
29 October 2008	John P. Grayken	USA	Thresholds 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)	Thresholds 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)	Thresholds 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)	Thresholds 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)	Thresholds 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)	Thresholds of 3% and 5% exceeded	7.62%		7.62%
15 July 2009	Lone Star Capital Investments S.à.r.l.	Luxembourg (Luxembourg)	Thresholds of 3% and 5% exceeded		7.62%	7.62%
15 July 2009	Lone Star Global Holdings, Ltd.	Hamilton (Bermuda)	Thresholds of 3% and 5% exceeded		7.62%	7.62%
20 July 2009	LSF6 Rio S.à.r.l.	Luxembourg (Luxembourg)	Thresholds of 5% and 3% fallen below	0%		0%
20 July 2009	Lone Star Capital Investments S.à.r.l.	Luxembourg (Luxembourg)	Thresholds of 5% and 3% fallen below		0%	0%
20 July 2009	Lone Star Global Holdings, Ltd.	Hamilton (Bermuda)	Thresholds of 5% and 3% fallen below		0%	0%

(37) Contingent liabilities/other obligations

On the balance sheet date, contingent liabilities of € 1,659.2 million (previous year: € 2,318.0 million) also included credit default swaps (Bank as pledgor) under guarantees and warranties. Here, IKB has assumed the default risk for a pre-defined credit event for specific credit portfolios.

On 31 March 2011, the “Other obligations” line item of € 1,443.0 million (previous year: € 2,016.7 million) included commitments of up to one year of € 611.7 million and commitments of more than one year of € 831.3 million.

Furthermore, derivative components of structured products (CDS) reported under “Bonds and other fixed-income securities” are also included in the item “Liabilities from guarantee and warranty agreements” at € 0.8 billion (previous year: € 1.2 billion). Provisions of € 0.2 billion (previous year: € 0.5 billion) were recognised for these products as part of the measurement of embedded CDS transactions reported off-balance sheet.

In the current financial year, maximum default and proportionate default guarantees of € 433.3 million were revoked by mutual consent as part of a contractual agreement between IKB AG and IKB International S.A.

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.

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

Notes on the income statement

(38) 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	2010/11	2009/10
Federal Republic of Germany	2,278.6	2,015.3
Europe not including Germany	87.2	298.8
Total	2,365.8	2,314.1

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

(39) 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.

(40) Other operating income

Other operating income essentially includes the income from the disposal of the first loss piece and the equity kicker of Rio Debt Holdings (Ireland) Limited, Dublin, in the amount of € 24.8 million, overheads charged to Group companies of € 7.2 million (previous year: € 5.8 million), income from the reversal of provisions of € 18.3 million (previous year: € 39.4 million), income from the changes in earnings components regarding the pension obligations of € 6.6 million and income from the reimbursement of foreign lawyers’ fees by the KfW of € 4.6 million. € 4.8 million of the income from the reversal of provisions relates to the 2009/2010 financial year.

(41) Other operating expenses

This item essentially includes the following:

in € million	2010/2011	2009/2010
Rental expenses	15.9	4.1
Currency gains from non-trading book transactions	3.6	0.0
Addition to provision for expected losses	1.6	1.5
Catering, entertainment and canteen expenses	1.0	1.1
Repayment obligation for advance distribution	-	8.0

(42) Expenses from loss absorption

This relates solely to the loss transfer of IKB Beteiligungen GmbH of € 57.5 million (previous year: € 57.4 million).

(43) 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 € 8.0 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 € 3.4 million. This includes expenses for the termination of employment agreements, provisions for vacancy costs in rental premises and for early retirement obligations. The transfer of assets and liabilities in relation to IKB International S.A. Luxembourg (see note 4) resulted in an expense of € 4.9 million.

The extraordinary expenses due to the BilMoG break down as follows:

in € million	2010/2011
Transition in pension provisions/early retirement	4.2
Transition in taxes	0.6
Transition in anniversary provisions	0.4
Total	**5.2**

The extraordinary income due to the BilMoG breaks down as follows:

in € million	2010/2011
Income from currency translation	13.7
Transition in trading portfolio (value-at-risk)	0.9
Total	**14.6**

(44) Income taxes

Income from taxes on income of € 53.3 million (previous year: € 6.0 million) was incurred in the reporting year.

In particular, the income results from the recognition of deferred tax assets in the amount of € 51.8 million. Taxes on income relate exclusively to the ordinary activities of the Bank.

Other disclosures

(45) List of shareholdings of IKB Deutsche Industriebank

List of shareholdings of IKB Deutsche Industriebank AG in accordance with section 285 no. 11 and 11a HGB and section 313 (2) HGB		Financial year 2010/2011 (31 Mar. 2011) Financial year	Letter of comfort	Equity interest in %	Equity in € thousand	Result in € thousand
1	German companies					
	Aleanta GmbH, Düsseldorf	1 Apr. - 31 Mar.		100.0	51,099	6,721
	Equity Fund GmbH, Düsseldorf	1 Apr. - 31 Mar.		100.0	13,521	0
	Erste Equity Suporta GmbH, Düsseldorf	1 Apr. - 31 Mar.		100.0	1,183	0
	ICCO Grundstücks-Vermietungsgesellschaft mbH, Düsseldorf	1 Apr. - 31 Mar.	X	100.0	48	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	677,071	0
	IKB Data GmbH, Düsseldorf	1 Apr. - 31 Mar.	X	100.0	15,000	0
	IKB Equity Capital Fund GmbH, Düsseldorf	1 Apr. - 31 Mar.	X	100.0	29,243	-7,469
	IKB Grundstücks GmbH & Co.Objekt Hamburg KG, Düsseldorf	1 Jan. - 31 Dec.	X	100.0	2,457	-763 [3)]
	IKB Grundstücks GmbH & Co.Objekt Holzhausen KG, Düsseldorf	1 Jan. - 31 Dec.	X	100.0	4,392	835 [3)]
	IKB Grundstücks GmbH, Düsseldorf	1 Jan. - 31 Dec.	X	100.0	127	6
	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	45,025	0
	IKB Private Equity GmbH, Düsseldorf	1 Apr. - 31 Mar.	X	100.0	238,039	0
	IKB Projektentwicklung GmbH & Co. KG, Düsseldorf	1 Jan. - 31 Dec.	X	100.0	-7,879	-2,310 [3)]
	IKB Projektentwicklungsverwaltungsgesellschaft mbH, Düsseldorf	1 Jan. - 31 Dec.	X	100.0	30	1
	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	2,888	428
	ISOS Grundstücks-Vermietungsgesellschaft mbH, Düsseldorf	1 Apr. - 31 Mar.	X	100.0	48	0
	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	76	-11
	ISTOS Dritte Beteiligungsverwaltungs- und Grundstücks-Vermietungsgesellschaft mbH & Co. KG, Düsseldorf	1 Jan. - 31 Dec.		100.0	280	-9 [3)]
	ISTOS Erste Beteiligungsverwaltungs- und Grundstücks-Vermietungsgesellschaft mbH & Co. KG, Düsseldorf	1 Jan. - 31 Dec.	X	100.0	35	-11 [3)]
	ISTOS Zweite Beteiligungsverwaltungs- und Grundstücks-Vermietungsgesellschaft mbH & Co. KG, Düsseldorf	1 Jan. - 31 Dec.		100.0	145	-9 [3)]
	Projektbeteiligung TH GmbH & Co. KG, Düsseldorf	1 Jan. - 31 Dec.		89.8	-67	-2
	Tempelhofer Hafen GmbH, Düsseldorf	1 Jan. - 31 Dec.		94.9	24,080	-204
	Zweite Equity Suporta GmbH, Düsseldorf	1 Jan. - 31 Dec.		100.0	70,080	0
2	Foreign companies					
	IKB Capital Corporation, New York	1 Apr. - 31 Mar.		100.0	10,439	214
	IKB Finance B.V., Amsterdam	1 Apr. - 31 Mar.	X	100.0	-2,797	-4,725
	IKB Funding LLC II, Wilmington	1 Apr. - 31 Mar.	X[2)]	100.0	408,532	13,056
	IKB Funding LLC I, Wilmington	1 Apr. - 31 Mar.	X[2)]	100.0	75,587	1,713
	IKB International S.A., Luxembourg	1 Apr. - 31 Mar.	X	100.0	325,901	143,020
	IKB Leasing Austria GmbH, Vienna	1 Jan. - 31 Dec.	X	100.0	405	70
	IKB Leasing CR s.r.o., Prague 9	1 Jan. - 31 Dec.	X	100.0	2,527	591
	IKB Leasing Finance IFN SA, Bucharest	1 Jan. - 31 Dec.	X	100.0	2,038	-544
	IKB Leasing France S.A.R.L., Marne La Vallée Cedex 4	1 Jan. - 31 Dec.	X	100.0	724	-1,979
	IKB Leasing geschlossene Aktiengesellschaft, Moscow	1 Jan. - 31 Dec.	X	100.0	-201	-1,961
	IKB Leasing Korlátolt Felelösségü Társaság , Budapest	1 Jan. - 31 Dec.	X	100.0	-240	-840
	IKB Leasing Polska Sp.z.o.o, Poznan (Posen)	1 Jan. - 31 Dec.	X	100.0	7,170	1,133
	IKB Leasing S.R.L., Bucharest/sector 1	1 Jan. - 31 Dec.	X	100.0	289	-119
	IKB Leasing SR, s.r.o., Bratislava	1 Jan. - 31 Dec.	X	100.0	990	-164
	IKB Lux Beteiligungen S.à.r.l, Luxembourg	1 Apr. - 31 Mar.	X	100.0	55,370	440
	IKB Pénzügyi Lízing zártkörüen müködö Részvénytársaság, Budapest	1 Jan. - 31 Dec.	X	100.0	339	-255
	STILL LOCATION S.à.r.l., Marne La Vallee Cedex 4	1 Jan. - 31 Dec.	X	100.0	11,440	-3,175

		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, Norderfriedrichskoog	1 Jan. - 31 Dec.		100.0
	Büroprojekt dritte GmbH & Co. KG i.L., Düsseldorf	1 Jan. - 31 Dec.		100.0
	Büroprojekt dritte Verwaltungsgesellschaft mbH i.L., Düsseldorf	1 Jan. - 31 Dec.		100.0
	Büroprojekt erste Verwaltungsgesellschaft mbH i.L., Düsseldorf	1 Jan. - 31 Dec.		100.0
	Büroprojekt fünfte Verwaltungsgesellschaft mbH i.L., Düsseldorf	1 Jan. - 31 Dec.		100.0
	Büroprojekt sechste Verwaltungsgesellschaft mbH, Düsseldorf	1 Jan. - 31 Dec.		100.0
	Büroprojekt siebte 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, Norderfriedrichskoog	1 Jan. - 31 Dec.		100.0
	Elfte BauB 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
	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 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
	Iventus Real Estate Invest GmbH & Co. KG, Düsseldorf	1 Jan. - 31 Dec.		90.0
	Logistikprojekt vierte Verwaltungsgesellschaft mbH i.L., Düsseldorf	1 Jan. - 31 Dec.		100.0
	Logistikprojekt zweite Verwaltungsgesellschaft mbH i.L., Düsseldorf	1 Jan. - 31 Dec.		100.0
	MFRSI Beteiligungsholding Verwaltungsgesellschaft mbH, Düsseldorf	1 Jan. - 31 Dec.		100.0
	Objekt Pankow GmbH & Co. KG, Düsseldorf	1 Jan. - 31 Dec.		94.9
	Objekt Pankow Verwaltungsgesellschaft mbH, 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, Düsseldorf	1 Jan. - 31 Dec.		100.0
	Restruktur 2 GmbH, Düsseldorf	1 Apr. - 31 Mar.		100.0
	Robert Adams Str. 12 London GmbH, Norderfriedrichskoog	1 Jan. - 31 Dec.		100.0
	TERMES GmbH i.L., Düsseldorf	1 Jan. - 31 Dec.		100.0
	TUSSA Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Wilhelm-Bötzkes-Straße KG, Pullach i. Isartal	1 Jan. - 31 Dec.		100.0
4	**Other foreign companies (not included due to immateriality) 1)**			
	Arche G.m.b.H., Luxembourg	1 Apr. - 31 Mar.		100.0
	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
5	**German associated companies 1)**			
	Linde Leasing GmbH, Wiesbaden	1 Jan. - 31 Dec.		30.0
	MD Capital Beteiligungsgesellschaft mbH, Düsseldorf	1 Jan. - 31 Dec.		50.0
6	**German associated companies (not included due to immateriality) 1)**			
	4 Wheels Service + Logistik GmbH, Düsseldorf			38.4
	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
	Brunnenstraße 105-109 Berlin Grundbesitz GmbH, Münster	1 Jan. - 31 Dec.		50.0
	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., Frankfurt	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
	OPS-INGERSOLL Funkenerosion GmbH, Burbach	1 Apr. - 31 Mar.		44.7
	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

		Financial year	Letter of comfort	Equity interest in %
7	**Foreign associated companies (not included due to immateriality)** [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
	MM - Mezzanine S.à.r.l. i.L., Luxembourg	1 Jan. - 31 Dec.		50.0
	MM - Mezzanine SCS, SICAR i.L., Luxembourg	1 Jan. - 31 Dec.		50.0
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
	visionapp AG, Eschborn	1 Jan. - 31 Dec.		13.4
9	**Foreign equity investments in large corporations in which the interest exceeds 5% of voting rights** [1]			
	Old HG Limited, Berkshire			6.1
	PSE Newco Limited, Yeadon Leeds			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, Munsbach			
	Partner Fonds Europa Renten Teilfonds I, Luxembourg			
	Partner Fonds Europa Renten Teilfonds II, 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.
2) Subordinated letters of comfort
3) Company exercised exemption under section 264b HGB and did not prepare notes

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

The following fees were paid for the auditor:

Audits of financial statements in € million	**2010/11**	**2009/10**
Audits of financial statements	4.4	2.5
Other assurance services	0.8	1.3
Tax advisory services	0.1	0.0
Other services	0.9	0.5
Total	**6.2**	**4.3**

The Audit of financial statements relates to audit fees for the annual financial statements and the consolidated financial statements of IKB.

(47) Other financial obligations

Other financial obligations essentially relate to rental, lease and other agreements and amounted to a total of € 288.9 million (previous year: € 262.7 million) on 31 March 2011. € 0.7 million (previous year: € 1.1 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. € 256.3 million (previous year: € 243.2 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 executory contracts for the event that the expenses exceed the benefit of the rental agreement. The risk or opportunity lies in the fact that after the end of a limited rent agreement, the contract can be extended or a follow-up agreement can be concluded at less advantageous or more advantageous conditions.

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 € 9.1 million (previous year: € 8.4 million).

Purchase commitments for services

The Bank has concluded service agreements for ongoing banking operations. The obligations to purchase services occurring after 31 March 2011 amount to € 16.4 million (previous year: € 2.8 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.

Obligation to pay contributions for Liquiditäts-Konsortialbank GmbH

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

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.

(48) Off-balance sheet transactions

The version of the German Commercial Code as amended in line with the German Act to Modernise Accounting Law 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 purpose of the special purpose entities was a transfer of assets and risks or the generation of liquidity. Please see the descriptions of our special purpose entities Bacchus 2008-1 and Bacchus 2008-2 (note 8).

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) or the provision of lines of credit without this economically leading to an assumption of the credit risks of the transferred receivables. 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 € 685 million. Guarantees were issued in some cases which are reported in the relevant off-balance sheet line items (see note 37). 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 52 and 53).

(49) 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.

(50) 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 in the 2010/11 financial year.

IKB Projektentwicklung GmbH & Co. KG, Düsseldorf, issued a letter of comfort to a private person in connection with the letting of shop space in the amount of € 340 thousand for ilmenau center GmbH & Co. KG, Lüneburg.

(51) Transfer of collateral for own liabilities

Fixed-interest securities in the amount of € 6.1 billion (previous year: € 3.4 billion) have been assigned as collateral for the ECB tender business and for the GC Pooling (collateral pool) to Eurex Repo GmbH. In addition, credit receivables were lodged at Deutsche Bundesbank in the amount of € 0.6 billion (previous year: € 0.6 billion). For the first time as at 31 March 2011, securities in the amount of € 0.5 billion were lodged with SIX SIS Ltd., Switzerland, as collateral for repo transactions with various Swiss counterparties.

At the balance sheet date, credit facilities totalling € 2.2 billion had been utilised (previous year: € 1.8 billion).

Cash collateral in the amount of € 1.5 billion (previous year: € 1.2 billion) was assigned to various banks for OTC derivatives as part of collateral management.

Securities with a nominal value of € 197.0 million (previous year: € 240.0 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 in the amount of € 87.4 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 total value of € 141.0 million (previous year: € 124.0 million) were pledged as collateral to various banks to hedge global loans.

Securities in the amount of € 1.4 billion were transferred in genuine repurchase agreements as at the reporting date (previous year: € 1.4 billion).

In line with IDW RS HFA 8, legally transferred receivables are considered as an assignment of collateral to secure a received loan if there is no balance sheet disposal. These include loans and advances to customers of € 276.3 million (previous year: € 464.3 million) for the special-purpose entity Bacchus 2008-1 and of € 367.2 million (previous year: € 395.8 million) for the special-purpose entity Bacchus 2008-2.

(52) 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 constantly 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 2011 of € -1,196.0 million (previous year: € -1,064.4 million). The negative fair values of these derivatives in credit refinancing business are offset by the positive fair values (above nominal value) 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. It is used to secure the Bank's liquidity and therefore it predominantly includes securities used by the ECB under GC pooling as collateral for tender transactions. Investments are predominantly 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.

(53) Fair values of derivatives

Non-trading book derivatives:

Derivatives business in € million	Nominal	Fair value		
	31 Mar. 2011	Positive 31 Mar. 2011	Negative 31 Mar. 2011	Total
Interest rate swaps	46,509.2	620.5	-1,787.8	-1,167.3
Swap options	1,040.0	10.4	-9.7	0.7
Forward interest rate swaps	2,767.4	12.9	-30.8	-17.8
Caps/floors	976.2	6.4	-6.6	-0.2
Bond options	0.2	0.1	0.0	0.1
Forward bonds	60.0	0.0	-0.8	-0.8
Forward forward deposits	1.2	0.0	0.0	0.0
Forward rate agreements	3,068.4	0.0	-2.0	-2.0
FX swaps	523.4	8.8	-1.5	7.3
FX options	210.4	10.0	-7.8	2.1
Currency swaps	1,120.3	81.5	-97.9	-16.3
Currency forwards	59.6	0.9	-2.7	-1.8
Credit derivatives	1,694.8	0.3	-306.3	-306.0
of which: embedded derivatives*	(992.9)	(0.0)	(-286.2)	(-286.2)
Bid-ask effects	0.0	0.0	-7.8	-7.8
Total	**58,031.2**	**751.8**	**-2,261.7**	**-1,509.8**

* Provisions of € 194 million were recognised as a provision for possible loan losses for embedded derivatives.

Trading book derivatives:

Derivatives business in € million	Nominal 31 Mar. 2011	Fair value Positive 31 Mar. 2011	Negative 31 Mar. 2011	Total
Interest rate swaps	1,785.3	25.2	-22.6	2.7
Swap options	624.7	0.8	-1.3	-0.5
Forward interest rate swaps	664.7	4.2	-8.2	-4.0
Caps/floors	210.0	0.9	-0.9	0.0
Bond options	0.0	0.0	0.0	0.0
Forward bonds	0.0	0.0	0.0	0.0
Forward forward deposits	0.0	0.0	0.0	0.0
Forward rate agreements	0.0	0.0	0.0	0.0
FX swaps	47.5	0.2	-1.0	-0.9
FX options	105.8	0.6	-0.2	0.4
Currency swaps	0.0	0.0	0.0	0.0
Currency forwards	110.9	2.4	-2.0	0.4
Credit derivatives	0.0	0.0	0.0	0.0
of which: embedded derivatives*	0.0	0.0	0.0	0.0
Bid-ask effects	0.0	0.0	0.0	0.0
Total	**3,548.9**	**34.3**	**-36.2**	**-1.9**

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

(54) Remuneration and loans to executive bodies

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

(55) Remuneration of the Board of Managing Directors

For the 2010/11 financial year, the remuneration of the Board of Managing Directors breaks down as follows: € 2.0 million relates to fixed remuneration, € 2.6 million – subject to a resolution by the Supervisory Board – to variable remuneration, € 0.2 million to pension compensation and € 44 thousand to additional benefits. The variable remuneration for the 2010/11 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 2010/11 financial year, the portion of these bonuses relating to the period from 1 April 2010 to 31 December 2010 will become payable after the expiry of the SoFFin guarantees. Only the portion relating to the period from 1 January 2011 to 31 March 2011 will be paid three bank working days after the adoption of the consolidated financial statements (see remuneration report in the management report). 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 2010/11 financial year will amount to € 4.9 million.

After the end of the remuneration restriction period stated in the SoFFin conditions, the meeting of the Supervisory Board on 10 March 2011 set the variable remuneration of the three members of the Board of Managing Directors currently in office for the 2009/10 financial year at € 2.6 million and at € 1.6 million for the 2008/09 financial year. However, owing to the SoFFin conditions, the variable remuneration for the financial years 2008/09 and 2009/10 will not be paid until after the last SoFFin guarantees have expired. The granting of bonuses is also subject to the proviso of any instructions from the BaFin.

(56) 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 € 3.2 million (previous year: € 3.3 million). In the 2010/11 financial year, € 42.4 million was recognised for pension obligations to former members of the Board of Managing Directors and their surviving dependents (previous year: € 37.2 million).

In addition, Dr. Reinhard Grzesik, member of the Board of Managing Directors who left on 3 July 2009, was also paid variable remuneration for his work in the period from 1 April to 3 July 2009 in the 2010/11 financial year in the amount of his contractually agreed pro rata temporis minimum bonus of € 101 thousand.

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

(57) Remuneration of the Supervisory Board

The total remuneration of the members of the Supervisory Board (including VAT) for the 2010/11 financial year amounted to € 257 thousand (previous year: € 254 thousand). This includes expenses of € 10 thousand (previous year: € 10 thousand).

(58) Remuneration of the Advisory Board

The members of the Advisory Board received € 174 thousand (previous year: € 329 thousand), including VAT.

(59) 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).

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

	2010/11	**2009/10**
Men	675	662
Women	353	389
Total	**1,028**	**1,051**

(61) Corporate governance

The Board of Managing Directors and the Supervisory Board of the Bank issued the annual declaration of conformity in accordance with section 161 AktG on 10 March 2011 and made this permanently available to the shareholders on the company's website, www.ikb.de.

(62) 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. This Ordinance was passed by the Federal Cabinet and submitted to the German Bundestag for adoption.

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).

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). The law does not currently restrict post-assessment amounts in terms of time or amount.

IKB's annual contribution amounts to € 8.5 million. On account of its results for the 2009/10 financial year, IKB must pay only the minimum contribution of € 0.4 million, which has been recognised in full as a provision as of 31 March 2011 as the legislation process has not yet been concluded.

(63) 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 control 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)*
MHB-Bank Aktiengesellschaft (Chairman) (until 8 March 2011)
Düsseldorfer Hypothekenbank AG (Deputy Chairman) (since 7 December 2010)

Deputy Chairman

Dr Karsten von Köller, Frankfurt
Chairman Lone Star Germany GmbH

a) *Düsseldorfer Hypothekenbank AG (Chairman) (since 7 December 2010)*
MHB-Bank Aktiengesellschaft (Chairman) (since 8 March 2011)
COREALCREDIT BANK AG (Deputy Chairman)

b) *W.P. Carey & Co. LLC*

Members

Stefan Baustert, Krefeld
Management consultant

a) *NYCON ENERGY AG (Deputy Chairman) (since 21 June 2010)*
b) *AptarGroup*

Wolfgang Bouché, Düsseldorf *(until 31 January 2011)*
Employee representative

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

a) *COREALCREDIT BANK AG*

Dr Lutz-Christian Funke, Frankfurt
Director of KfW, Head of Corporate Management 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) *Praktiker Bau- und Heimwerkermärkte Holding AG*
Praktiker Deutschland GmbH
mateco AG

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

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

a) *DEKRA SE*
KOSTAL Verwaltungsgesellschaft mbH

b) *DAL Deutsche Afrika Linien GmbH & Co. KG (since 1 April 2010)*
DEG – Deutsche Investitions- und Entwicklungsgesellschaft mbH
LEWA Attendorn GmbH

Bernd Klein, Düsseldorf (since 1 February 2011)
Employee representative

Jürgen Metzger, Düsseldorf (until 26 August 2010)
Employee representative

Dr Claus Nolting, Munich
CEO of COREALCREDIT BANK AG

Dr Thomas Rabe, Berlin
Member of the Board & CFO of Bertelsmann AG

a) *BMG RM Germany GmbH (Chairman)*
Arvato AG (Deputy Chairman)
Druck- und Verlagshaus Gruner + Jahr Aktiengesellschaft
Symrise AG

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. (since 20 April 2010)

Dr Carola Steingräber, Berlin (since 26 August 2010)
Employee representative

Carmen Teufel, Stuttgart
Employee representative

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

a) *Düsseldorfer Hypothekenbank AG (since 7 December 2010)*

Ulrich Wernecke, Düsseldorf
Employee representative

Andreas Wittmann, Munich
Employee representative

Board of Managing Directors

Hans Jörg Schüttler
(Chairman)

b) *IKB Autoleasing GmbH*
IKB International S.A. (from 26 August 2009 to 31 March 2011)
IKB Leasing Berlin GmbH
IKB Leasing GmbH#
IKB Private Equity GmbH

Dr Dieter Glüder

b) *IKB Data GmbH (Chairman)*
IKB Immobilien Management GmbH (Chairman) (until 25 March 2011)
IKB International S.A. (Chairman) (until 31 March 2011)

Claus Momburg

b) *MD Capital Beteiligungsgesellschaft mbH (Chairman)*
IKB Autoleasing GmbH
IKB International S.A. (until 31 March 2011)
IKB Leasing Berlin GmbH
IKB Leasing GmbH
IKB Private Equity GmbH

Dr Michael H. Wiedmann

b) *IKB Private Equity GmbH (Chairman)*
Argantis GmbH (until 26 July 2010)
IKB Autoleasing GmbH
IKB Capital Corporation (until 28 April 2010)
IKB Leasing Berlin GmbH
IKB Leasing GmbH

Offices held by employees

As at 31 March 2011, the following employees were represented in the statutory supervisory boards of large corporations:

Dr Reiner Dietrich
Tricor Packaging & Logistics AG

Frank Kraemer
ae group ag (until 15 July 2010)

Dr Annette Littmann
Dortmunder Stadtwerke AG (until 25 June 2010 and from 7 September 2010)

Klaus Runzer
ae group ag (from 8 December 2010)
Oechsler AG (since 22 February 2011)

Christian Schaumkell
Oechsler AG (until 31 December 2010)

Düsseldorf, 19 May 2011

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 the IKB Deutsche Industriebank Aktiengesellschaft, Düsseldorf, for the business year from April 1, 2010 to March 31, 2011. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law are the responsibility of the Company's Board of Managing Directors. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

We conducted our audit of the annual financial statements in accordance with § (Article) 317 HGB ("Handelsgesetzbuch": "German Commercial Code") and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with (German) principles of proper accounting and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records, the annual financial statements and the management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by the Company's Board of Managing Directors, as well as evaluating the overall presentation of the annual financial statements and management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

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

Düsseldorf, June 6, 2011

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Michael Maifarth	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, 19 May 2011

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 our assumptions and expectations and the assumptions on which these expectations are based. These statements are based on the planning, estimates and forecasts currently available to the management of IKB. Forward-looking statements therefore only relate to the day on which they are made. We accept no obligation to update such statements in light of new information or future events.

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

Only the German version of this report is legally binding.

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