Annual Financial Statements and Management Report of IKB Deutsche Industriebank AG

2009/2010

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Management Report of IKB Deutsche Industriebank AG

1. Business and general conditions

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

General conditions for the core business

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

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

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

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

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

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

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

IKB's strategic positioning

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

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

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

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

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

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

Segments

The Corporate Clients segment includes domestic corporate lending, particularly granting loans, equipment leasing and private equity business. Loans are granted to German medium-sized companies from seven locations throughout Germany. In particular, the Bank has expertise in the management of public development programmes. IKB operates its equipment leasing business through its leasing subsidiaries at a national and international level. There is a particular focus on leasing machinery. On the international market, the IKB Leasing Group operates in Central and Eastern Europe and France. The IKB Private Equity Group has invested through both equity interests and various forms of mezzanine capital. Derivatives and foreign currency loans are supplied to corporate clients through IKB International S.A., Luxembourg, (IKB S.A.) – and from 1 December 2010 through IKB AG in line with EU conditions.

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

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

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

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

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

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

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

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

2. Significant events in the reporting period

Tier I capital strengthened with Lone Star

The subordinated bonds of IKB AG with a total nominal value of € 101.5 million assumed by LSF6 Rio S.à.r.l., Luxembourg, (a company of the US financial investor Lone Star) in November and December 2008 were transferred to LSF6 Europe Financial Holdings, L.P., Delaware, Dallas/USA (LSF6 Europe), a further company of Lone Star and majority shareholder of IKB AG, on 4 June 2009. By way of an agreement dated 5 June 2009 entailing a debt waiver and compensation from future profits between LSF6 Europe Financial Holdings, L.P. and IKB AG, LSF6 Europe Financial Holdings, L.P. – as the bearer of subordinated bonds – waived its claims to repayment and future interest payments from these bonds against IKB AG, suspensively conditional on the occurrence of future profits, thereby making an additional payment to the capital reserves in the amount of € 101.5 million in accordance with section 272 (2) no. 4 of the *Handelsgesetzbuch* (HGB – German Commercial Code). An improvement occurs if IKB AG could report a net profit for the year and if IKB AG maintains a regulatory equity ratio of at least 9.0% at individual Bank level.

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

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

SoFFin guarantees

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

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

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

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

On 4 February 2010, IKB filed to reduce the guarantee by € 2 billion as the Bank's liquidity situation had stabilised. In particular, this was positively affected by the reduction of assets and the development in customer deposits. Effective 17 February 2010, SoFFin ruled to reduce IKB's guarantee from a total of € 12 billion to € 10 billion.

The guarantees being returned relate to the extension of the guarantee. Of these extended guarantees, IKB utilised guarantees for issues of € 2 billion with a maturity of three years in

September 2009; state-guaranteed securities of € 2 billion with a maturity of five years and € 1 billion with a maturity of three years were also issued in February 2010.

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

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

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

Deposit insurance

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

Debt issuance programme

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

Status of implementation of EU conditions

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

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

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

Specifically, the conditions are as follows:

- Discontinuation of the Real Estate Finance segment (no more new business; reduction of at least 20% of the portfolio by 30 September 2010; reduction of a further 40% by 30 September 2011; remaining portfolio by way of scheduled repayments); subsidiaries affected: IKB Immobilien Management GmbH, IKB Projektentwicklung GmbH & Co. KG, IKB Projektentwicklungsverwaltungs GmbH,

- Sale of the 50% IKB stake in Movesta by 30 September 2011,

- Winding up or sale of IKB CC by 30 September 2011 (active reduction of 25% of the portfolio by 30 September 2010) and discontinuation of new business by 31 December 2008,

- Winding up of IKB S.A. by 1 April 2011 (the derivatives business and 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,

- Discontinuation and winding up of IKB's business activities in Amsterdam by 30 March 2010 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 by more than 26% as at 31 March 2010 (interim goal by 30 September 2010 set by the EU Commission: reduction of 20%); the winding up/sale of affected subsidiaries has been initiated. New business has been discontinued.

- IKB's 50% interest in Movesta was disposed of effective 18 December 2009. One condition of the purchase agreement was the disentanglement of Movesta Development GmbH and selected special purpose entities from Movesta which have proportionately remained with their former owners.

- IKB CC: The loan portfolio was reduced in full as at 31 March 2010 by way of sale. The company's liquidation has also since been initiated.

- IKB S.A.: The extensive conceptual and practical preparations are currently underway for winding up IKB S.A. and the assumption of certain duties by the parent company in order to satisfy the EU requirement on time by 1 April 2011.

- The business activities of IKB in Amsterdam have been discontinued.

- The credit volume in non-strategic assets has been actively reduced to € 0.4 billion as at 31 March 2010 after € 1.7 billion as at 31 March 2007.

- The Group's total assets are expected to have been less than € 36 billion as at 31 March 2010.

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

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

- Secondly, the repurchasing of IKB's own liabilities is highly restricted in line with this EU decision.

IKB has taken organisational precautions to comply with these requirements.

Changes in the Group

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

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

Havenrock Limited and Havenrock II Limited, Jersey, were deconsolidated from the consolidated financial statements as at 31 December 2009 as the Group no longer held a majority of the risks and rewards of the companies. The risks of the companies were realised finally and in full in the financial year. A risk provisioning was recognised in full in previous financial years for the portion of the risks hedged by structured credit lines of IKB AG and IKB S.A. Currently, IKB neither has significant opportunities for other income from the companies nor any influence on their management.

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

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

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

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

Other significant transactions

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

Two of the synthetic collateralised debt obligation (CDO) transactions held by IKB with six tranches and mixed reference assets (companies and ABS) with a total nominal volume of € 0.2 billion were restructured as simple credit-linked notes with companies and sovereigns as reference assets in May 2009.

Legally relevant events

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

Court appointment of a special auditor

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

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

In August 2009, at the request of shareholders the District Court Düsseldorf resolved to appoint a special auditor to examine whether members of the Board of Managing Directors or the Supervisory Board of IKB committed breaches of duty in connection with the causes of 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. Dr Ring had already been appointed as the special auditor under stock corporation law by the Annual General Meeting on 27 March 2008 and performed audit activities until his appointment was revoked on 25 March 2009.

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

Personnel changes

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

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

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

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

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

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

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

Annual General Meeting on 27 August 2009

The Annual General Meeting of IKB AG for the 2008/09 financial year was held in Düsseldorf on 27 August 2009. The Annual General Meeting adopted all the resolutions proposed by the Bank's management by a large majority. The results of the individual votes can be found on the Bank's website under www.ikb.de. Legal actions described under "Legal risks" in the risk report are pending against individual resolutions by the Annual General Meeting.

Current rating situation

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

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

3. Net assets, financial position and results of operations

Business development

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

The new business volume amounted to € 3.0 billion in the 2009/10 financial year (previous year: € 5.9 billion), with the emphasis on Corporate Clients (€ 2.5 billion). Specifically, the following business developments are of significance:

In the **Corporate Clients** segment, which includes domestic corporate lending, private equity activities and equipment leasing, IKB paid out € 2.4 billion (previous year: € 3.5 billion) in the period under review. In particular, the decline is due to slowing credit demand, rising refinancing costs and a change in the calculation methodology at IKB.

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

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

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

The **Real Estate Clients** segment, which has ceased new business activities in accordance with the EU conditions of October 2008, still reported a new business volume of € 0.1 billion in the 2009/10 financial year (previous year: € 0.6 billion), mainly as a result of the utilisation of loan commitments from previous years.

Earnings performance

The income statement of IKB AG was again greatly influenced by the crisis at the Bank, the general financial market and economic crisis and the implementation of the EU requirements in the 2009/10 financial year. While heavy write-downs had been necessary in the last two financial years, particularly on portfolio investments, these markets settled in part in the 2009/10 financial year. This resulted in write-downs on portfolio investments being reversed again while allowances remained high for conventional lending business at IKB AG.

The income statement reported a net loss for the year of € 349 million (previous year: € -861 million). This year again, earnings were influenced by extraordinary factors. The table below shows the greatest of these factors (in terms of amount) and their effect on the various positions of the income statement:

in € million	Total	thereof extraordinary factors: Portfolio investments	Re-structuring	Other	Total adjusted
Net interest income (without current income from shares, investments etc.)	191	18	-3	18	158
Net fee and commission income	-5		-74		69
Net income from financial instruments	-8				-8
Current income from shares, equity participations and shares in affiliated companies and income from profit transfer agreements	7				7
Personnel expenses	-126				-126
Other administrative expenses	-120		-13		-107
Write-downs and value adjustments on receivables and additions to provisions in the lending business	-421				-421
Write-downs of/write-ups on securities in the liquidity reserve	157	33		115	9
Write-downs and losses on/reversals of write-downs and income from securities held as fixed assets	32	43		-11	0
Write-downs, value adjustments and write-ups of equity participations and shares in affiliated companies	-31	84	-117	2	0
Net other operating income (incl. expenses from loss absorption)	-20		30	-61	11
Result from ordinary business activities	**-344**	**178**	**-177**	**63**	**-408**
Extraordinary result	-9		-9		0
Current taxes	4			6	-2
Net loss for the year	**-349**	**178**	**-186**	**69**	**-410**
Loss participations of profit-participation certificates and silent partnership contributions	98				
Dissolution of revenue reserves	-				
Loss carryforward from previous year	-1,380				
Net accumulated losses	**-1,631**				

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

Net earnings of € 178 million were generated from **portfolio investments**:

- Interest income from extraordinary incoming payments of € 9 million was recognised for securities. A further amount of € 9 million relates to income from compound interest on the junior loan to the special purpose entity Rio Debt Holdings (Ireland) Limited (Rio Debt Holdings).

- Reversals of write-downs on liquidity reserve securities amounted to € 33 million for structured securities.

- On account of IKB's participation in possible additional income in connection with the utilisation of the securities portfolio of the special purpose entity Rio Debt Holdings, the equity kicker must be recognised and measured separately as an embedded derivative. Net reversals of write-downs on securities held as long-term investments of € 43 million were recognised for this equity kicker (first loss piece).

- Reversals of write-downs on corporate bonds resulted in book gains at IKB S.A. of € 84 million. Write-down requirements on the carrying amount of the equity participation in IKB S.A., whose operations must be discontinued in line with EU requirements, were reduced by this amount.

Expenses for **restructuring** were reduced as against the previous year and amounted to € 186 million in the 2009/10 financial year:

- The arrangement commission of € 3 million for SoFFin guarantees not utilised in the course of the financial year is reported in net interest income.
- Net fee and commission income was impacted by expenses of € 74 million for guarantee commission paid to SoFFin.
- At € 13 million, other administrative expenses are still burdened by external legal and consultancy costs for managing the crisis.
- The implementation of the EU condition of winding up and closing IKB S.A. has resulted in a write-down requirement on the equity investment's carrying amount of € 117 million, which is partially offset by book gains from reversals of write-downs on corporate bonds of the company (see above) of € 84 million.
- The € 30 million in net other operating income includes the reversal to income of provisions no longer required in the amount of € 29 million. These mainly relate to the partial reversal of the provision for loss offsetting payments in connection with the discontinuation of operations at IKB CC. A provision of € 95 million was recognised for this in the previous year. Furthermore, there was a total gain on the disposal of the office building in Munich of € 3 million. Losses of € 2 million relating to restructuring were reported on the sale of Movesta owing to the profit transfer agreement with IKB Beteiligungen GmbH.
- The extraordinary expense of € 9 million includes remuneration of € 7 million to KfW Bankengruppe for services in connection with legal action and redundancy scheme and restructuring costs of € 2 million.

Other extraordinary effects generated income of € 69 million:

- Owing to the losses at IKB AG, the Group was not required to pay interest of € 18 million on certain hybrid capital instruments (trust preferred securities), which had a positive effect on the net interest income of IKB AG.
- Write-downs and reversals of write-downs on liquidity reserve securities include net income of € 115 million from derivative financial transactions in connection with securities transactions and from repurchasing and withdrawing own bonds at the start of the 2009/10 financial year that were acquired at less than nominal value.
- There was a net loss of € 11 million in long-term investments. Sales and write-downs resulted in total losses of € 80 million offset by profits and reversals of write-downs on securities of € 69 million.
- Write-downs and reversals of write-downs on equity investments and shares in affiliated companies resulted in a net gain of € 2 million. This gain was due firstly to a reversal of a write-down of € 7 million on the carrying amount of IKB CC and secondly to write-downs of € 6 million on the carrying amounts of IKB Immobilien Management GmbH, IKB Projektentwicklung GmbH & Co. KG and two property companies.
- The negative net other operating income of € 61 million essentially results from absorbing losses of € 57 million from IKB Beteiligungen GmbH. In turn, this is due to loss absorption and write-downs on carrying amounts for the IKB Leasing Group and the absorption of losses by IKB Private Equity. The negative profit transfer from IKB Beteiligungen GmbH includes losses of € 2 million on the sale of Movesta due to restructuring. These amounts are reported in the table under net other operating income due to restructuring.
- Net income from current taxes of € 6 million relates in particular to the carryback of tax losses to previous years and the reimbursement of overpaid advance payments in the foreign branches of IKB AG.

After adjustment for the extraordinary factors described above, the income statement reports a loss of € 410 million, which is due in particular to the decline in net interest income and the persistently high allowance for losses on loans and advances. These expenses were only partially offset by declining administrative expenses.

Adjusted net interest income (before current income from securities and investments) fell by € 38 million to € 158 million in the period under review. The main reasons for this were the sharp decline in income from investment of own funds owing to reduced amounts and lower interest. A further factor is the decrease in credit volumes on account of the EU conditions.

Net fee and commission income was down € 18 million to € 69 million (previous year: € 87 million) as a result of the drop in new business. Income mainly includes loan structuring and guarantee commission from embedded derivatives in credit-linked notes.

Net income from financial instruments reported a net loss of € 8 million essentially due to the hedging of interest positions with futures transactions.

Current income from shares, equity participations and profit transfer agreements of € 7 million included € 6 million from dividends on committed securities in the special fund for the pensions of Bank employees and € 1 million from investment income and the profit transfer from IKB Data GmbH.

The € 19 million drop in personnel expenses to € 126 million is essentially due to a smaller workforce as a result of restructuring. The average headcount declined by 101 FTEs as against the previous year.

At € 107 million, other administrative expenses were down on the previous year's level (€ 117 million), reflecting the cost-cutting measures introduced.

Loan loss allowances (net risk provisioning) were up slightly on the previous year at € 421 million (€ 408 million). This included € 400 million in net additions to individual loan loss provisions and write-downs compared with € 362 million in the previous year. Total write-downs of € 9 million were incurred on the sale of receivables. Net risk provisioning is therefore at the expected high level, essentially as a result of the ongoing financial and economic crisis. Global write-downs increased by € 21 million.

The result of liquidity reserve securities without portfolio investments was € 9 million.

Net other operating income of € 11 million mainly includes income from the reversal of provisions for personnel expenses and outstanding invoices.

Current tax expenses of € 2 million relate in particular to wealth tax at the Luxembourg branch and German land tax.

In the 2009/10 financial year, profit participation certificates and silent partnership contributions of IKB AG in the amount of € 98 million shared in the losses, which led to a loss after loss participation of € 251 million. Taking into account the loss carryforward of € 1,380 million, IKB AG reported net accumulated losses of € 1,631 million.

Net assets

Total assets amounted to € 40.4 billion on the balance sheet date, a decline of € 4.8 billion year-on-year on account of the EU conditions and the restructuring.

The gross credit volume (after valuation allowances) was € 27.9 billion on 31 March 2010, € 4.5 billion lower than on the previous year's reporting date. The credit volume on the reporting date includes medium-term and long-term loans to banks, loans to customers, the securitised lending business in the form of bonds and guarantees. The portfolio investments sold to the special purpose entity Rio Debt Holdings are still taken into account in the credit volume as the carrying amount was not reduced owing to accounting regulations.

Assets

Loans and advances to customers were reduced significantly by € 2.6 billion to € 21.9 billion. The decline is due to the reduced new lending business volume and the restructuring in the context of the EU conditions (e.g. for real estate finance).

Loans and advances to banks were also reduced, decreasing by € 1.3 billion to € 5.0 billion. This development mainly relates to the reduction of loans to the subsidiary IKB S.A., which in turn relates to its closure as at 1 April 2011 and the discontinuation of new business.

Bonds and other fixed-income securities fell by € 0.8 billion to € 11.6 billion. This item includes own issues acquired in the financial year under the SoFFin guarantee of € 2.8 billion, resulting in a net decrease of € 3.6 billion owing to maturities and disposals.

Equity participations and shares in affiliated companies climbed from € 0.9 billion at the end of the 2008/09 financial year to € 1.0 billion at the end of the 2009/10 financial year. This development was due to additions and reversals of write-downs of € 111 million on the one hand and to disposals and write-downs totalling € 44 million on the other. One significant change here was the carrying amount of the equity participation in IKB Beteiligungen GmbH, which implemented a capital increase of € 70 million. The carrying amount of the equity investment in IKB Projektentwicklung GmbH & Co. KG was increased by € 31 million by way of several capital increases to raise the construction costs for existing projects. A capital increase of € 63.7 million was implemented at IKB CC in the reporting year to offset losses for which the provision recognised in the previous year was utilised.

Other assets amounted to € 0.5 billion (previous year: € 0.7 billion). The decline is essentially due to lower receivables from subsidiaries in the context of profit transfers.

Equity and liabilities

Liabilities to banks declined by € 3.1 billion to € 13.0 billion. The main reason for the reduction is a decrease in borrowing on the interbank market and from the European Central Bank.

Liabilities to customers rose by € 0.3 billion to € 7.2 billion. This increase is mainly based on customer time deposits in the three to twelve month range.

Bond issuing activities remained highly restricted on account of the crisis. Holdings of securitised liabilities fell by € 0.6 billion to € 13.7 billion. An issue volume of € 6.0 billion guaranteed by SoFFin was offset by repayments and repurchases totalling € 6.6 billion.

Other liabilities contracted by € 0.7 billion to € 1.8 billion. This is mainly due to the change in certain securitisation transactions in which the majority of opportunities and risks remained with IKB. Assets sold to special purpose entities have therefore remained on IKB’s balance sheet and a corresponding liability has been reported in the same amount. Holdings of securities and the corresponding liability have been reduced by repayments and disposals.

Provisions fell by € 0.3 billion to € 1.0 billion as a result of utilisation and reversals.

Subordinated liabilities dropped by € 0.3 billion to € 1.5 billion. This development is essentially due to the fact that LSF6 Rio S.à.r.l. held a subordinated bond in the amount of € 123.5 million with a contingent conversion obligation and converted this early on 2 July 2009. LSF6 Europe had also subscribed to subordinated registered bonds in the amount of € 101.5 million in 2008/09 and waived repayment by way of an agreement entailing a debt waiver and compensation from future profits. This waiver represents an additional payment to the capital reserves in accordance with section 272 (2) no. 4 HGB.

Profit participation capital declined by € 49 million to € 103 million as a result of a maturity and loss participation.

Equity decreased by € 81 million. It is reported at € 1,759 million (previous year: € 1,840 million). Subscribed capital and the capital reserves rose by a total of € 225 million (see “Subordinated liabilities”). Net accumulated losses increased by € 251 million to € 1,631 million.

In line with the notification submitted to the banking authorities as at the balance sheet date, regulatory equity capital amounted to a total of € 3.0 billion. The calculation of equity capital based on the final carrying amounts produced a figure of € 2.8 billion.

Hidden charges, amounting in net terms to € -1,063 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 has stabilised. Factors contributing to this included the utilisation of the SoFFin guarantees, the substantial reduction in assets and the increase in deposits by customers. IKB has returned SoFFin guarantees of € 2 billion. It should still be noted that the money and capital markets are only functioning to a limited extent. Thus, mainly collateralised borrowing is possible as a financing option. Looking ahead to a more positive market performance in future, IKB updated its debt issuance programme in February 2010 so as to also be able to float issues on the capital market on an unsecured basis.

Overall assessment

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

4. Risk report

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

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

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

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

Risk management organisation

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

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

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

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

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

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

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

Exposures with an increased risk as well as restructuring and settlement cases are managed in special management units within Credit Risk Management. Furthermore, credit management of all real estate exposures was transferred to a specialist team in Credit Risk Management as at 1 November 2009.

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

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

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

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

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

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

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

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

and reported. The Board of Managing Directors is therefore able to react to negative developments even at short notice.

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

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

Regulatory capital resources and risk-bearing capacity

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

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

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

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

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

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

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

	As at 31 March 2010 in € million	As at 31 March 2009 in € million	As at 31 March 2008 in € million
Risk-weighted assets	17,790	21,656	27,243
Market risk equivalent	23	355	94
Operational risk	780	956	976
Risk position	**18,593**	**22,968**	**28,313**
Tier I capital	1,943	2,021	1,510
Tier II capital	1,023	1,152	1,003
Tier III capital	2	20	5
Deductions[1)]	-195	-209	0
Equity capital	**2,773**	**2,984**	**2,518**
Tier I ratio in %	9.9	8.3	5.3
Overall capital ratio in %	14.9	13.0	8.9

Some totals may be subject to discrepancies due to rounding differences.
1) Deductions as at 31 March 2010 and 31 March 2009 related solely to securitisation positions.

At 9.9% at an individual Bank level and 10.4% at Group level, the Tier I ratio is higher than the regulatory minimum of 4.0%. At 14.9% at an individual Bank level and at Group level, the overall capital ratio is also higher than the regulatory minimum of 8.0%.

The Board of Managing Directors expects it to be possible to meet both statutory minimum requirements and the minimum requirements imposed by SoFFin and the Auditing Association of German Banks (including a Tier I ratio of 8%) in the future. It remains uncertain in the medium term how the numerous regulation projects intended by national and international banking authorities will affect equity composition and requirements overall. A financial market transactions tax and a levy on banks are also being considered.

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

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

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

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

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

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

Some totals may be subject to discrepancies due to rounding differences.
1) "Core capital" includes share capital, reserves, net retained profits/loss carryforward and the planned operating result of the next twelve months. Hidden charges are deducted from risk cover.

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

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

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

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

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

discount on the value at risk calculated is applied for the possibility of management intervention.

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

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

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

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

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

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

Table: Economic capital requirements – equity capital provider view

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

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

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

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

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

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

Table: Economic capital requirements – lender perspective

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

Some totals may be subject to discrepancies due to rounding differences.
1) Market risk not including extreme market development from mid-September 2008 to the end of 2008. The market price risk rises by € 163 million if this development is included.

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

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

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

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

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

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

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

Risk strategy

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

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

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

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

Counterparty default risk

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Specific features for project and special financing are accommodated by means of special rating procedures. As the focus here is on the amount and sustainability of the cash flow for servicing interest payments and repayments which arise during the project duration, IKB applies models which allow a statement to be made as to the debt service capacity by means of various scenarios and simulations. This quantitative assessment is supplemented by additional qualitative consideration of sponsors, operators, sales and procurement markets as well transaction specifics. However, the Bank does not intend to continue this form of financing for strategic reasons, which means that this model will not be developed further until further notice.

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

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

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

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

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

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

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

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

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

Credit volume in € million	31 March 2010	31 March 2009	Change
Loans to banks	236	268	-32
Loans to customers	21,872	24,463	-2,591
Portfolio investments, corporate and government bonds	3,126	4,456	-1,330
Contingent liabilities, CDSs[1] and guarantees	1,571	2,276	-705
Net credit volume	26,805	31,464	-4,659
Total loan loss provisions[2]	1,062	923	+139
Gross credit volume	27,867	32,386	-4,519
Other significant counterparty default risks outside the gross credit volume			
Loans and advances to banks	4,782	6,035	-1,253
Bonds, shares and other securities (without own bonds)	5,745	7,844	-2,099
Irrevocable loan commitments	2,017	2,751	-734

Some totals may be subject to discrepancies due to rounding differences.
1) Credit default swaps
2) Not including loan loss provisions on embedded credit derivates (31 March 2010: € 530 million; 31 March 2009: € 720 million)

Gross credit volumes have been reduced by € 4.5 billion (14%) as part of the implementation of the EU conditions, as shown in particular in the line items “Loans to customers” and “Portfolio investments”.

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

The credit volume for the Portfolio Investments segment of € 1,275 million is included in the “Portfolio investments, corporate and government bonds” line item in the amount of € 1,092 million and in the “Contingent liabilities, CDSs and guarantees” item in the amount of € 183 million.

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

Size[1)] in € million	31 March 2010 Credit volume		Number[1)]	31 March 2009 Credit volume	
Under € 5 million	2,564	9%	2,824	3,095	10%
Between € 5 million and € 10 million	2,605	9%	373	2,838	9%
Between € 10 million and € 20 million	3,983	14%	303	4,372	13%
Between € 20 million and € 50 million	3,181	11%	114	4,118	13%
Over € 50 million	3,014	11%	30	2,984	9%
Total	**15,347**	**55%**	**3,644**	**17,407**	**54%**
Risk transfers[2)]	8,014	29%	145	9,091	28%
Market segments AG as a whole	**23,361**	**84%**	**3,789**	**26,498**	**82%**
Under € 50 million	380	1%		300	1%
Between € 50 million and € 100 million	294	1%		473	1%
Over € 100 million	601	2%		1,085	3%
Portfolio Investments segment	**1,275**	**5%**		**1,858**	**6%**
Internal transactions	**3,231**	**12%**		**4,030**	**12%**
AG as a whole	**27,867**	**100%**		**32,386**	**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

The reduced volumes in all size classes are due to the repayment of loans and sales of loan receivables.

The average exposure amount in the size group “Over € 50 million” is € 100.5 million.

The volume of risk transfers was reduced by € 1,077 million to € 8,014 million as a result of repayments.

The credit volume in the Portfolio Investments segment, which has decreased from € 1.9 billion to € 1.3 billion since the start of the financial year, consists of

- € 0.5 billion in assets transferred to the special purpose entity Rio Debt Holdings with a residual risk for IKB of € 0.19 billion,
- € 0.6 billion in portfolio investments not sold to Rio Debt Holdings which are predominantly being wound up, and which no longer contain any subprime risks, and
- € 0.2 billion in risks covered by KfW.

The decline in portfolio investments of € 0.6 billion as against the previous year is essentially due to repayments on corporate CDOs at the special purpose entity Rio Debt Holdings and reductions in CDSs covered by KfW.

Internal transactions in the amount of € 3.2 billion are loans to and contingent liabilities due to companies included in the scope of consolidation of IKB in accordance with IFRS.

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

Collateral in € million	31 March 2010 Credit volume		31 March 2009 Credit volume	
Property liens and charges	5,738	21%	6,459	20%
Transfers of ownership	400	1%	454	1%
Other collateral[1)]	5,404	19%	6,127	19%
Without collateral	3,806	14%	4,367	13%
Total	**15,347**	**55%**	**17,407**	**54%**
Risk transfers[2)]	8,014	29%	9,091	28%
Market segments AG as a whole	**23,361**	**84%**	**26,498**	**82%**
Portfolio Investments segment	1,275	5%	1,858	6%
Internal transactions	3,231	12%	4,030	12%
AG as a whole	**27,867**	**100%**	**32,386**	**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) Hermes guarantees, indemnifications, risks transferred

Owing to the overall reduction in credit volume, credit volume backed by collateral decreased by around € 1.5 billion as against the start of the financial year. This decline essentially related to loans backed by property liens and other collateral.

Risk limitation is supported by the collateral provided by risk transfer. In total, approximately € 22 billion has been transferred by means of synthetic securitisation since 2001. Risks currently transferred to third parties, which total € 8.0 billion, include loans for which the default risk has been assumed by other banks or public authorities, as well as the synthetic transfer of loan receivables. The Bank is secured against counterparty default risks by means of synthetic securitisations, although these are still reported in the balance sheet and continue to be managed by IKB. At the reporting date, the utilisation of these loans totalled € 5.2 billion, of which € 4.2 billion accounts for loans for which the Bank has only retained first loss risks of € 14 million. Loans with a volume of € 1.0 billion relate to risk transfers, for which only the expected, and parts of the unexpected, loss in the amount of € 39 million have been transferred. This subordination is currently still seen as sufficient on the basis of expected values, even under recession conditions.

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

Regions in € million	31 March 2010 Credit volume		31 March 2009 Credit volume	
Germany	**9,404**	**34%**	**10,703**	**33%**
Western Germany	7,926	28%	9,036	28%
Eastern Germany	1,478	5%	1,667	5%
Outside Germany	**5,943**	**21%**	**6,704**	**21%**
Western Europe	5,245	19%	5,789	18%
Eastern Europe	262	1%	346	1%
North America	180	1%	252	1%
Other	256	1%	318	1%
Total	**15,347**	**55%**	**17,407**	**54%**
Risk transfers[1)]	8,014	29%	9,091	28%
Market segments AG as a whole	**23,361**	**84%**	**26,498**	**82%**
Portfolio Investments segment	1,275	5%	1,858	6%
Internal transactions	3,231	12%	4,030	12%
AG as a whole	**27,867**	**100%**	**32,386**	**100%**

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

Within the market segments, the decline in credit volume relates in particular to Western Germany (down € 1,110 million) and Western Europe (down € 544 million).

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

Country ratings[1)] Credit volume in € million	31 March 2010 total[2)]	Country ratings				
		1-4	5-7	8-10	11-13	14-15
Outside Germany	5,943	5,456	336	109	41	0
Western Europe	5,245	5,045	200	0	0	0
Eastern Europe	262	121	79	60	2	0
North America	180	175	5	0	0	0
Other	256	115	53	49	39	0

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

92% of the credit volume attributed to countries outside Germany were to be assigned to the four best country risk classes, 1 to 4. In addition, risk transfers (e.g. secured by Hermes guarantees) of € 0.8 billion related to borrowers outside Germany.

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

Within Western Europe, risks relate to the following states:

in € million	Credit volume	of which companies	of which direct state risk	subordinated: other counter-party risk[1)]
UK	1,176	1,176	-	630
Italy	1,044	464	580	69
Spain	900	784	116	404
France	882	872	10	762
Netherlands	332	317	15	96
Ireland	245	245	-	20
Greece	200	-	200	-
Switzerland	125	125	-	60
Luxembourg	99	99	-	-
Belgium	67	49	18	20
Other	173	153	20	332
Western Europe, total	**5,245**	**4,284**	**959**	**2,393**

Some totals may be subject to discrepancies due to rounding differences.
1) Money market transactions, bank bonds and market value derivatives not included in credit volume

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

Since the end of 2009, the debt levels of some EU states have led to massive losses of confidence in the European Monetary Union. To prevent this crisis of confidence from spreading further and to thereby ensure the stability of the euro, all euro states have since agreed a stability pact intended to guarantee the solvency of the EU states. Thanks to these support measures by the EU, the Bank does not feel that these states are exposed to elevated default risks at this time.

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

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

Sectors in € million	31 March 2010 Credit volume		31 March 2009 Credit volume	
Industrial sectors	**10,515**	**38%**	**11,716**	**36%**
Energy supply	1,083	4%	1,214	4%
Mechanical engineering	815	3%	853	3%
Retail	718	3%	698	2%
Logistics, infrastructure operators	667	2%	693	2%
Other	7,232	26%	8,257	25%
Real estate	**2,190**	**8%**	**2,708**	**8%**
Financial sector	**492**	**2%**	**813**	**3%**
Public sector/banks	**2,150**	**8%**	**2,170**	**7%**
Total	**15,347**	**55%**	**17,407**	**54%**
Risk transfers[1)]	8,014	29%	9,091	28%
Market segments AG as a whole	**23,361**	**84%**	**26,498**	**82%**
Portfolio Investments segment	1,275	5%	1,858	6%
Internal transactions	3,231	12%	4,030	12%
AG as a whole	**27,867**	**100%**	**32,386**	**100%**

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

The degree of diversification in the industrial sectors is still high. No one industrial sector accounts for more than 5% of the portfolio. Almost 35% of real estate financing relates to office property. The rest is distributed almost equally between the other property types.

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

Credit rating structure[1)] in € million	31 March 2010 Credit volume		31 March 2009 Credit volume	
1–4	1,287	6%	1,388	5%
5–7	2,862	12%	3,260	12%
8–10	4,250	18%	5,166	20%
11–13	3,741	16%	4,535	17%
14–15	842	4%	949	4%
Problem exposures[2)]	2,365	10%	2,108	8%
Total	**15,347**	**66%**	**17,407**	**66%**
Risk transfers[3)]	8,014	34%	9,091	34%
Market segments AG as a whole	**23,361**	**100%**	**26,498**	**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
3) Hermes guarantees, indemnifications, risks transferred

As against the start of the financial year, the share of problem exposures in particular in the total portfolio has risen as a result of the recession. The increase relates to the Corporate Clients, Real Estate Clients and Structured Finance segments, while the problem exposures in the Head Office segment have declined as a result of reduction and a different classification of first-to-default bonds compared to the previous year. The Bank is anticipating that the credit rating structure will stabilise in the 2010/11 financial year given the indications of an economic recovery.

Identification and management of problem exposures. All credit risk-bearing positions are monitored on an ongoing basis. The management of problem exposures is carried out in specialised management units. The aim of this special management is to take viable action in good time by means of close monitoring, in order to maintain the company's capacity for redevelopment, in the event that these endeavours fail, to reduce the economic losses. Given the current economic situation, special attention is being given not just to non-performing loans[3] but to all exposures for which permanent impairment is not expected but that require particular management from the units specialising in settlement or restructuring on the basis of the information available.

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

Table: Problem exposures[1)] of market segments

Credit volume	31 March 2010 in € million	31 March 2009 in € million	Change in € million	Change in %
Impaired (non-performing loans)	1,757	1,603	+154	+9.6
Non-impaired	608	505	+103	+20.4
Total	**2,365**	**2,108**	**+257**	**+12.2**
As % of market segments credit volume	10.4%	7.9%		

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 2010: € 155 million; 31 March 2009: € 316 million

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

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

Table: Non-performing loans by market segment

Credit volume	31 March 2010 in € million	31 March 2009 in € million	Change in € million	Change in %
Germany	1,322	1,035	+287	+27.7
Western Germany	812	634	+178	+28.1
Eastern Germany	510	401	+109	+27.2
Outside Germany	349	337	+12	+3.6
Impaired loans	**1,671**	**1,372**	**+299**	**+21.8**
Securities (impaired financial assets)[1)]	85	231	-146	-63.2
Impaired (non-performing loans), total	**1,757**	**1,603**	**+154**	**+9.6**
As % of market segment credit volume	7.8%	6.1%		

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 2010: € 155 million; 31 March 2009: € 316 million

A rise in non-performing loans mainly observed in Germany as a result of the recession is offset by a significant decline in impaired financial assets. The latter is due to the different classification of first-to-default bonds as against the previous year as non-impaired.

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

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

In addition, loans and advances to banks and customers as well as contingent assets are analysed in terms of deferred credit risks. If necessary, a risk provision is recognised on a global basis. Global valuation allowances are calculated in accordance with the letter from the Federal Ministry of Finance dated 10 January 1994. In so doing, historical credit losses are taken as a basis and multiplied by a cyclical factor in order to accommodate the general economic situation. This factor has been increased from 155% to 163%. The amount of global valuation allowances is € 180 million after € 159 million in the previous year.

At € 421 million as at 31 March 2010, the net provision for possible loan losses was € 787 million less than in the previous year (€ 1,208 million). The figure for the previous year has included a write-down on the Havenrock receivable in the amount of € 905 million, the equal reimbursement of which was reported in the result of assumed risks. Net reversals of provisions for anticipated losses for embedded derivatives in structured securities of € 105 million were also offset in the previous year. The allocation to the provision of CDS transactions as a component of net risk provisioning was € 3 million in the reporting period (previous year: € 49 million).

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. At the same time, the fundamental and fair value of the remaining portfolio investments have increased.

As at 31 March 2010, the portfolio investments and other structured credit products of nominally € 2.6 billion (31 March 2009: € 3.5 billion) comprised:

- Securities with a nominal volume of € 1.9 billion (31 March 2009: € 2.7 billion) that were transferred to the fully consolidated special purpose entity Rio Debt Holdings. However, these securities must still be recognised in the balance sheet of IKB AG based on contractual risk transfer agreements in connection with the junior loan granted to Rio Debt Holdings by IKB. IKB's risk is limited to the junior loan with a carrying amount of € 0.19 billion.

- Four synthetic transactions with a nominal value of € 0.34 billion (31 March 2009: € 0.46 billion) are being wound up as a result of the Lehman insolvency and are covered by corresponding collateral.

- Two synthetic transactions with six tranches and corporate and sovereign reference assets with a total nominal volume of € 0.2 billion that were backed by corporates and ABSs as reference assets until May 2009 and restructured (31 March 2009: € 0.2 billion).

- A principal protected note with a nominal value of € 0.07 billion (31 March 2009: € 0.08 billion) and securitisation positions in the amount of € 0.16 billion (31 March 2009: € 0.16 billion) from the market segments which belong to the core strategic business of the Bank.

The rating class distribution for structured credit products at IKB is as follows:

*Table: Credit rating structure of structured credit products of IKB AG**

	31 March 2010		31 March 2009	
	Nominal in € billion	in %	Nominal in € billion	in %
Aaa	0.2	7	0.3	8
Aa	0.1	2	0.1	2
A	0.1	2	0.2	7
Baa	0.3	11	0.6	17
Ba/B	0.4	14	0.3	8
Sub B and no rating**	1.7	63	2.1	58
Total	**2.6**	**100**	**3.5**	**100**

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

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

** The "Sub B and no rating" category includes four synthetic translations with a volume of € 0.34 billion being wound up as a result of the Lehman insolvency for which ratings have been withdrawn. The risks for IKB 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 distribution of underlying assets for the structured credit products is as follows:

Table: Underlying asset structure of structured credit products at IKB AG

	31 March 2010		31 March 2009	
Underlying portfolios	Nominal in € billion	in %	Nominal in € billion	in %
Corporates	0.8	30	1.1	30
ABS	1.8	70	2.3	64
*thereof with sub-prime content**	*1.2*	*47*	*1.7*	*49*
ABS/Corporates mixed	-	-	0.2	6
thereof with sub-prime content	-	-	*0.2*	*6*
Total	**2.6**	**100**	**3.5**	**100**

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

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

Table: Rating structure of corporate CDO investments of IKB AG

Rating structure of corporate CDO investments in € billion	31 March 2010 Nominal	31 March 2009 Nominal
Aaa	0.1	0.1
Aa	0.0	0.0
A	-	0.2
Baa	0.2	0.4
Ba/B	0.2	0.1
Sub B/NR	0.3	0.4
Total	**0.8**	**1.1**

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

Table: Rating structure of ABS investments

in € billion	31 March 2010 Nominal	31 March 2009 Nominal
Aaa	0.1	0.2
Aa	0.1	0.1
A	0.0	0.1
Baa	0.1	0.2
Ba/B	0.2	0.2
Sub B	1.4	1.5
Total	**1.8**	**2.3**

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

Liquidity and market price risk

Liquidity risk

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

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

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

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

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

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

Liquidity planning is based on a range of assumptions as to the above and other factors which can determine liquidity, both on the assets side and the liabilities side. In the event that a number of these assumptions do not come to fruition, this may result in liquidity bottlenecks. One possible scenario for this would be market developments that neither allow assets to be sold nor liabilities guaranteed by the Deposit Protection Fund to be increased nor the placement of IKB’s unsecured bonds on the capital market.

Market price risk

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

IKB distinguishes between the portfolios for proprietary trading, the investment portfolio (proprietary investments and liquidity reserve) and loan refinancing. The liquidity reserve constitutes investments that can be utilised at the Central Bank or in interbank business in order to generate liquidity at short notice. Loan refinancing covers the lending business, the credit substitute business (e.g. corporate bond and promissory note loan investments) and the non-subordinated refinancing instruments of the Bank. All portfolios are valued daily. Their risk content is measured in a present-value value at risk system that forms the basis for limiting market price risks.

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

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

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

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

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

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

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

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

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

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

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

The remaining credit spread risk is largely the result of government bonds, mortgage bonds, corporate bonds and promissory note loans. The credit spread risk for IKB resulting from portfolio investments is only of minor significance due to the loans granted by KfW and Lone

Star (LSF Aggregated Lendings S.A.R.L.) to Rio Debt Holdings and the risk that was transferred as a result.

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

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

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

Operational risk

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

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

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

The loss volume identified in the financial year amounted to a total of € 1.0 million. The Bank currently feels that the greatest potential for operating risks lies in its legal risks (see “Legal risks”). A further risk that should not be underestimated is that entailed by rising, externally driven reporting requirements and ongoing litigation, which lay claim to considerable resources in addition to day-to-day operations or project work and therefore lead to a not insubstantial amount of extra work for employees.

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

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

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

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

Legal risk

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

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

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

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

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

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

The following legal proceedings are particularly relevant to risk.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

There is a possibility that further claims for damages could be brought against IKB as a result of its activities or the activities of IKB Credit Asset Management GmbH in relation to Rhineland Funding Capital Corporation, 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. In July 2009, the Düsseldorf Department of Public Prosecution brought an action against the former Chairman of the Board of Managing Directors, Mr Stefan Ortseifen, as a result of market manipulation and breach of trust. Following the opening of main proceedings by the responsible chamber of the Düsseldorf Regional Court, Mr Ortseifen has been on public trial at the Düsseldorf Regional Court since 16 March 2010. The proceedings for breach of trust, which relate solely to charges in connection with construction projects on properties inhabited by former members of the Board of Managing Directors – but owned by the Bank – were provisionally suspended in accordance with section 154 (2) of the *Strafprozessordnung* (StPO – German Code of Criminal Procedure).

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

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

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

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

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

Recessionary actions against resolutions from General Meetings. A recessionary and revocation claim against resolutions made at the General Meeting held on 28 August 2008 under item 6 of the agenda (election of the Supervisory Board) is currently still pending. The disputed resolutions were unaffected by the court of first instance. The ruling as of 8 June 2010 is not yet final.

The following actions against resolutions made at the Extraordinary General Meeting held on 25 March 2009 are currently (as at 8 June 2010) 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 8 June 2010) still pending:

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

Risks in connection with SoFFin conditions

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

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

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

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

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

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

IT risk

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

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

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

Staff training is also a key element of security precautions.

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

Compliance risk

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

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

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

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

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

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

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

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

Personnel risk

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

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

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

Strategic risk and reputational risk

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

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

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

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

Business risk

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

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

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

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

Investment risk

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

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

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

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

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

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

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

Overall assessment of the risk situation

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

The Tier 1 ratio of 9.9% for IKB AG and 10.4% for the Group is above the required minimum of 8%. Thus, risk-bearing capacity is intact from a regulatory viewpoint. This also applies to the economic viewpoint (equity capital provider and lender perspective) as at 31 March 2010 and for the forecast period.

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

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

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

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

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

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

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

To do this, it is of paramount importance that

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

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

The Board of Managing Directors is assuming that

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

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

Applicable legal provisions, accounting standards and first-time adoption

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

Responsibility for the ICSA

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

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

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

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

Objectives and limits of the ICSA

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

- records are kept in which all transactions by the company are recorded accurately and exactly in sufficient detail,

- transactions are recorded, processed, documented and measured in line with both the legal regulations and the Articles of Association and the general or special management regulations to enable financial statements in accordance with the provisions of HGB and IFRS accounting standards and

- unauthorised acquisition, utilisation or misappropriation of company assets with significant effects on the regularity and reliability of accounting can be recognised or prevented in a timely manner.

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

Organisation and function

Requirements of the internal control system

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

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

The goals of the internal control system are achieved through extensive control activities. Controls are methods and measures determined in processes to identify errors in accounting.

These are performed upstream, downstream or simultaneously in the process chain. The extent of controls ranges from random sampling to full review of all processes within an event. Controls can be carried out automatically (programmed controls) or manually.

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

Use of IT and specifications in the internal control system

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

Designing the ICSA

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

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

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

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

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

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

Transactions are copied from the subledger 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 subledgers.

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. IFRS data from the subsidiaries for Group-level financial statements is delivered in the form of reporting packages. The specifications of the accounting manual must be complied with in their preparation. Regular internal controls are performed to ensure that the reporting packages are actually consistent with the Group’s central specifications. They are also audited or subjected to audit review at a local level.

6. Events after 31 March 2010 (Supplementary report)

The following new developments have arisen since 31 March 2010.

Status of implementation of EU conditions

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

Legally relevant events

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

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

7. Outlook

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

Future general economic conditions

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

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

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

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

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

Also, the situation in the banking sector is still difficult. In Germany it cannot be ruled out that the supply of credit to the economy is not sufficiently guaranteed overall or can only be guaranteed for selected groups of SME companies as a number of negative factors take their toll on banks' lending options. This could also become a prolonged situation. In Germany it will also become important how much banks can extend their lending scope by way of securitisation. However, the securitisation market is still not functional.

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

Opportunities of future development

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

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

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

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

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

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

Net assets

The solvency ratio and in particular the Tier 1 capital ratio of IKB AG, at 14.9% and 9.9% respectively, are significantly higher than the minimum statutory requirements. Key factors contributing to this were the capital increase by Lone Star and the targeted reduction in total assets. The Tier 1 capital ratio, which is well over 8% for IKB AG and the Group, has become a main control parameter. IKB is contractually required, particularly in respect of SoFFin, to maintain minimum Tier 1 capital of 8%. Although the economic environment remains difficult, IKB still expects to meet these minimum targets also in future. Thus, it will also continue to meet the KWG requirements provided that these are not significantly increased by international banking regulation projects in terms of the amount and composition of the necessary equity. To ensure this and other minimum ratios, IKB will essentially manage its total assets by reducing risk assets and transferring risk. It will take further measures to strengthen its capital base if necessary, particularly if the financial crisis persists.

Liquidity situation

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

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

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

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

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

Earnings performance

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

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

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

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

8. Remuneration report

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

The remuneration system of the Board of Managing Directors

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

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

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

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

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

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

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

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

Non-performance-related remuneration components

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

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

Performance-related remuneration components

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

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

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

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

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

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

Change of control

The contracts of the members of the Board of Managing Directors in office contain change of control clauses on account of the adjustments made in the 2009/10 financial year. These clauses state that each member of the Board of Managing Directors is entitled to terminate his contract to the end of the month and resign his office as from the end of his contract in the event of a change of control. The special right of termination can only be exercised within six months of a change of control taking place. A change of control occurs if, within the meaning of sections 21 ff. of the *Wertpapierhandelsgesetz* (WpHG – German Securities Trading Act), a person not affiliated with LSF6 Europe within the meaning of sections 15 ff. of the *Aktiengesetz* (AktG – German Stock Corporation Act) acquires more than 50% of voting rights in the company or these shares are attributable to this party.

Payments from third parties

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

Overview of Board of Managing Directors remuneration

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

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

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

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

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

Payments in the event of termination of employment and pensions

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

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

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

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

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

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

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

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

in € thousand	Annual benefits in the event of a pension claim as at 31 March 2010	Addition to pension provision as at 31 March 2010
Dr Dieter Glüder	375*	392
Claus Momburg	375*	512

* Assuming employment until the member's 63rd birthday

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

Repayment claims of the company

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

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

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

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

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

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

Former members of the Board of Managing Directors

The total remuneration for former members of the Board of Managing Directors and their surviving dependents amounted to € 3,314 thousand (previous year: € 3,097 thousand). Provisions of € 37,190 thousand were recognised for pension obligations to former members of the Board of Managing Directors and their surviving dependents (previous year: € 37,282 thousand).

The remuneration system of the Supervisory Board

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

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

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

Remuneration of the Supervisory Board

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

The Supervisory Board members Mr Scherrer, Dr von Köller, Mr 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 consultancy and agency services, in addition to their fixed remuneration.

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

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	25
Olivier Brahin	Waived
Dr. Lutz-Christian Funke	20
Ulrich Grillo	20
Arndt G. Kirchhoff	20
Jürgen Metzger	20
Dr Claus Nolting	Waived
Dr Thomas Rabe (from 23 June 2009)	17
Dr Eberhard Reuther (until 27 April 2009)	2
Dr Carola Steingräber (until 27 August 2009)	8
Carmen Teufel (from 27 August 2009)	13
Dr Andreas Tuczka	Waived
Ulrich Wernecke	25
Andreas Wittmann	20
Sub-total	**210**
Value-added tax payable on earnings (VAT)	34
Reimbursement of Supervisory Board expenses (total)	10
Total	**254**

9. Other disclosures

Disclosures in accordance with section 289 (4) HGB

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

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

By way of resolution of the Annual General Meeting on 28 August 2008, the Board of Managing Directors was authorised, with the approval of the Supervisory Board, to increase the share capital of the company by a total of up to € 500,000,000 against cash or non-cash contributions by issuing up to 195,312,500 new no-par value bearer shares until 27 August 2013. With the approval of the Supervisory Board, the statutory subscription rights of shareholders can be disapplied under this authorisation. This authorisation was not utilised in the 2009/10 financial year.

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

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

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

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

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

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. Together with the treasury shares acquired for trading purposes and other reasons held by the company or assigned to it in accordance with sections 71a ff. AktG, the treasury shares acquired on the basis of these authorisations cannot exceed 10% of the share capital of the company at any time. In line with a decision by the Board of Managing Directors, the acquired shares can be sold on the stock exchange or in some other way or, in full or in part, called in. These authorisations were not utilised in the 2009/10 financial year. The authorisation to acquire and use treasury shares in line with section 71 (1) no. 8 AktG granted by the Annual General Meeting on 28 August 2008 and limited until 27 February 2010 was revoked by way of resolution of the Annual General Meeting on 27 August 2009 for the period from the new authorisation coming into effect.

Since 29 October 2008, a 90.81% share of voting rights in IKB AG has been held directly by LSF6 Europe Financial Holdings, L.P. (Delaware), Dallas, USA, and indirectly by LSF6 Europe Partners, LLC (Delaware), Dallas, USA, Lone Star Europe Holdings, L.P. (Bermuda), Hamilton, Bermuda, Lone Star Europe Holdings, Ltd. (Bermuda) Hamilton, Bermuda, and Mr John P. Grayken, USA. As a result of the exercise of conversion rights from bonds in the company by the subsidiary of the Lone Star group, LSF6 Rio S.à.r.l., Luxembourg, on 2 July 2009, the share of the voting rights held by the Lone Star group increased slightly with the issue of subscribed shares on 14 July 2009 to 91.51%. Since 20 July 2009, this 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 for a change of control.

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

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

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

- With regard to the expiry of the two authorisations on 26 February 2011 for the acquisition and sale of treasury shares for the purpose of securities trading and for other purposes, the Board of Managing Directors intends to request the Annual General Meeting in 2010 to issue new authorisations of a similar type.

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

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

Disclosures in accordance with section 312 AktG

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

Düsseldorf, 8 June 2010

IKB Deutsche Industriebank AG
The Board of Managing Directors

10. Corporate governance declaration in accordance with section 289 a HGB

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

Declaration of compliance in accordance with section 161 AktG

Each year, the Board of Managing Directors and the Supervisory Board of IKB declare that the recommendations of the Government Commission on the German Corporate Governance Code – marked in the text of the Code by the use of the word "shall" – were and are complied with or which recommendations were or are not complied with and for what reasons (section 161 (1) sentence 1 AktG). The last declaration of compliance by the Board of Managing Directors and the Supervisory Board was dated 14 July 2009; it is updated at regular and frequent intervals. Together with the declarations of compliance for earlier years, it can be accessed at all times on the website of IKB (www.ikb.de) under Investor Relations/Corporate Governance/Declaration of Compliance (section 161 (2) AktG). It reads as follows:

"In accordance with section 161 AktG, the Board of Managing Directors and the Supervisory Board of IKB Deutsche Industriebank AG declare that the recommendations of the Government Commission on the German Corporate Governance Code (version dated 6 June 2008) published by the Federal Ministry of Justice in the official section of the electronic Federal Gazette have been complied with since the issue of the last declaration on 11 July 2008 with the following exceptions:

- Item 3.8 (2): Agreement of a suitable deductible when taking out liability insurance for the members of the Board of Managing Directors and the Supervisory Board (D&O insurance)

  There is D&O insurance for the members of the Board of Managing Directors and the Supervisory Board that does not provide for a deductible. A decision on the agreement of a deductible will be made at a later date. The company is not of the opinion that the attitude to work and responsibility of the members of the Board of Managing Directors and the Supervisory Board could be improved by such a deductible.

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

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

- Item 4.2.2: Resolution by the Supervisory Board on the compensation system for the Board of Managing Directors including the key contractual elements

  The structure of the compensation system for the Board of Managing Directors has to date been resolved by the Executive Committee for reasons of efficiency. Following the reduction of the Supervisory Board from 21 to 15 members, the compensation system for the member of the Board of Managing Directors appointed thereafter including the key contractual elements were also resolved by the whole Supervisory Board.

- Item 5.6: Examination of efficiency of the activities of the Supervisory Board

  On account of the significant reorganisation of the Supervisory Board in the 2008/2009 financial year (including the reduction from 21 to 15 members) the Supervisory Board refrained from a formal examination of the efficiency of its activities.

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

  The company did not comply with this recommendation due to scheduling reasons and did not discuss the interim financial statements in the Supervisory Board until after their publication on two occasions.

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

  The consolidated financial statements for the 2007/08 financial year were published on 21 July 2008. The interim report, the interim disclosure (following the move of IKB's shares from the Prime Standard to the General Standard from 26 February 2009) and the half-year financial report for 2008/2009 financial year were published on 17 October 2008 (first quarter), 15 January 2009 (half-year financial report) and 4 March 2009 (nine-month interim report). The reasons for these delays were the special situation at IKB since the start of the crisis at the end of July 2007 and the special accounting requirements this entailed.

The Board of Managing Directors and the Supervisory Board also declare that IKB Deutsche Industriebank AG will comply with the recommendations of the Government Commission on the German Corporate Governance Code (version dated 6 June 2008) with the exception of items 3.8 (2), 4.2.1 sentence 2 and 7.1.2 sentence 4 var. 2.

Düsseldorf, 14 July 2009

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 disclosures on corporate governance practices

Suggestions of the German Corporate Governance Code

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

- The representatives appointed by IKB to exercise shareholders' voting rights in accordance with instructions are only reachable by the shareholders present during the Annual General Meeting (item 2.3.3 sentence 3 clause 2 GCGC). Shareholders not taking part in the Annual General Meeting can engage the representatives before the Annual General Meeting.

- Only parts of the Annual General Meeting, namely until the end of the opening speeches by the Chairman of the Meeting and the Chairman of the Board of Managing Directors, are broadcast live on the website of IKB (www.ikb.de) (item 2.3.4 GCGC).

Code of Conduct

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

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

Procedures of the Board of Managing Directors and the Supervisory Board

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

Management of the company

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

The Board of Managing Directors is appointed by the Supervisory Board. It currently consists of four members. Further information on the individual members of the Board of Managing Directors and their specific areas of responsibility can be found in the management report under “Significant events in the reporting period” and in the Notes (note 54).

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

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

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

Company controlling

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

In accordance with the *Drittelbeteiligungsgesetz* (German One-third Employee Participation Act), the Supervisory Board is composed two-thirds of shareholder representatives and one-third of employee representatives. The shareholder representatives are elected by the Annual General Meeting by way of individual elections. Specifically, the Supervisory Board consists of ten shareholder representatives and five employee representatives. Details of the composition of the Supervisory Board and changes in it in the past financial year can be found in the management report under “Significant events in the reporting period” and in the notes (note 54).

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

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

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

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

Handling of risks

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

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

Accounting and audit of the financial statements

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

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

Transparency

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

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

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

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

The Annual General Meeting

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

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

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

Composition and procedures of the committees of the Supervisory Board

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

Executive Committee

In accordance with the by-laws of the Supervisory Board, the Executive Committee grants its approval for various transactions for which the Board of Managing Directors requires the approval of the Supervisory Board to perform, e.g. – possibly under other conditions as well – the acquisition and sale of real estate, investments in or the formation of companies, granting major loans or the disposal of treasury shares. By virtue of the authority granted to it to act in urgent matters, the Executive Committee makes decisions instead of the Supervisory Board as a whole in all cases in which it appears unacceptable to delay measures necessary to prevent significant disadvantage to the company until the next meeting of the Supervisory Board and a decision by the Supervisory Board cannot be arrived at in the time available. The Executive Committee met a total of six times in the 2009/10 financial year.

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

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

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

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

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

Finance and Audit Committee

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

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

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

- Wolfgang Bouché
  Works Council of IKB Deutsche Industriebank AG, resident in Rheinberg

- Dr Claus Nolting
  Chairman of the Board of Corealcredit Bank AG, resident in Munich

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

Nomination Committee

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

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

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

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

- Dr Claus Nolting
  Chairman of the Board of Corealcredit Bank AG, resident in Munich

Remuneration of the Board of Managing Directors and the Supervisory Board

The remuneration report can be found in the section of the management report entitled “Remuneration report”. In accordance with item 4.2.5 GCGC, it also contains generally comprehensible explanations of the remuneration system for the members of the Board of Managing Directors and disclosures on the nature of fringe benefits provided by the company. Furthermore, it reports the remuneration of members of the Supervisory Board, individually and broken down by separate components, in accordance with item 5.4.6 (3) sentence 1 GCGC.

Shareholdings of members of executive bodies

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

Stock option programmes and similar securities-based incentive systems

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

Annual Financial Statements of IKB Deutsche Industriebank AG

Balance sheet of IKB Deutsche Industriebank AG as at 31 March 2010

Assets	in €	in € thousand*	31 March 2010 in €	31 March 2009 in € thousand
1. Cash reserve				
a) Cash-in-hand			23,228.79	21
b) Balances with central banks			14,625,955.10	3,859
of which: with Deutsche Bundesbank	*14,357,715.47*	*(3,643)*		
c) Balances in postal giro accounts			40,987.55	59
			14,690,171.44	**3,939**
2. Loans and advances to banks				
a) Payable on demand			1,627,983,069.67	1,518,984
b) Other receivables			3,390,146,851.90	4,784,215
			5,018,129,921.57	**6,303,199**
3. Loans and advances to customers			**21,871,729,551.28**	**24,462,166**
of which: Loans to local authorities	*2,180,692,443.02*	*(1,969,443)*		
4. Bonds and other fixed-income securities				
a) Bonds and notes				
aa) Public-sector issuers			1,478,253,853.74	1,453,370
ab) Other issuers			7,250,671,874.75	10,658,074
			8,728,925,728.49	12,111,444
of which: eligible as collateral with Deutsche Bundesbank	*8,117,080,000.00*	*(7,967,480)*		
of which: Public-sector issuers	*1,099,580,000.00*	*(1,149,980)*		
of which: Other issuers	*7,017,500,000.00*	*(6,817,500)*		
b) Own bonds			2,854,932,376.26	315,956
Nominal amount	*2,857,749,168.96*	*(324,079)*		
			11,583,858,104.75	**12,427,400**
5. Equities and other non-fixed-income securities			**209,202,844.11**	**182,344**
6. Investments			**12,831,926.27**	**12,882**
of which: Interests in banks	262,885.64	*(263)*		
7. Shares in affiliated companies			**960,515,138.45**	**893,266**
of which: Interests in banks	*265,780,455.00*	*(323,605)*		
of which: Interests in financial services providers	*0.00*	*(0)*		
8. Trust assets			**879,470.76**	**938**
of which: Trustee loans	*879,470.76*	*(888)*		
9. Intangible assets			**5,503,395.85**	**9,320**
10. Tangible assets			**7,588,693.62**	**18,454**
11. Other assets			**507,825,661.12**	**678,259**
12. Deferred taxes			**86,600,000.00**	**86,600**
13. Prepaid expenses			**77,436,177.80**	**90,753**
Total assets			**40,356,791,057.02**	**45,169,520**

* in parentheses: figure for the previous year

Equity and liabilities	in €	ı € thousand*	31 March 2010 in €	31 March 2009 in € thousand
1. Liabilities to banks				
a) Payable on demand			50,072,194.17	65,797
b) with agreed term or period of notice			12,926,584,674.37	15,966,505
			12,976,656,868.54	**16,032,302**
2. Liabilities to customers				
a) Other liabilities				
aa) Payable on demand			126,755,372.44	909,688
ab) with agreed term or period of notice			7,055,100,858.34	5,977,379
			7,181,856,230.78	**6,887,067**
3. Securitised liabilities				
a) Bonds issued			**13,709,394,479.34**	**14,272,314**
4. Trust liabilities			**879,470.76**	**938**
of which: Trustee loans	*879,470.47*	*(888)*		
5. Other liabilities			**1,848,137,002.02**	**2,522,490** **
6. Deferred income			**75,975,274.55**	**178,523**
7. Provisions				
a) Provisions for pensions and similar obligations			166,913,976.25	160,561
b) Tax provisions			102,841,355.21	86,991
c) Other provisions			766,701,387.64	1,087,670
			1,036,456,719.10	**1,335,222**
8. Subordinated liabilities			**1,475,354,948.76**	**1,759,009**
9. Profit participation capital			**103,327,018.86**	**152,215** **
of which: Due within two years	*49,729,700.18*	*(6,764)* **		
10. Fund for general banking risks			**189,620,816.45**	**189,621**
11. Equity				
a) Subscribed capital			1,621,315,228.16	1,497,794
Contingent capital:	*229,102.08*	*(123,750)*		
b) Silent partnership contributions			15,778,174.66	70,129
c) Capital reserve			1,750,681,194.97	1,649,201
d) Revenue reserves				
da) Legal reserve			2,398,573.84	2,399
db) Other revenue reserves			0.00	0
			2,398,573.84	2,399
e) Net accumulated losses			-1,631,040,943.77	-1,379,704
			1,759,132,227.86	**1,839,819**
Total equity and liabilities			**40,356,791,057.02**	**45,169,520**
1. Contingent liabilities				
a) Contingent liabilities from discounted forwarded bills			0.00	53
b) Liabilities from guarantees and indemnity agreements			2,317,951,777.72	4,406,278
			2,317,951,777.72	**4,406,331**
2. Other obligations				
a) Irrevocable loan commitments			**2,016,737,526.82**	**2,750,659**

* in parentheses: figure for the previous year
** Figures for the previous year restated as described in the notes

Income statement of IKB Deutsche Industriebank AG for the period from 1 April 2009 to 31 March 2010

Expenses	in €	in € thousand*	2009/10 in €	2008/09 in € thousand
1. Interest expenses			**1,975,905,168.17**	**3,257,845** **
2. Commission expenses			**90,123,562.02**	**22,803**
3. Net expenditure on financial operations			**7,486,008.86**	**-**
4. General administrative expenses				
a) Personnel expenses				
aa) Wages and salaries			98,576,561.81	116,341
ab) Compulsory social security contributions and expenses for pensions and other employee benefits			27,571,655.66	28,348
of which: pension expenses	*14,917,335.66*	*(14,940)*		
			126,148,217.47	144,689
b) Other administrative expenses			114,249,538.29	166,243
			240,397,755.76	**310,932**
5. Amortisation/depreciation and write-downs of intangible and tangible assets			**5,955,740.06**	**7,994**
6. Other operating expenses			**17,243,618.85**	**110,144** **
7. Amortisation/depreciation and write-downs of receivables, specific securities and additions to loan loss provisions			**263,998,321.11**	**1,192,125**
8. Amortisation/depreciation and write-downs of investments, interests in affiliated companies and long-term investment securities			**120,073,288.60**	**657,530** **
9. Expenses from loss assumption			**57,454,397.44**	**82** **
10. Extraordinary expenses			**9,297,757.41**	**55,283**
11. Reimbursed income taxes			**-6,019,870.71**	**-82,169**
12. Other taxes not reported under "Other operating expenses"			**2,056,062.41**	**1,743**
Total expenses			**2,783,971,809.98**	**5,534,312**
1. Net loss for the year			**-348,876,460.02**	**-861,349**
2. Loss carryforward from the previous year			**-1,379,703,647.30**	**-1,275,950**
3. Withdrawals from revenue reserves from other revenue reserves			**-**	**502,493**
4. Withdrawals from profit participation capital			**43,188,418.07**	**114,365**
5. Withdrawals from silent partnership contributions			**54,350,745.48**	**140,737**
Net accumulated losses			**-1,631,040,943.77**	**-1,379,704**

* in parentheses: figure for the previous year

** Figures for the previous year restated as described in the notes

Income	2009/10 in €	2008/09 in € thousand
1. Interest income from		
a) Lending and money market transactions	1,911,829,937.77	3,020,830 **
b) Fixed-income securities and debt register claims	254,989,597.10	458,270
	2,166,819,534.87	**3,479,100**
2. Current income from		
a) Equities and other non-fixed income securities	6,414,591.07	6,723
b) Investments	636,992.64	280
c) Interests in affiliated companies	0.00	17,034
	7,051,583.71	**24,037**
3. Income from profit-pooling, profit transfer and partial profit transfer agreements	**412,362.01**	**119,557**
4. Commission income	**85,297,421.78**	**109,390**
5. Net income from financial operations	**-**	**1,211** **
6. Income from the reversal of write-downs on investments, interests in affiliated companies and long-term investment securities	**121,042,433.20**	**5,453** **
7. Other operating income	**54,472,014.39**	**29,601**
8. Extraordinary income	**-**	**904,614**
9. Net loss for the year	**348,876,460.02**	**861,349**
Total income	**2,783,971,809.98**	**5,534,312**

* in parentheses: figure for the previous year
** Figures for the previous year restated as described in the notes

Notes

Notes to the annual financial statements

The annual financial statements of IKB Deutsche Industriebank AG (IKB) for the 2009/10 financial year were prepared in line with the provisions of the *Handelsgesetzbuch* (HGB – German Commercial Code) in conjunction with the *Verordnung über die Rechnungslegung der Kreditinstitute und Finanzdienstleistungsinstitute* (RechKredV – German Bank Accounting Directive) and in line with the relevant regulations of the *Aktiengesetz* (AktG – German Stock Corporation Act). The changes to HGB and RechKredV provisions due to the *Bilanzrechts-modernisierungsgesetz* (BilMoG – German Act to Modernise Accounting Law) were only taken into account where they are mandatory for the 2009/10 financial year.

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.

There are global write-downs for deferred credit risks. The calculation of global write-downs is based on past analyses of the credit portfolio and the tax provisions as set out in the circular by the German Federal Ministry of Finance dated 10 January 1994. According to the IDW statement BFA 1/1990 on the recognition of global write-downs for deferred credit risks in the annual financial statements of banks, the calculation of the deferred risk must be multiplied by a factor that allows for the risk observed in the past to be continued into the future. To take into account the anticipated higher future defaults in the wake of the financial and economic crisis, a recession premium increased from of 55% at the start of the year to 63% has been applied to the global write-downs calculated in line with the tax method. The increase in the recession premium results in a rise of around € 9 million in global write-downs.

(2) Securities/credit derivatives

Securities as defined in RechKredV are reported under “Bonds and other fixed-income securities” and “Equities and other non-fixed-income securities” (not including shares in affiliated companies and equity investments). If these assets are classified as current assets they are measured at the lower of cost of acquisition or at fair value (strict principle of lower of cost or market). On account of the requirement to reverse write-downs under section 280 (1) HGB, such write-downs on securities in previous years were reversed to fair value, not exceeding the amortised cost of acquisition. The long-term investments (securities classified as fixed assets) are predominantly the issues of international industrial firms (corporate bonds) and securities from securitisation transactions, particularly in the form of credit-linked notes, which IKB acquired with the intention to hold to maturity. The long-term investments are measured in line with the less strict principle of lower of cost or market value under section 340e (1) sentence 2 HGB in conjunction with section 253 (2) sentence 3 HGB (old version). In cases in which impairment can be assumed to be permanent, securities are written down to the lower of cost or market value. Impairment is not considered permanent for held-to-maturity securities whose fair value is less than the carrying amount on account of strong spread widening as a result of the current market developments with no discernible deterioration in the credit quality of the underlying receivables or on account of liquidity discounts. Therefore they are not written down to the lower fair value. If significant, the differences between the cost and repayment amount (premiums/discounts) are distributed over the remaining term pro rata temporis.

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

If the reference portfolio contains 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. IKB again developed some of the measurement procedures it uses further in the reporting year. 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 with spreads for securities with similar risk profiles.

Measurement of CDO holdings referencing ABS securities with subprime shares in particular. The market and fair values of these securities are calculated on the basis for 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 market value of these CDO securities is calculated on the basis of a fundamental measurement. This is based on simulations that measure the effects on the transaction of an expected number of defaults in various combinations. Historic rates of default adjusted in line with the remaining term of the transactions are used to calculate the expected defaults. 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 five securities as fixed assets with first-to-default agreements that predominantly relate to Southern and Eastern European states. The method of calculating the market value of these securities was modified as at the balance sheet date and is no longer based on CDS spreads – as was the case in the previous year. The risk of default of the underling individual risks is first estimated and then, 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 newly developed fundamental measurement model. The reason for this change is the now more accurate measurement of write-downs as the new measurement model can make the distinction in losses of market value between merely temporary fluctuations and fundamentally calculated 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). For the first time this year, the market value of these instruments has been calculated by discounting future expected cash flows. This change has resulted in a negative earnings effect of € 23 million for these CLOs. The reason for this change is the now more accurate measurement of write-downs as the new measurement model can make the distinction in losses of market value between merely temporary fluctuations and fundamentally calculated losses. 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. Based on these rates of default, the forecast of expected cash flows also takes into account the expected time distribution of defaults, future interest developments and, in particular, the individual waterfall structures of the respective transaction. The market value is then the present value of the forecast cash flows discounted with the original risk margin.

Given the lack of market prices, the fair value is calculated using a measurement model. The contractually agreed cash flows are discounted with an interest rate adjusted to the risk of the reference receivables. The values calculated here were verified with a credit portfolio model and on the basis of estimates of the fair values of the underlying loans of the CLOs. Here, too, sufficient account was taken of the difficult overall economic situation.

Measurement of RMBS transactions. The calculation of the market value of the RMBS transactions sold to the special purpose entity Rio Debt Holdings (Ireland) Limited, Dublin, (Rio Debt Holdings) in the previous financial year, which are still recognised by IKB on account of its risk retention, was changed as at the balance sheet date and this is now calculated using a fundamental value method. The reason for this change is the now more accurate measurement of write-downs as the new measurement model can make the distinction in losses of market value between merely temporary fluctuations and fundamentally calculated losses. The fundamental value of the securities is determined as the present value of discounted forecast cash flows. The discount factor is the nominal interest rate agreed for the security. The cash flows are forecast with the help of an information and data provider, whose cash flow models are the benchmark industry standard for calculating the value of RMBS transactions, and on the basis of assumptions by the rating agency Fitch Ratings on future payment defaults. The measurement takes into account both portfolio properties, such as the type of collateral and year of issue, and the current portfolio performance.

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

Measurement of the loan to Rio Debt Holdings. 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, which is included in the consolidated financial statements, in the past financial year. Through the loans transferred by IKB in this context, IKB bears the first-loss risks of this portfolio. The market and fair values are calculated using a proprietary measurement model of IKB. The starting points in measurement are the market values of the securities (calculation of the market value of the loan) and the fair values of the securities (calculation of the fair value of the loan). 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.

There were no measurement units of long-term investments and (interest rate) hedges assigned to them to offset changes in value in underlyings induced by market interest rates with the opposing value development of the hedge in the reporting year.

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

The reduction in negotiable own bonds recognised at repayment amount resulted in a gain of € 7.7 million for securitised liabilities and a gain of € 19.0 million for subordinated liabilities.

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

Shares in affiliated companies and investees and investors are carried at the lower of cost or fair value. They are measured in line with the less strict principle of lower of cost or market value under section 340e (1) HGB in conjunction with section 253 (2) sentence 3 HGB (old version). They are only written down to the lower of cost or market value in cases in which impairment can be assumed to be permanent.

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

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.

(4) 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.

(5) Liabilities

Liabilities are carried at the repayment amount. The difference between this and the amount paid in is deferred and reversed in profit or loss. 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 and the structured securities transferred to the special purpose entity Rio Debt Holdings, 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.

(6) Provisions

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

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

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. The assets offsetting these obligations are reported in full under “Equities and other non-fixed-income securities”.

(7) Contingent liabilities

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

(8) Derivatives

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

(9) Currency translation

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

All other assets, liabilities and outstanding spot transactions denominated in foreign currency are also translated using the ECB reference rate. Hedged expenses and income are translated at the contracted forward rate.

Currency translation expenses are shown in the income statement in line with section 340h (2) HGB (old version). In line with section 340h (2) sentence 2 HGB (old version), unrealised income is only included to the extent that it eliminated the above expenses per currency in the income statement. If forward foreign exchange transactions are concluded to cover interest-bearing balance sheet items, the premiums/discounts on the spot rate are offset in net interest income pro rata temporis.

In contrast to the previous year, realised exchange rate gains and losses are no longer reported in interest income and expenses and instead are now reported under net expenditure on financial operations. The figures for the previous year for both positions have been restated accordingly. After netting, foreign currency losses of € 1.8 million (interest expenses of € 1,795.6 million, interest income of € 1,793.8 million) were reclassified from net interest income to net income from financial operations. Furthermore, the net interest income for the previous year was adjusted for internal IKB transactions that were previously reported as income and expenses (€ 1,217 million).

(10) Special matters

Sonderfonds Finanzmarktstabilisierung (SoFFin – Financial Market Stabilisation Fund)

On 18 August 2009, SoFFin extended its guarantee to IKB for new bond issues by € 7 billion from € 5 billion to € 12 billion.

On account of the development of the Bank's liquidity situation and in order to reduce the costs incurred in connection with the guarantee provided, SoFFin – at IKB's request of 4 February 2010 – reduced its guarantee for IKB from a total of € 12 billion to a total of € 10 billion. The guarantees being returned relate to the extension of the guarantee.

The state-guaranteed bonds were permitted to have a maturity of up to 36 months for a maximum of € 4 billion and a maturity of more than 36 up to 60 months for a maximum of € 3 billion. In September 2009, IKB used guarantees of € 2 billion with a maturity of three years in September 2009 under the extended guarantee. State-guaranteed securities of € 2 billion with a maturity of five years and € 1 billion with a maturity of three years were issued in February 2010.

The standby commission was reported under interest expenses and the guarantee commission was reported under commission expenses.

Mandatory convertible bonds

In the past financial year and on the basis of the authorisation of the Annual General Meeting of IKB on 28 August 2008, the Board of Managing Directors issued subordinated bonds of € 123.7 million with a contingent conversion obligation and contingent conversion privilege in denominations of € 23.04.

After the conditions giving rise to the conversion privilege and the conversion obligation arose on 1 July 2009, LSF6 Rio S.à.r.l., Luxembourg, exercised its conversion right in the amount of € 123.5 million on 2 July 2009 and converted the bonds into shares reported in the equity of IKB.

The remaining bonds that have not yet been converted in the amount of € 0.2 million are still reported as subordinated liabilities.

Registered bond

IKB issued subordinated registered bonds on 27 November 2008 and 16 December 2008. By way of an agreement dated 5 June 2009 between LSF6 Europe Financial Holdings, L.P., Delaware, Dallas and IKB entailing a debt waiver and compensation from future profits, LSF6 Europe Financial Holdings, L.P. – as the bearer of subordinated bonds of with a total nominal amount of € 101.5 million – waived its claims to repayment and future interest payments from these bonds against IKB, suspensively conditional on the occurrence of future profits. The claims to compensation from future profits arising from the capital measure take precedence over the claims of the bearers of profit participation certificates and the silent partner contributions of IKB. Claims shall only arise in a financial year if and to the extent that IKB, in the event of claims from the agreements being served, does not report a net loss for the year and the regulatory equity ratio is above 9% at the level of the Bank as a single entity. Interest shall only be incurred for financial years such as these and to the extent that IKB does not report a net loss for the year in its HGB annual financial statements after – possibly only partially – serving the claims to compensation from future profits.

The waiver resulted in the discharge of the subordinated liability and was reported in equity as an addition to the capital reserves in line with the shareholder's determination (section 272 (2) no. 4 HGB). As a result of the agreement on compensation from future profits, a liability only has to be reported in income again when future profits occur.

Reclassification of securities from current assets to fixed assets

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

Rio Debt Holdings

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

Bacchus 2008-1 and Bacchus 2008-2

The special purpose entities Bacchus 2008-1 and Bacchus 2008-2 plc were formed to procure liquidity in the 2008/09 financial year. Credit portfolios with a volume of € 1.1 billion were sold to the special purpose entities Bacchus 2008-1 and Bacchus 2008-2. In return, all the debt instruments of the special purpose entities were acquired. Ownership under civil law was transferred to these companies. As, in return, all the debt instruments were acquired for the companies Bacchus 2008-1 and Bacchus 2008-2, under IDW RS HFA 8 there are agreements in place that prevent the credit risk and thereby economic ownership from passing to the special purpose entities. The receivables are therefore still reported at IKB. In accordance with IDW RS HFA 8, a corresponding liability is reported in the amount of the purchase price (carrying amount of the receivables) under other liabilities in such cases. The acquired debt instruments of the Bacchus companies were also carried on the face of the balance sheet and reported under bonds and other fixed-income securities as long-term investments.

The following restructuring measures were carried out in the financial year to implement the EU's conditions:

Restructuring provisions. The obligations of restructuring measures and the expected losses from the settlement of continuing obligations was taken into account by the recognition of provisions reported as other provisions. These amounted to € 37.0 million at the start of the financial year. In the 2009/10 financial year, € 23.8 million of these provisions were utilised and € 1.8 million was added to them, resulting in a total of € 15.0 million as at 31 March 2010. The provisions were measured at settlement amount unless these were for uncertain obligations. Provisions for expected losses from executory contracts were reported in the amount of the obligation surplus after discounting. The expenses of the restructuring measures are reported under extraordinary expenses and described under note 33.

Sale of Movesta Lease and Finance GmbH (Movesta). IKB Beteiligungen GmbH, Düsseldorf, a wholly owned subsidiary of IKB, was a legal and economic shareholder in Movesta with 50% of its shares. By way of purchase agreement dated 28 August 2009, IKB Beteiligungen GmbH sold its shares in Movesta to a company of the LHI Group. The shares were transferred in December 2009 when the closing conditions agreed between the parties to the agreement arose.

The purchase agreement also stipulated the hiving off in rem of the project development business of MD Capital Beteiligungsgesellschaft mbH, Düsseldorf, and the subsidiaries owned by this company from Movesta. 50% of these shares were transferred to IKB Beteiligungen GmbH on completion of the transfer of shares to Movesta 50%. Two companies were "synthetically" hived off from Movesta under the purchase agreement. Synthetic hiving-off means that civil law ownership remains with Movesta but the parties to the agreement act as if Movesta had already sold the project development business and special purpose entities to the seller and transferred them in rem.

Under the agreements concluded, IKB Beteiligungen GmbH and IKB have jointly and severally assumed guarantees and indemnification obligations, e.g. in relation to the transferred GmbH shares and the proper settlement of obligations in the past (including issuing tax returns).

Closure of IKB Capital Corporation, New York (IKB CC). As part of the closure of IKB CC, risk-bearing business was sold in full to third parties and the operating activities of the company were almost completely discontinued in the financial year. The company will now be wound up in full by way of self-liquidation, which can be expected to take several years under US law.

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

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

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

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

As at the balance sheet date of the 2008/09 financial year, credit commitments made by IKB to Havenrock Ltd. for a total amount of US$ 835 million had been utilised in the amount of around US$ 808.9 million.

The credit commitments of IKB to Havenrock II Ltd. for US$ 460 million had been utilised in full as at the balance sheet date of 31 March 2010.

The utilisation of these credit commitments resulted in a write-down in the previous year of € 905 million, which was also offset by extraordinary income from risk shielding by KfW in the previous year.

Notes on the balance sheet

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

in € million	Up to 3 months	More than 3 months up to 1 year	More than 1 up to 5 years	More than 5 years
Loans and advances to banks*)				
31 March 2010	3,080	9	189	112
31 March 2009	4,022	354	219	189
Loans and advances to customers				
31 March 2010	1,736	2,968	11,264	5,904
31 March 2009	1,957	2,641	11,818	8,046
Liabilities to banks*)				
31 March 2010	3,135	2,922	4,149	2,720
31 March 2009	6,603	1,439	4,962	2,963
Liabilities to customers*)				
31 March 2010	1,935	1,316	1,243	2,561
31 March 2009	1,501	837	1,080	2,558

* Not including loans and advances or liabilities payable on demand

€ 1,395 million (previous year: € 1,949 million) of the bonds and other fixed-income securities reported in the balance sheet are payable in the following year. € 2,584 million (previous year: € 6,467 million) of the bonds issued and reported under securitised liabilities are payable in the following year. Loans and advances to customers payable on demand include € 4.0 million with an indefinite term.

(12) Fixed assets

Fixed assets at IKB AG

in € million	Acquisition/ production cost	Additions	Disposals	Re-classification	Reversals of write-downs	Write-downs, cumulative	Write-downs in financial year	Net carrying amounts 31 March 2010	Net carrying amounts 31 March 2009
Tangible assets	61.7	0.3	27.1	-	-	27.3	1.7	7.6	18.5
Intangible assets	50.3	0.5	-	-	-	45.3	4.3	5.5	9.3
Equity investments	12.9	-	-	-	-	0.1	0.1	12.8	12.9
Shares in affiliated companies	1,808.5	103.5	5.0	-	7.5	954.0	38.7	960.5	893.3
Fixed-income securities	10,572.3	1,494.3	3,909.3	-	189.1	663.9	32.6	7,682.5	9,955.3
Equities	204.5	7.1	-	-	19.8	22.2	-	209.2	182.3

Fixed assets include bonds and other fixed-income securities and equities with a volume of € 7.9 billion (previous year: € 10.1 billion). These are predominantly issues by international industrial firms (corporate bonds and credit-linked notes) and CDOs and ABS bonds acquired with the intention to hold to maturity.

In total, these long-term investments included hidden charges of € 601.1 million (previous year: € 1,833 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 (€ 7,291 million) and the carrying amounts (€ 7,892 million) to be permanent impairment and therefore no write-downs have been recognised.

The above securities portfolios include securities with a carrying amount of € 450.2 million that did not lead to a balance sheet disposal in line with the regulations of IDW RS HFA 8 in the context of the sales transactions with the special purpose entity Rio Debt Holdings. Compared to the current fair values of € 416.6 million, these portfolios included hidden liabilities on the balance sheet date of € 33.6 million (previous year: € 188.5 million). However, the structure of the sale transaction includes the acquisition of a junior loan that limits the loss participation of IKB to a total of US$ 243 million. Any losses from this portfolio in excess of this are borne by LSF Aggregated Lendings S.A.R.L. and KfW.

In the 2009/10 financial year, the Bank reclassified securities portfolios from current to fixed assets at carrying amounts of € 960.3 million. Thus, write-downs of € 0.6 million in line with the strict principle of lower of cost or market value were avoided.

The carrying amount of shares in affiliated companies and equity investments did not exceed the fair value. A capital increase of € 63.7 million was implemented at IKB CC in the reporting year to offset losses for which the provision recognised in the previous year was utilised.

The operating and office equipment is included in tangible assets at € 6.7 million (previous year: € 5.9 million). This does not include any land or buildings used for banking operations (previous year: € 9.7 million).

(13) 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 March 2010	31 March 2009	31 March 2010	31 March 2009	31 March 2010	31 March 2009
Bonds and other fixed-income securities	11,548.6	12,390.4	11,261.6	11,242.1	287.0	1,148.3
Equity investments	0.0	0.0	0.0	0.0	0.0	0.0
Equities and other non-fixed-income securities	209.2	182.3	0.0	0.0	209.2	182.3
Shares in affiliated companies	265.8	292.7	0.0	0.0	265.8	292.7

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

in € million	Affiliated companies		Equity investments	
	31 March 2010	31 March 2009	31 March 2010	31 March 2009
Loans and advances to banks	3,217.9	4,597.7	0.0	0.0
Loans and advances to customers	1,935.1	1,737.7	96.8	142.2
Liabilities to banks	1,137.9	1,748.0	0.0	0.0
Liabilities to customers	116.7	292.5	0.5	0.0
Subordinated liabilities	475.1	700.3	0.0	0.0

Furthermore, there were receivables from affiliated companies of € 2.6 million (previous year: € 137.6 million) reported under other assets as at 31 March 2010. As in the previous year, there were no other assets relating to investment companies as at the balance sheet date. Liabilities from affiliated companies of € 65.1 million were reported under other liabilities as at 31 March 2010 (previous year: € 0 million).

(15) Trust activities

in € million	31 March 2010	31 March 2009
Loans and advances to customers	0.9	0.8
Investments	-	0.1
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 predominantly loans to insolvent borrowers. In line with the contractual agreements, these are still reported on the balance sheet until the trustee releases IKB from the trust relationship.

(16) Subordinated assets

Subordinated assets are included in the following asset items:

in € million	31 March 2010	31 March 2009
Loans and advances to banks	150.0	150.0
Loans and advances to customers	1,014.4	891.1

(17) Repurchase agreements

As a pension provider, the Bank transferred securities with a nominal value of € 1,440.3 million as at the reporting date. In addition, as a pension recipient, IKB received securities with a nominal value of € 103.8 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 € 134.2 million. IKB has utilised € 103.8 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.

(18) 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. Data has been calculated from accounting, while in the previous year this data was generated from the regulatory reporting system. The figures for the previous year have been restated accordingly, while at the same time internal IKB transactions have been eliminated (see note 9 "Currency translation").

in € million	31 March 2010	31 March 2009
Assets	4,226.7	6,678.4
Liabilities	2,383.3	5,140.9

(19) Other assets and other liabilities

The significant items under other assets are:

in € million	31 March 2010	31 March 2009
Deferred interest on derivative transactions	345	407
Rio Debt Holdings equity kicker	92	48
Receivables from tax authorities	38	48
Premiums paid in derivative transactions	19	18
Receivables from affiliated companies	3	138

The significant items under other liabilities are:

in € million	31 March 2010	31 March 2009
Liabilities to special-purpose entities	1,309	1,899
Deferred interest on derivative transactions	315	411
Liabilities to KfW	-	75
Liabilities to affiliated companies	65	0
Option premiums received	58	49
Adjustment item for currency measurement	50	8
Interest liabilities from subordinate liabilities	16	26

In accordance with IDW RS HFA 8, this item includes liabilities of € 1,309 million (previous year: € 1,974 million) offset by securities holdings in the same amount as collateral as defined by section 285 no. 1 b), 2 HGB.

(20) Prepaid expenses and deferred income

Differences in accordance with section 250 (3) HGB and section 340e (2) sentence 3 HGB (discounts on liabilities recognised at nominal value) are reported at € 60 million (previous year: € 72 million) under prepaid expenses.

Deferred income essentially includes € 31 million (previous year: € 43 million) in differences in accordance with section 250 (2) HGB and section 340e (2) sentence 2 HGB (discounts on receivables recognised at nominal value), € 27 million (previous year: € 16 million) in premiums from interest cap agreements and € 9 million (previous year: € 107 million) in deferred interest income from structured securities.

(21) Deferred taxes

As in the previous year, deferred tax assets in accordance with section 274 HGB are reported in the amount of € 86.6 million for this financial year. This value is based solely 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.

(22) Subordinated liabilities

The subordinated liabilities are equity as defined by the *Kreditwesengesetz* (KWG – German Banking Act) and therefore count as equity capital in the amount of € 972 million (previous year: € 1,749 million) and as Tier III funds used to back market price risks in the amount of € 1 million (previous year: € 6 million).

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

The subordinated liabilities amount to € 1.5 billion (previous year: € 1.8 billion). Interest expenses on these amounted to € 64.1 million in the financial year (previous year: € 96.1 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	EUR	4.50	9 July 2013
2004/05	400.0	EUR	3.89	29 July 2033

(23) Profit participation capital

After loss allocation, profit participation capital amounted to € 103.3 million as at the balance sheet date (previous year: € 152.2 million). € 51.4 million of this amount (previous year: € 141.4 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: € 494.5 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 profit participation certificates issued in the 1999/2000 financial year with an original nominal amount of € 20 million maturing as at 31 March 2010 were reported under other liabilities on the balance sheet as at the reporting date and will be repaid with loss participation in the 2010/11 financial year.

The previous year's disclosures on profit participation capital were restated in that profit participation certificates with a nominal value of € 102.3 million (carrying amount: € 34.6 million) maturing on 31 March 2009 were reported under other liabilities as at the balance sheet date.

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

The repayment claims of the remaining profit participation and the due profit participation capital reclassified to other liabilities were reduced by € 43.2 million on account of the loss participation of the Bank's profit participation capital stipulated in the terms and conditions of the profit participation capital.

The profit participation certificates break down as follows:

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

As in the previous year, no interest was incurred on profit participation certificates for the 2009/10 financial year. Without the net loss for the year or net accumulated losses, interest of € 20.9 million would have been payable on profit participation certificates in the 2009/10 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.

(24) Development of capital

1. Treasury shares

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

The Annual General Meeting on 28 August 2008 authorised the company to acquire treasury shares of up to 10% of the share capital for purposes other than securities trading until 27 February 2010. They can be acquired on the stock exchange or by way of a public bid to all shareholders, including the limited use of put or call options. Together with the treasury shares acquired for trading purposes and other reasons held by the company or assigned to it in accordance with sections 71a ff. AktG, the treasury shares acquired on the basis of this authorisation cannot exceed 10% of the share capital of the company at any time. In line with a decision by the Board of Managing Directors, the acquired shares can be sold on the stock exchange or in some other way or, in full or in part, called in. This authorisation was not utilised in the 2009/10 financial year.

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

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

No treasury shares were held in the 2009/10 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 or 2009/10 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 no-par value bearer shares until 24 March 2014. With the approval of the Supervisory Board, the statutory subscription rights of shareholders can be disapplied under this authorisation. Recessionary and revocation claims have been brought against this resolution on which a verdict has not yet been reached.

On 19 November 2008, the Board of Managing Directors of the company, exercising the authorisation of the Annual General Meeting on 28 August 2008, resolved to issue subordinate bonds with a total nominal value of up to € 123,671,070.72 with a contingent conversion obligation and contingent conversion privilege for up to 48,309,012 shares in the company from contingent capital with a shareholders' subscription right. A subsidiary of the Lone Star group, LSF6 Rio S.à.r.l., had undertaken to assume all bonds not subscribed to by other IKB AG shareholders. Bonds totalling € 150,174.72 were subscribed to by other shareholders and the remaining amount of € 123,520,896.00 was acquired by Lone Star (LSF6 Rio S.à.r.l.). A bond of nominally € 23.04 entitles the bearer to subscribe to nine new shares from contingent capital at a conversion price of € 2.56 per share. Since 1 July 2009, the conditions for the existence of a conversion obligation and a conversion privilege have been met. As a result, a conversion privilege has existed since this time. A conversion obligation 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 share capital is divided into 633,326,261 (previously: 585,075,911) bearer shares. The issue of subscribed shares was entered in the commercial register on 4 May 2010.

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

3. Capital reserves

The capital reserve increased by € 101.5 million to € 1,750.7 million in the financial year.

Please see note 10 "Registered bonds" for information on the development of the capital reserve.

4. Revenue reserves

The legal reserve was reported unchanged at € 2.4 billion in the financial year.

5. Hybrid capital instruments (silent partnership contributions)

As at 31 March 2010, the hybrid Tier I capital after loss allocation amounted to € 15.8 million (previous year: € 70.1 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 € 54.4 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 April 2009	Withdrawals	Additions	Distribution of annual loss	31 March 2010
a) Subscribed capital					
Share capital	1,497.8	0.0	123.5 [1)]		1,621.3
b) Silent partnership contribution	70.1	-54.4 [2)]	0.0		15.7
	1,567.9	-54.4	123.5	0.0	1,637.0
c) Capital reserve	1,649.2	0.0	101.5 [3)]	0.0	1,750.7
d) Revenue reserves					
da) Legal reserve	2.4	0.0	0.0	0.0	2.4
	2.4	0.0	0.0	0.0	2.4
e) Net accumulated losses	-1,379.7	0.0	0.0	-251.3	-1,631.0
	1,839.8	**-54.4**	**225.0**	**-251.3**	**1,759.1**
For information purposes:					
Unutilised					
authorised capital [5)]	500.0	0.0	0.0	0.0	500.0
contingent capital [5)]	123.7	-123.5 [4)]	0.0	0.0	0.2

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

1) Reclassification of mandatory convertible bonds to subscribed capital except for a residual amount of € 0.2 million on exercise of the conversion privilege and issuance of shares
2) Loss participation of the silent partnership contributions for the 2009/10 financial year
3) Reclassification of the subordinated registered bonds to the capital reserve in the amount of € 101.5 million in line with the agreement on debt waiver and compensation from future profits of 5 June 2009
4) Derecognition of the conversion privilege for the subordinated convertible bond issued on 11 December 2008 and issuance of shares in the amount of € 123.5 million
5) 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 24.

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 € 3.0 billion (previous year: € 3.2 billion). The calculation of equity using the balance sheet values produced a value of € 2.8 billion.

(25) 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 2010:

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%

(26) Contingent liabilities/other obligations

Contingent liabilities in € million	31 March 2010	31 March 2009
Guarantees, warranties, other	2,195.1	4,084.9
Assumptions of liability	122.9	321.4
Total	2,318.0	4,406.3

Other obligations in € million	31 March 2010	31 March 2009
Commitments up to one year	902.0	1,186.5
Commitments of more than one year	1,114.7	1,564.1
Total	2,016.7	2,750.6

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

Furthermore, derivative components of structured products (CDS) reported under “Bonds and other fixed-income securities” are also included in the item “Liabilities from guarantee and warranty agreements” at € 1.2 billion (previous year: € 2.8 billion). Provisions of € 0.5 billion (previous year: € 0.8 billion) were recognised for these products as part of the measurement of embedded CDS transactions reported off-balance sheet.

As part of the sale of 50% of shares in Movesta, IKB AG and IKB Beteiligungen GmbH jointly and severally assumed guarantees and indemnification obligations. 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

(27) 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, income from profit transfer agreements, commission income, net income from financial transactions and other operating income breaks down among the different geographical markets as follows:

in € million	2009/10	2008/09
Federal Republic of Germany	2,015.3	3,071.0
Europe not including Germany	298.8	691.9
Total	2,314.1	3,762.9

Income is allocated to geographical regions on the basis of the head office of operations. The figure for the previous year was reduced by € 3,011.8 million as a result of the reclassification of foreign currency earnings and earnings from specific financial operations (see also notes 9 and 29).

(28) 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.

(29) Net expenditure on financial operations

As part of hiving off specific structured securities to the special purpose entity Rio Debt Holdings, the future cash flows of specific structured securities were transferred to this special purpose entity contractually and by way of individual legal transactions (total return swaps) against payment of compensation. The expenses for these total return swaps are no longer reported under net income from/expense of financial operations in this financial year, and are instead reported under Income from the reversal of write-downs on investments, interests in affiliated companies and long-term investment securities as the total return swaps economically relate to long-term investments. The expenses reported for the previous year were adjusted by a net amount of € 0.8 million.

(30) Other operating income

The other operating income essentially includes Group overheads of € 5.8 million (previous year: € 5.9 million), income from the reversal of provisions of € 39.4 million (previous year: € 11.6 million) and income from the sale of property of € 2.6 million. The income from the reversal of provisions predominantly related to the reversal of the provision no longer required for loss compensation obligations for IKB CC.

(31) Other operating expenses

This item essentially includes the following:

in € million	2009/10	2008/09
Repayment obligation for advance distribution	8.0	-
Rental expenses	4.1	5.2
Addition to provision for expected losses	1.5	5.0
Catering, entertainment and canteen expenses	1.1	1.2
Addition to provision for losses of IKB Capital Corporation	-	94.5
Addition to provision for shareholder lawsuits	-	1.1

Figures for the previous year were adjusted as the loss transfer of IKB Data GmbH of € 0.1 million was reclassified from other operating expense to expenses from loss absorption (see also notes 32 and 34).

(32) Expenses from loss absorption

This relates solely to the loss transfer of IKB Beteiligungen GmbH of € 57.4 million. Expenses from loss absorption of € 0.1 million were reported under other operating expenses in the previous year.

(33) Extraordinary income and expenses

This includes expenses for the reimbursement of legal costs to KfW for legal disputes in the amount of € 7.0 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 € 2.3 million. This includes expenses for the termination of employment agreements, provisions for vacancy costs in rental premises and for early retirement obligations.

(34) Prior-period expenses

Other operating expenses include the repayment of an advance distribution by IKB Projektentwicklung GmbH & Co. KG, Düsseldorf, in the amount of € 8.0 million.

(35) Reimbursed income taxes

Income from reimbursed taxes on income of € 6.0 million (previous year: € 82.2 million) was incurred in the reporting year.

In particular, the income results from outside Germany, including the carryback of tax losses to previous years and the reimbursement of taxes for previous years. Taxes on income relate in full to ordinary activities.

Other disclosures

(36) List of shareholdings of IKB Deutsche Industriebank (excerpt)

List of shareholdings of in IKB Deutsche Industriebank AG accordance with section 285 no. 11 and 11a HGB and section 313 (2) HGB [excerpt]		Financial year	Letter of comfort	Equity interest in %	Equity in € thousand	Result in € thousand
1	**Foreign banks**					
	IKB International S.A., Luxembourg	1 Apr - 31 Mar	X	100.0	180,996	-1,137
2	**Other German companies**					
	Erste Equity Suporta GmbH, Düsseldorf	1 Apr - 31 Mar		100.0	50,183	0[4]
	ICCO Grundstücks-Vermietungsgesellschaft mbH & Co. KG, Düsseldorf	1 Apr - 31 Mar	X	100.0	147	-46[5]
	ICCO Grundstücks-Vermietungsgesellschaft mbH, Düsseldorf	1 Apr - 31 Mar	X	100.0	48	2
	IKB Autoleasing GmbH, Hamburg	1 Apr - 31 Mar	X	100.0	14,000	0[4]
	IKB Beteiligungen GmbH, Düsseldorf	1 Apr - 31 Mar	X	100.0	545,710	0[4]
	IKB Credit Asset Management Verwaltungs GmbH, Düsseldorf [1]	1 Jan - 31 Dec		100.0	24	0
	IKB Data GmbH, Düsseldorf	1 Apr - 31 Mar	X	100.0	15,000	0[4]
	IKB Dritte Equity Suporta GmbH, Düsseldorf [8]	1 Jan - 31 Dec		100.0	14	-2,697
	IKB Equity Capital Fund GmbH, Düsseldorf [10]	1 Apr - 31 Mar	X	100.0	51,712	-1,704
	IKB Equity Finance GmbH, Düsseldorf [7]	1 Jan - 31 Dec		100.0	134	-298
	IKB Grundstücks GmbH & Co. Objekt Degerloch KG, Düsseldorf	1 Jan - 31 Dec	X	100.0	2,389	411[5]
	IKB Grundstücks GmbH & Co. Objekt Hamburg KG, Düsseldorf	1 Jan - 31 Dec	X	100.0	3,220	3,967[5]
	IKB Grundstücks GmbH & Co. Objekt Holzhausen KG, Düsseldorf	1 Jan - 31 Dec	X	100.0	3,557	-121[5]
	IKB Grundstücks GmbH & Co. Objekt Uerdinger Strasse KG, Düsseldorf	1 Jan - 31 Dec	X	100.0	8,718	19[5]
	IKB Grundstücks GmbH, Düsseldorf	1 Jan - 31 Dec	X	100.0	121	8
	IKB Immobilien Management GmbH, Düsseldorf	1 Jan - 31 Dec	X	100.0	1,195	-2,976
	IKB Leasing Berlin GmbH, Erkner	1 Apr - 31 Mar	X	100.0	8,000	0[4]
	IKB Leasing GmbH, Hamburg	1 Apr - 31 Mar	X	100.0	45,000	0[4]
	IKB Private Equity GmbH, Düsseldorf [9]	1 Apr - 31 Mar	X	100.0	160,000	0[4]
	IKB Projektentwicklung GmbH & Co. KG, Düsseldorf	1 Jan - 31 Dec	X	100.0	42,577	-7,024[5]
	IKB Projektentwicklungsverwaltungsgesellschaft mbH, Düsseldorf	1 Jan - 31 Dec	X	100.0	29	0
	IKB Struktur GmbH, Düsseldorf [1]	1 Dec - 30 Nov		100.0	200	0
	IKB SWE GmbH, Düsseldorf [1]	1 Apr - 31 Mar		100.0	-	-[11]
	IMAS Grundstücks-Vermietungsgesellschaft mbH, Düsseldorf	1 Apr - 31 Mar	X	100.0	2,460	19
	ISOS Grundstücks-Vermietungsgesellschaft mbH & Co KG, Düsseldorf	1 Apr - 31 Mar	X	100.0	238	-8[5]
	ISOS Grundstücks-Vermietungsgesellschaft mbH, Düsseldorf	1 Apr - 31 Mar	X	100.0	48	2
	ISTOS Beteiligungsverwaltungs- und Grundstücksvermietungsgesellschaft mbH, Düsseldorf	1 Jan - 31 Dec	X	100.0	64	9
	ISTOS Dritte Beteiligungsverwaltungs- und Grundstücksvermietungsgesellschaft mbH & Co. KG, Düsseldorf	1 Jan - 31 Dec		100.0	288	43[5]
	ISTOS Erste Beteiligungsverwaltungs- und Grundstücksvermietungsgesellschaft mbH & Co. KG, Düsseldorf	1 Jan - 31 Dec	X	100.0	45	-355[5]
	ISTOS Zweite Beteiligungsverwaltungs- und Grundstücksvermietungsgesellschaft mbH & Co. KG, Düsseldorf	1 Jan - 31 Dec		100.0	154	-39[5]
	Linde Leasing GmbH, Wiesbaden	1 Jan - 31 Dec		30.0	28,263	4,543
	MD Capital Beteiligungsgesellschaft mbH, Düsseldorf	1 Jan - 31 Dec		50.0	2,956	-7[6]
	TUSSA Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Wilhelm-Bötzkes-Strasse KG, Eschborn 1)	1 Jan - 31 Dec		100.0	1	28[6]
	Zweite Equity Suporta GmbH, Düsseldorf	1 Apr - 31 Mar		100.0	70,080	0[4]
	Tempelhofer Hafen GmbH, Düsseldorf	1 Jan - 31 Dec		94.9	-18,197	-25,326
3	**Other foreign companies**					
	IKB Capital Corporation, New York	1 Apr - 31 Mar		100.0	15,044	-7,572
	IKB Finance B.V., Amsterdam	1 Apr - 31 Mar	X	100.0	1,776	-3,142
	IKB Funding LLC I, Wilmington, Delaware	1 Apr - 31 Mar	X[2]	100.0	75,604[3]	-422
	IKB Funding LLC II, Wilmington, Delaware	1 Apr - 31 Mar	X[2]	100.0	402,445[3]	-271
	IKB Funding Trust I, Wilmington [1]	1 Apr - 31 Mar		100.0	75,068	0
	IKB Funding Trust II, Wilmington [1]	1 Apr - 31 Mar		100.0	400,001	0
	IKB Leasing Austria GmbH, Vienna	1 Jan - 31 Dec	X	100.0	335	-464
	IKB Leasing CR s.r.o., Prague	1 Jan - 31 Dec	X	100.0	1,833	-2,063
	IKB Leasing Finance IFN SA, Bucharest	1 Jan - 31 Dec	X	100.0	1,288	-521
	IKB Leasing France S.A.R.L., Marne	1 Jan - 31 Dec	X	100.0	617	-2,453
	IKB Leasing Hungária Kft., Budapest	1 Jan - 31 Dec	X	100.0	98	-665
	IKB Leasing Polska Sp. z.o.o., Posen	1 Jan - 31 Dec	X	100.0	5,842	370
	IKB Leasing SR, s.r.o., Bratislava	1 Jan - 31 Dec	X	100.0	1,155	-1,544
	IKB Leasing srl, Bucharest	1 Jan - 31 Dec	X	100.0	107	-465
	IKB Lux Beteiligungen S.á.r.l., Luxembourg	1 Apr - 31 Mar	X	100.0	54,930	-5,578
	IKB Pénzüdyi Lízing Hungária Rt., Budapest	1 Jan - 31 Dec	X	100.0	1,609	-289
	Still Location S.A.R.L., Marne	1 Jan - 31 Dec	X	100.0	9,714	-5,310
	ZAO IKB Leasing, Moscow	1 Jan - 31 Dec	X	100.0	1,679	1,482

1) Disclosures in accordance with section 285 no. 11a HGB have been omitted owing to minor significance in line with section 286 (3) no. 1 HGB.
2) Subordinated letter of comfort
3) Incl. silent partnership contributions/preferred shares
4) Profit transfer agreement
5) Company exercised exemption under section 264b HGB and did not prepare notes
6) 31 December 2008 and 2008/09 financial year
7) Company was merged with IKB Private Equity GmbH retroactively to 1 January 2010.
8) Company was merged with IKB Equity Capital Fund GmbH retroactively to 1 January 2010.
9) Company was merged with IKB Equity Finance GmbH retroactively to 1 January 2010.
10) Company was merged with IKB Dritte Equity Suporta GmbH retroactively to 1 January 2010.
11) The company was formed in the 2008/09 financial year. It does not yet have any annual financial statements.

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

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

The following fees were paid for the auditor:

Audit of financial statements in € million	**2009/10**	**2008/09**
Audit of financial statements	2.5	4.8
Other assurance or valuation services	1.3	2.6
Tax advisory services	0.0	0.1
Other services	0.5	0.4
Total	**4.3**	**7.9**

The Audit of financial statements relates to audit fees for the annual financial statements and the consolidated financial statements of IKB. Other assurance or valuation services include expenses for the fees for the consolidated interim financial statements of IKB as at 30 September 2009 of € 0.7 million.

(38) Other financial obligations

Other financial obligations essentially relate to rental, lease and other agreements and amounted to a total of € 262.7 million on 31 March 2010. € 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. € 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 € 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 2010 amount to € 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.

(39) 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 (new version)). 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 detailed descriptions of our special purpose entities Rio Debt Holdings and Bacchus 2008-1, Bacchus 2008-2 (note 10).

Off-balance sheet risks occur when ownership under civil law 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 obligetions 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 € 323 million. 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 (note 44).

(40) 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 (new version) with the following exceptions.

As part of the contract negotiations with SoFFin on increasing the guarantee, LSF6 Europe Financial Holdings, L.P., Delaware, was required to waive claims from the subordinated bonds of November and December 2008 to strengthen the core capital of IKB. In respect of the mandatory convertible bond it was agreed that LSF6 Rio S.à.r.l. would exercise its conversion early on 1 July 2009.

(41) Letters of comfort

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

IKB Leasing GmbH, Hamburg, has issued letters of comfort to Commerzbank Rt., Budapest, for its subsidiaries IKB Leasing Hungaria Kft., Budapest, and IKB Penzüdyi Lizing Hungaria zRt, Budapest.

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

(42) Transfer of collateral for own liabilities

Fixed-interest securities in the amount of € 3.4 billion (previous year: € 7.4 billion) have been assigned as collateral for the ECB tender business and for the GC Pooling (collateral pool) with Eurex Repo GmbH. In addition, credit receivables were lodged at Bundesbank in the amount of € 0.6 billion (previous year: € 0.7 billion). At the balance sheet date, credit facilities totalling € 1.8 billion had been utilised (previous year: € 2.9 billion).

There was no cash collateral in connection with credit derivatives as at the balance sheet date (previous year: € 5.8 million).

Cash collateral in the amount of € 1.2 billion (previous year: € 1.3 billion) was assigned to various banks for interest derivatives as part of collateral management.

Securities with a nominal value of € 240.0 million (previous year: € 19.0 million) have been lodged with Clearstream Banking AG, Frankfurt, and Clearstream Banking S.A., Luxembourg, for compliance with payment obligations in securities transactions; securities with a nominal value of € 7.0 million (previous year: € 7.0 million) have been deposited as collateral. In the context of trading on EUREX Germany, securities with a nominal value of € 5.0 million (previous year: € 5.0 million) have been pledged for margin obligations to BHF-Bank AG, Frankfurt and securities with a nominal value of € 22.0 million (previous year: € 0 million) have been pledged to Barclays, London.

Securities in the amount of € 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 combined: € 330 million). Further securities with a total value of € 124.0 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: € 0.7 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 securities of € 450.2 million (previous year: € 688.5 million) to Rio Debt Holdings and loans and advances to customers of € 464.3 million (previous year: € 589.2 million) to the special purpose entity Bacchus 2008-1 and of € 395.8 million (previous year: € 407.4 million) to the special purpose entity Bacchus 2008-2.

(43) Pensions

The sole purpose of the assets of € 209.2 million (previous year: € 182.3 million) spun off under contractual trust arrangements 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.

(44) Forwards/fair values of derivatives/interest rate risks

The forwards concluded essentially serve to manage and limit interest rate risks and relate in particular to the credit refinancing portfolio and the investment portfolio. Derivative instrument trading is only conducted to a limited extent. The amount of interest rate risk is restricted by a limit system approved by the Board of Managing Directors and monitored constantly in risk management. In addition, the volume of forward and derivative transactions is restricted by counterparty limits.

The interest rate risks of securities, loans and the associated refinancing funds are managed in the investment portfolio 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 2010 of € -1,064.4 million (previous year: € -1,124.9 million). € 54 million of this relates to derivatives in credit refinancing business. 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. Economically, IKB's participation in the market value and market risk of the credit default swaps and credit-linked notes of the special purpose entity Rio Debt Holdings is limited to a first-loss piece with a nominal volume of around US$ 243 million. The fair value of this is € 234 million as at 31 March 2010.

The investment portfolio comprises 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 as collateral for tender transactions. Investments are predominantly hedged against changes in interest rates by interest swaps. Over the course of the financial year, unhedged option writer positions embedded in structured securities were largely reduced, so that only a minor risk of volatility fluctuations (vega risk) remains. 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.

(45) Fair values of derivatives

Derivative transaction in € million	Nominal 31 March 2010	Fair value Positive 31 March 2010	Fair value Negative 31 March 2010	Fair value Total
Interest rate swaps	37,157.8	818.6	-1,885.0	-1,066.4
Swap options	800.0	4.5	-4.5	0.0
Forward interest rate swaps	78.4	2.2	-0.2	2.0
Caps/floors	20.5	0.0	0.0	0.0
Bond options	25.0	204.3	-19.8	184.5
Forward bonds	31.0	0.0	-0.1	-0.1
Forward forward deposits	1.0	0.0	0.0	0.0
FX swaps	1,783.9	2.5	-52.8	-50.2
Currency swaps	429.2	25.0	-12.8	12.2
Currency forwards	26.1	0.3	-0.3	0.0
Credit derivatives	2,795.1	13.8	-755.7	-741.9
of which: embedded derivatives*	(1,519.2)	(0.0)	(-710.3)	(-710.3)
bid-ask effects	0.0	0.0	-4.6	-4.6
Total	**43,148.0**	**1,071.1**	**-2,735.7**	**-1,664.6**

* Provisions of € 530 million were recognised as a provision for possible loan losses for embedded derivatives.

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

In addition to the above mentioned derivatives, the Bank has an equity kicker from the agreement structure in connection with the first loss piece of Rio Debt Holdings, which represents the claim to 80% of the additional proceeds from the utilisation of the transferred portfolio (with a nominal volume of € 1.9 billion), which is recognised as an embedded derivative at a fair value of € 92 million (previous year: € 48 million).

(46) 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.

(47) Remuneration of the Board of Managing Directors

The total remuneration of the members of the Board of Managing Directors for the 2009/10 financial year amounted to € 2,505 thousand (previous year: € 7,068 thousand). € 2,153 thousand (previous year: € 2,380 thousand) of this related to fixed compensation, € 0 thousand (previous year: € 3,177 thousand) to variable compensation, € 271 thousand (previous year: € 280 thousand) to pension compensation and € 81 thousand (previous year: € 1,291 thousand) to additional benefits including compensation of € 1,120 thousand.

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

Total remuneration for former and retired members of the Board of Managing Directors and their surviving dependents amounted to € 3,314 thousand (previous year: € 3,097 thousand). Provisions of € 37,190 thousand were recognised for pension obligations to former members of the Board of Managing Directors and their surviving dependents (previous year: € 37,282 thousand).

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

(49) Remuneration of the Supervisory Board

The total remuneration of the members of the Supervisory Board (including VAT) for the 2009/10 financial year amounted to € 254 thousand (previous year: € 498 thousand). This includes expenses of € 10 thousand (€ 69 thousand).

(50) Remuneration of the Advisory Board

€ 329 thousand (previous year: € 417 thousand) including VAT was paid to the members of the Advisory Board.

(51) 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).

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

	2009/10	**2008/09**
Men	662	710
Women	389	442
Total	**1,051**	**1,152**

(53) Corporate governance

The Board of Managing Directors and the Supervisory Board of the Bank issued the annual declaration of compliance in accordance with section 161 AktG on 14 July 2009 and made this permanently available to the shareholders on the company's website (www.ikb.de).

(54) Executive bodies

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

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

The Supervisory Board

Chairman

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

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

Deputy Chairman

Dr Karsten von Köller, Frankfurt
Chairman Lone Star Germany GmbH

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

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

Members

Stefan Baustert, Krefeld
Management consultant

b) *AptarGroup*

Wolfgang Bouché, Düsseldorf
Employee representative

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

a) *COREALCREDIT BANK AG*

Dr Lutz-Christian Funke, Frankfurt
Director of Corporate Strategy/Head of the Office of the Board of Managing Directors, Federal German and European Matters, Corporate Strategy, Strategic Investments, Economic Research and Communications of KfW Bankengruppe

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

Dipl.-Kfm. 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 AG*
KOSTAL Verwaltungsgesellschaft mbH
b) *DEG – Deutsche Investitions- und Entwicklungsgesellschaft mbH*
LEWA Attendorn GmbH

Jürgen Metzger, Düsseldorf
Employee representative

Dr Claus Nolting, Munich
CEO of COREALCREDIT BANK AG

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

a) *BMG RM Germany GmbH (Chairman from 30 September 2009)*
   Arvato AG (Deputy Chairman)
   Druck- und Verlagshaus Gruner + Jahr Aktiengesellschaft
   Symrise AG (from 22. April 2009)
b) *Ricordi & C. S.p.A. (Chairman)*
   Bertelsmann Capital Investment (S.A.) SICAR
   Bertelsmann Digital Media Investments S.A.
   Bertelsmann Inc.
   Edmond Israel Foundation
   RTL Group S.A.

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

a) *Körber AG (Chairman)*

Dr Carola Steingräber, Berlin (until 27 August 2009)
Employee representative

Carmen Teufel, Stuttgart (from 27 August 2009)
Employee representative

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

Ulrich Wernecke, Düsseldorf
Employee representative

Andreas Wittmann, Munich
Employee representative

Board of Managing Directors

Dr Dieter Glüder

b) *IKB Data GmbH (Chairman from 9 June 2009)*
IKB Immobilien Management GmbH (Chairman from 9 June 2009)
IKB International S.A. (Chairman)
IKB Autoleasing GmbH (until 9 June 2009)
IKB Capital Corporation (until 19 May 2009)
IKB Leasing Berlin GmbH (until 9 June 2009)
IKB Leasing GmbH (until 9 June 2009)
Movesta Lease and Finance GmbH (from 9 June 2009 to 18 December 2009)

Dr Reinhard Grzesik
(until 3 July 2009)

b) *IKB Data GmbH (Chairman) (until 9 June 2009)*
IKB Immobilien Management GmbH (Chairman) (until 9 June 2009)
IKB International S.A. (until 3 July 2009)
Movesta Lease and Finance GmbH (until 9 June 2009)

Claus Momburg

b) *MD Capital Beteiligungsgesellschaft mbH (Chairman from 2 February 2010)*
IKB Autoleasing GmbH
IKB International S.A.
IKB Leasing Berlin GmbH
IKB Leasing GmbH
IKB Private Equity GmbH
Movesta Development GmbH (from 8 October 2009 until 19 January 2010)
Movesta Lease and Finance GmbH (Deputy Chairman until 18 December 2009)

Hans Jörg Schüttler
(Member and Chairman)

b) *IKB Autoleasing GmbH*
IKB International S.A. (from 26 August 2009)
IKB Leasing Berlin GmbH
IKB Leasing GmbH
IKB Private Equity GmbH

Dr Michael H. Wiedmann

b) *IKB Private Equity GmbH (from 4 March 2009 and Chairman from 2 April 2009)*
Argantis GmbH (from 14 April 2009)
IKB Autoleasing GmbH (from 9 June 2009)
IKB Capital Corporation (from 20 May 2009 until 28 April 2010)
IKB Leasing Berlin GmbH (from 9 June 2009)
IKB Leasing GmbH (from 9 June 2009)

Offices held by employees

As at 31 March 2010, the following employees were represented in the statutory supervisory boards of large corporations:

Dr Reiner Dietrich
TRICOR Packaging & Logistics AG

Roland Eschmann (until 29 May 2009)
Oechsler AG

Frank Kraemer
ae Group AG

Christian Schaumkell (from 17 December 2009)
Oechsler AG

Holger Schragmann (from 21 April 2009 until 17 December 2009)
Oechsler AG

Düsseldorf, 8 June 2010

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, 2009 to March 31, 2010. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law are the responsibility of the Company's Board of Managing Directors. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

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

Our audit has not led to any reservations.

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

According to our duties, we refer to the fact that the Company's ability to continue as a going concern is threatened by risks, which are described in the section 'Overall view of the risk situation' of the management report. It is stated there that a crucial factor for the continuation of IKB Deutsche Industriebank Aktiengesellschaft as a going concern will especially be the extent to which its new business model – in particular the expansion of business with derivatives, customer-based capital market products and consultancy services with the aim of increasing commission income – leads to success and generates the planned income in the Bank's customer business. IKB Deutsche Industriebank Aktiengesellschaft's ability to continue as a going concern also depends on the compliance with the conditions stipulated by SoFFin for the provision of guarantees, by the European Commission for the approval of the state aid and by the Deposit Protection Fund of the private banks. For this purpose, it is particularly necessary that

- the Tier I capital ratio (Kernkapitalquote) of at least 8% is adhered to at individual Bank level and Group level,
- total Group assets are reduced to € 33.5 billion by September 30, 2011,
- the Real Estate Finance segment and activities at the site in Luxembourg are ceased on schedule and

- the risk-bearing capacity is also present in the future in due consideration of the above points and the new business model.

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

Düsseldorf, June 18, 2010

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, 8 June 2010

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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