6-Month Report 2010/11

(1 April – 30 September 2010)

Only the German version of this report is legally binding.

IKB

Deutsche Industriebank

Contents

Letter from the Chairman of the Board of Managing Directors

Dear shareholders,
Dear business partners of IKB,

In October 2010, Lone Star announced that it was looking for a strategic partner for IKB to press ahead with the development of the Bank now that the restructuring is largely complete. The Board of Managing Directors of IKB is providing constructive support for this project. We are of the opinion that a long-term partner and shareholder can contribute to and benefit from the more rapid implementation and continued development of IKB's business model.

The consolidated net loss of € 233 million was half the prior-year figure and contains extraordinary effects impacting earnings in the amount of € 154 million, including SoFFin charges totalling € 64 million. IKB's net loss in accordance with the German Commercial Code (HGB) was € 74 million. We are on the right path to return to operational profitability in the medium term.

Our risk report provides a detailed description of the risks to which the Bank is exposed. While the good economic development in Germany is leading to a significant improvement in the credit risk situation, further refinancing and legal risks remain perspectively. We must also implement the EU conditions requirements in good time and maintain a Tier I ratio of at least 8% for as long as we continue to utilise the SoFFin guarantees.

We expect to succeed in this. IKB had a Tier I ratio of more than 10% at the end of September. Liquidity is already assured for the next 18 months without further measures. The risks to which we are exposed are limited: we have significantly reduced our market price risks and comprehensively hedged our credit risks, while structured credit portfolios are no longer a cause for concern.

Two years ago, we transferred the remaining investments still containing sub-prime risks to the special purpose entity Rio Debt Holdings. The financing from KfW and Lone Star with a total volume of some € 700 million has been repaid. The value of the remaining portfolio has increased substantially.

Customer relationships have been largely maintained and expanded in spite of the crisis. The fundamental changes to the business model are now complete following the expansion of our lending activities to include capital market and advisory services (including M&A, restructuring consultancy, risk management and placements). With this broader product range, we can offer our customers comprehensive and individually tailored financing solutions and convince new interested parties of the quality of our services.

Due to restructuring costs, it will take some time before the reorientation is also reflected positively in the income statement. The volume of new disbursements in the first six months was higher than the previous year with improved margins. Net fee and commission income (adjusted for SoFFin charges) increased significantly, thereby confirming the positive trend recorded in the first quarter.

The German industrial sector is currently demonstrating its recovery from the crisis in impressive fashion. There is high demand for consulting and services for the financing of this upturn. Our customers' successes also serve as an example for us. We will continue to give life to IKB's new business model and systematically implement our streamlining and fitness programme.

Yours

Hans Jörg Schüttler

Interim Group Management Report

1. General conditions

The recovery of the global economy continued throughout 2010, although the dynamic performance seen in the early part of the year will not be sustainable. In the USA and Japan, economic development started to slow down in the spring following strong expansion during the winter months. The euro zone continued to record substantial growth in production in the second quarter of 2010 (+1.0% quarter-on-quarter), although this trend slowed again in the third quarter (+0.4% quarter-on-quarter). In emerging markets, too, production has grown less rapidly since the spring. However, industrial production in Asia has now returned to the growth path of past years, whereas it is still some way from achieving pre-crisis levels in western industrialised nations.

General conditions for the core business

The German economy has recovered surprisingly quickly from the dramatic slump in 2009. GDP growth in the first half of 2010 was primarily export-driven, while investments in equipment – the key factor in domestic lending business – passed the low ebb following the record downturn in 2009 (-22% year-on-year) and gained momentum once again (growing by 6% year-on-year in the first six months). The German employment market also proved extremely robust during the crisis thanks to labour market programmes such as reduced working hours. In September 2010, the number of unemployed fell below the 3 million barrier for the first time since the post-reunification boom of spring 1992. At the same time, the number of people at work reached almost 40.7 million, a level that has not been seen since reunification. The current growth in the workforce is the first sign of a more sustained upturn in private consumption. All in all, the economic recovery in Germany has become more broad-based and now covers all sectors. Encouragingly, the number of business insolvencies rose less sharply (+7%) in the first half of the year than had been expected on account of the severe economic downturn.

Some important industrialised nations are faced with the task of reducing their debt levels, which have grown significantly in the recent past. The resulting slowdown in demand together with high unemployment is serving to increase the risk of deflation in these countries, while the already highly expansive monetary policy is seriously limiting the scope for absorbing this risk. In light of this situation, quantitative easing – the purchase of government bonds by the central bank, for example in the USA and the UK – has become more important.

IKB’s key foreign markets saw growth in economic output in the first half of 2010, albeit at varying rates (United Kingdom 0.7%, France 1.4%, Italy 0.9% year-on-year). Spain, which is still badly affected by a real estate and construction crisis, returned to GDP growth in the second quarter, but GDP for the first six months as a whole contracted by 0.7%. Due to the dramatic deterioration in the budgetary situation, most industrialised nations have now been forced to take fiscal policy measures in order to bring about a shift towards consolidation. This is likely to stifle growth in the United Kingdom and Spain in particular, neither of which have yet overcome their structural problems.

Events on the financial markets this year have been dominated by the debt crisis in the euro zone. The crisis of confidence came to a head in May 2010, when the markets for government bonds from peripheral euro zone nations threatened to dry up. Extensive stabilisation measures were taken in order to prevent matters from worsening: with the aid of the International Monetary Fund (IMF), a preventive safety net with a volume of up to € 750 billion was put in place, with the result that the situation did not develop into a crisis. However, the peripheral bond markets have remained under pressure. In contrast to the previous phase of the financial crisis, the global real economy was largely unaffected by the latest upheavals, and the economic recovery remained intact – thanks in part to the extensive stabilisation measures initiated by the EU. Despite this, the turbulence on the financial markets as a result of the debt crisis shows that the markets remain sensitive.

The EU debt crisis led to a further loss of confidence among banks. This was reflected in the spreads demanded by banks for unsecured debt compared with secured debt on the interbank market. However, the spread expansion was considerably smaller than at the start of the financial market crisis in 2007 and following the insolvency of Lehman Brothers in autumn 2008. There has been an observable normalisation of the money markets recently, with falling spreads and rising money market rates (e.g. 3-month Euribor).

Despite the sustained uncertainty on the financial markets and the fact that the profitability in the banking system remains strained, the credit squeeze that was feared in Germany for some time has not become reality and companies have largely been able to meet their – admittedly significantly reduced – financing requirements without difficulties via the banking system and their own or alternative forms of financing such as leasing.

The economy could be exposed to risks if companies' financing requirements increase significantly due to the bottleneck in replacement and expansion investments, as lending by banks continues to be hampered by various factors, some of which are structural in nature. This includes the write-downs and valuation adjustments on assets due to the financial and economic crisis, which are placing a significant strain on banks' equity resources. According to IMF estimates, these are ultimately expected to total around $2.2 trillion, of which some three-quarters has been realised to date. These write-downs primarily relate to US and European financial institutions, meaning that banks in these regions in particular remain susceptible to crises of confidence in various forms. Furthermore, there is considerable doubt regarding the consequences of the planned regulations under the Basel III banner, which will enter into force successively. These regulations are geared towards raising equity requirements and introducing tougher liquidity requirements, restricting the asset volume of given equity (leverage) and further regulating the use of derivatives and the trading book.

IKB's strategic positioning

IKB Deutsche Industriebank AG (IKB AG or IKB as a synonym for the Group) is a specialist bank for corporate lending in Germany and Europe. The target groups are German and European companies, generally small and medium-sized enterprises with sales in excess of € 50 million, as well as private equity companies. As a provider of specialist banking and financial services and consulting, IKB has a strong connection with small and medium-sized enterprises (SME) in Germany and offers them innovative solutions and access to the capital markets via a wide range of products. No other medium-sized private commercial bank has such a focused business model built on long-standing customer relationships.

IKB has a Germany-wide sales network consisting of locations of IKB AG and IKB Leasing GmbH in every region of the country. This national network is supplemented by a selected number of European locations that are important for corporate lending and the Bank's own customers. As demanded by the EU, IKB International S.A., Luxembourg, will be closed with effect from 1 April 2011. In particular, this location was the Group's internal competence centre for foreign-currency lending and the use of derivatives by customers. The relocation of its activities to Düsseldorf has already been partially implemented and will be completed on schedule. Once the relocation is completed at the latest, IKB's Düsseldorf office will be more efficient in these activities than was previously the case.

In October 2008, the European Commission approved state aid for IKB under strict conditions (see section 2). These include a dramatic reduction in IKB's business activities in order to compensate for the state aid through targeted costs and restrictions on competition. Among the conditions are the discontinuation of the Real Estate Finance segment and the closure of some offices outside Germany Following the implementation of the EU ruling, the branch offices in London, Madrid, Milan and Paris will remain as major operational locations abroad, while IKB Leasing GmbH, IKB Private Equity GmbH and IKB Data GmbH will be retained as the Group's major operational subsidiaries. The total assets of the Group are to be reduced to € 33.5 billion by September 2011. Progress on meeting these conditions is extremely advanced (see section 2), meaning that the majority of the significant costs involved have already been processed. However, further substantial costs may be incurred between now and September 2011.

IKB has consistently strived to meet the EU conditions in good time and has systematically reduced risk positions while implementing its new business model in terms of organisation (including risk management) as well as the necessary IT infrastructure. The aim is to fully implement the business model as fast as possible and to allow it to develop unhindered by the costs and the restrictions on activities embodied in the EU conditions. The Bank has benefited and will continue to benefit from the strong basis of customer relationships that it has established over many years, particularly among small and medium-sized enterprises, and which remained stable even during the crisis. The same applies for its workforce.

With its strategic reorientation, IKB's previous focus – lending business with SMEs – has been expanded to include capital market and advisory services in particular (especially derivatives, placements, M&A and restructuring consultancy). The organisational structure and workflows within IKB have also been adjusted and simplified. A broader product range and the more intensive utilisation of customer potential means that

IKB is able to address its customers' financing issues in an innovative manner and generate value added with its solutions. Its size allows it to make quick decisions to the benefit of its customers.

The strategic reorientation is geared towards achieving a risk-adequate operating profit in the medium term. Contributing factors will be income growth combined with prudent risk management, cost reductions and the strengthening of the equity base through the reduction of risk assets.

Segments

The previous segment structure was discontinued at the end of the 2009/10 financial year as it no longer reflected the strategic repositioning and management. Since 1 April 2010, reporting has been performed on the basis of bank products in the following segments:

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

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

The Advisory and Capital Markets segment comprises the Bank's consultancy activities in the fields of M&A, structuring, restructuring, structure/income optimisation and private equity. The Capital Markets sub-segment consists of capital market and risk management solutions and the activities of the Institutional Sales department.

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 relating to customers and managed as investments are also assigned to this segment.

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

A more detailed presentation of the segments can be found in the notes.

2. Significant events in the reporting period

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 announced on 21 October 2008 that the state rescue measures that IKB had received since the start of the crisis in July 2007 had been approved subject to certain conditions and requirements.

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

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

Specifically, the conditions are as follows:

- Discontinuation of the Real Estate Finance segment (no more new business; active reduction of at least 20% of the portfolio by 30 September 2010; reduction of a further 40% by 30 September 2011; remaining portfolio discontinued 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 credit holdings up to a maximum of € 3.2 billion can be relocated to IKB AG in Düsseldorf) 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
- Disposal of non-strategic asset positions by 30 September 2011.

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

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

- The credit volume of Real Estate Finance was reduced by 38% as at 30 September 2010 (interim target set by the European Commission: reduction of 20% by 30 September 2010); the winding up/sale of the affected subsidiaries has been initiated. New business has been discontinued.
- IKB's 50% interest in Movesta was disposed of in 2009.
- IKB CC: The loan portfolio was reduced in full by way of sale. The company's liquidation has been initiated.

- IKB S.A.: The preliminary work on the winding up of IKB S.A. and the assumption of certain tasks by the parent company is almost complete and the reconciliation with the responsible offices have taken place. The transfer of significant sections of the derivative and loan portfolio to the parent company is scheduled for the coming weeks. The remaining derivative and credit holdings will be transferred in early 2011 and the bank will be converted into a liquidating company with effect from 1 April 2011. The liquidating company will retain those holdings for which customer approval for transfer to the parent company is not received. New derivatives business has been located in Düsseldorf since July 2010.

- IKB's business activities in Amsterdam have been discontinued.

- The credit volume in non-strategic asset positions was actively reduced to € 0.3 billion as at 30 September 2010 compared with € 1.7 billion as at 31 March 2007.

- The total assets of the Group were reduced to € 35.8 billion as at 30 September 2010.

The EU Commission's ruling of 17 August 2009 concerning the extension of the guarantee from the Financial Market Stabilisation Fund (SoFFin) also imposed other obligations on IKB with regard to its operations:

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

- Secondly, the ruling substantially restricts the repurchasing of IKB's own liabilities.

IKB has taken organisational precautions to ensure compliance with these requirements. The EU Commission is being kept informed about the status of implementation.

Changes in the Group

On 30 September 2010, Aleanta GmbH, Düsseldorf, was included in consolidation for the first time. The company was formed following the spin-off of parts of the assets of IKB Beteiligungen GmbH, Düsseldorf. Further details on this transaction and other changes in the scope of consolidation can be found in the accounting policies in the notes under (b) Scope of consolidation.

Other significant transactions

In connection with the implementation of conditions imposed by the EU Commission for the restructuring of IKB, all rights and obligations from a total of three silent participation agreements between IKB S.A. and Deutsche Bank Luxembourg S.A. (Deutsche Bank Luxembourg) dated 16 November 2000 were transferred from IKB S.A. to IKB AG by way of a transfer of agreement on 30 September 2010. The respective owners' meetings had previously approved the transfer of the participation certificates issued on a trust basis by Deutsche Bank Luxembourg (ISIN XS0119317823, XS0119814456 and XS0119317740) with 100% of the votes cast in each case. The silent participations terminated on 31 March 2010 were repaid as agreed on 17 November 2010 in the following amounts after loss participation:

- ISIN XS0119317823 (nominal volume € 45 million): € 8.6 million
- ISIN XS0119814456 (nominal volume € 15 million): € 2.9 million
- ISIN XS0119317740 (nominal volume € 10 million): € 1.9 million

Legally relevant events

The US Securities Exchange Commission (SEC) filed a suit against Goldman Sachs and one of its bond traders in mid-April 2010. The charge is that the defendants deliberately withheld vital information from investors (including Rhineland Funding Capital Corporation, RFCC, for which IKB had previously performed an advisory function and provided lines of liquidity) on the parties involved and the risk selection processes in the creation of the Abacus 2007 AC-1 transaction. In mid-July 2010, the SEC and Goldman Sachs agreed to a settlement including the payment of a total of US$ 550 million (including US$ 150 million to RFCC investors) and the admission of incorrect marketing material for this transaction on the part of Goldman Sachs. IKB is examining the documents available including the indictment with a view to its legal claims.

Please see the "Legal risks" section of the risk report for details of other material legally relevant events.

Debt issuance programme

The debt issuance programme (DIP) dated 16 February 2010 has been adjusted with supplements dated 29 April 2010 and 8 October 2010. This means that IKB has a valid basic prospectus under which it can flexibly manage its issues. This has extended its range of possible refinancing instruments.

Personnel changes

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

Mr Jürgen Metzger stepped down from the Supervisory Board at the end of this Annual General Meeting as scheduled. The re-election of employee representatives meant that Dr Carola Steingräber was elected to the Supervisory Board. Mr Ulrich Wernecke, whose term of office also expired at the end of this Annual General Meeting, was re-elected to the Supervisory Board.

Annual General Meeting on 26 August 2010

The Annual General Meeting of IKB AG for the 2009/10 financial year was held in Düsseldorf on 26 August 2010. The Annual General Meeting adopted all of the resolutions proposed by the Bank's management by a large majority. The results of the individual votes can be found on the Bank's website at www.ikb.de.

Current rating situation

On 17 August 2010, the rating agency Moody's confirmed the following ratings for IKB: long-term rating: Baa3, short-term rating: Prime-3, financial strength individual rating: E, outlook: negative.

On 28 October 2010, the rating agency Finch confirmed the following ratings: long-term rating: BBB-, short-term rating: F3, outlook: negative. The financial strength individual rating was downgraded from D/E to E.

3. Net assets, financial position and results of operations

Business development

The new business volume amounted to € 1.6 billion in the first half of the 2010/11 financial year (1 April to 30 September 2010), up 18% on the same period of the previous year. Derivative and commission business with customers also increased.

Income statement figures

The first half of the 2010/11 financial year was largely dominated by the financial and economic crisis in certain euro zone countries. This led to – in some cases significant – expansions in the credit spreads for certain government risks in Europe and, in particular, bank risks. Encouragingly, this was accompanied by a substantial economic recovery, particularly in Germany, which showed signs of becoming a sustained upturn towards the end of the first half of the financial year.

In addition to the aforementioned economic developments, the consolidated net result as at 30 September 2010 was attributable to the charges for the implementation of the EU conditions and the guarantee commission paid to SoFFin. The effects can be described as follows:

- The strong economic growth in Germany in particular is also reflected in provisions for possible loan losses, which declined significantly as against the same period of the previous year.
- There was initial success in the stabilisation of net interest income despite the reduction in lending business and in fee and commission income from customer business.
- The widening of credit spreads led in particular to remeasurement losses on the securities portfolio, a large proportion of which is held by IKB for refinancing with the European Central Bank (ECB).
- Further remeasurement losses resulted from the reduction in the interest rates of liabilities (particularly issued promissory note loans) and derivatives measured at fair value.
- Although the simultaneous increase in the credit spreads for IKB liabilities measured at fair value (IKB spread) resulted in a remeasurement gain, this was not sufficient to offset the remeasurement losses.

IKB reported a consolidated net loss of € 233 million for the first half of the 2010/11 financial year (first half of the 2009/10 financial year: consolidated net loss of € 475 million). After adjustment for extraordinary factors (adjusted consolidated income statement), the consolidated net loss amounted to € 79 million, a substantial improvement on the previous year (€ -214 million). Among other things, this reflects the first initial success from customer transactions in connection with the implementation of the new business model.

The following table provides an overview of the consolidated income statement for the first half of the 2010/11 financial year and the same period of the previous year as well as the significant extraordinary effects contained in the consolidated net loss for the first half of the year.

Table: Income statement with extraordinary factors

in € million	Total unadjusted 1 Apr 2009 - 30 Sep 2009	Total unadjusted 1 Apr 2010 - 30 Sep 2010	Change	Thereof extraordinary factors: Portfolio Invest-ments	Thereof extraordinary factors: Long-term assets and liabilities and derivatives	Thereof extraordinary factors: Measure-ment of liabilities due to credit rating changes	Thereof extraordinary factors: Measure-ment of liabilities in line with IAS 39 AG 8	Thereof extraordinary factors: Other factors	Total adjusted 1 Apr 2010 - 30 Sep 2010
Net interest income	94.1	71.5	-22.6				-29.3	-25.0	125.8
Provision for possible loan losses	210.0	37.7	-172.3						37.7
Net interest income after provision for possible loan losses	**-115.9**	**33.8**	**149.7**				**-29.3**	**-25.0**	**88.1**
Net fee and commission income	-13.0	-44.5	-31.5					-63.9	19.4
Net income from financial instruments at fair value	-365.2	-57.8	307.4	6.9	-255.2	189.3			1.2
Net income from investment securities	12.6	37.2	24.6	18.3	13.4				5.5
Result of investments accounted for at using the equity method	-1.1	0.0	1.1						0.0
Administrative expenses	145.7	145.8	0.1					6.8	139.0
Other operating income	140.3	-63.9	-204.2	-8.0			-1.4	-18.8	-35.7
Operating result	**-488.0**	**-241.0**	**247.0**	**17.2**	**-241.8**	**189.3**	**-30.7**	**-114.5**	**-60.5**
Taxes	-13.0	-8.1	4.9					-27.0	18.9
Consolidated net loss	**-475.0**	**-232.9**	**242.1**	**17.2**	**-241.8**	**189.3**	**-30.7**	**-87.5**	**-79.4**

Some totals may be subject to discrepancies due to rounding differences.
* Prior-year figures adjusted (see Annual Report 2009/10 and notes on changes in accordance with IAS 8)

Net interest income declined by € 23 million year-on-year to € 72 million. This was primarily due to the lower earnings contributions from investments of own funds in the Treasury and Investments segment in particular, as well as the reduction in lending business and portfolio investments as a result of the restructuring.

Net interest income contains the following extraordinary factors:

- The measurement of liabilities in accordance with IAS 39 AG8 led to accrued interest expense of € 29 million in net interest income. This encompasses the two compensation agreements relating to the debt waivers by KfW Bankengruppe, Frankfurt, and the compensation agreement relating to the debt waiver by LSF6 Europe Financial Holdings, L.P., Delaware, Dallas/USA (LSF6 Europe), as well as some profit participation certificates and silent partnership contributions.

- The write-down of the compensation item for realised hedged items at the time of the changeover to IFRS (IFRS 1 IG 60A) resulted in an expense of € 25 million.

Net interest income adjusted for these extraordinary factors remained stable at the same level in each of the two quarters since 31 March 2010.

Provision for possible loan losses amounted to € 38 million, down significantly on the prior-year figure of € 210 million. This decrease of € 172 million is primarily attributable to the tangible improvement in the economic situation. Provision for possible loan losses include an expense of € 9 million from asset disposals largely aimed at fulfilling the EU conditions. A detailed description of the development of the risk situation can be found in the risk report.

Net interest income after provision for possible loan losses was positive on the whole, improving by € 150 million year-on-year to € 34 million.

At € -45 million, **net fee and commission income** was € 32 million lower than in the previous year. The guarantee commission payable to SoFFin in the amount of € 64 million (previous year: € 27 million) had a significant adverse effect on net fee and commission income. Adjusted for guarantee commission, net fee and commission income for the first half of 2010/11 amounted to € 19 million, up € 5 million on the adjusted prior-year figure.

Net income from financial instruments at fair value amounted to € -58 million, up € 307 million on the previous year. The development in net income from financial instruments at fair value is attributable to opposing effects that are presented as extraordinary factors:

- Positive changes in the fair value of portfolio investments made a positive contribution of € 7 million to net income from financial instruments at fair value.

- Net income from long-term assets and liabilities and derivatives measured at fair value amounted to € -255 million and was negatively impacted by a number of factors: in addition to the negative development of the credit spreads of the European government and corporate bonds used for refinancing with the ECB, lower interest rates – and long-term interest rates in particular – resulted in remeasurement losses on liabilities to customers (particularly issued promissory note loans).

- The expansion of the IKB spread due to the financial crisis resulted in remeasurement gains on liabilities in the amount of € 189 million.

Net income from investment securities improved by € 25 million year-on-year to € 37 million. This development is almost entirely attributable to extraordinary factors and was primarily due to positive changes in fair value and disposals, particularly among portfolio investments but also among long-term assets.

Administrative expenses remained unchanged as against the previous year at € 146 million. Personnel expenses declined by € 5 million, particularly as a result of the reduction in the average number of employees of 141 to 1,529. Other administrative expenses increased by the same amount. This was primarily due to the Bank's reorientation and the associated consulting costs for internal process optimisation projects. Costs are also still being incurred for the management of the crisis and for consulting in conjunction with the implementation of the restructuring measures resulting from the EU conditions; these items are reported as extraordinary factors.

The **other operating income** deteriorated by € 204 million year-on-year to € -64 million. The main reason for this development was the remeasurement gain of € 132 million in the previous year due to the debt waiver by LSF6 Europe in exchange for a compensation agreement and the lower present values resulting from measurement in accordance with IAS 39 AG8 (extraordinary factor). In the first half of the year, the other operating income included the following extraordinary factors:

- An expense of € 8 million was recognised for provisions for costs relating to the settlement of portfolio investments.

- The measurement of liabilities in accordance with IAS 39 AG8 resulted in an expense of € 1 million.

- In connection with the acquisition of a company, there was a difference between the purchase price and the fair value of the net assets of the company acquired in the amount of € 20 million. This difference was expensed immediately. (Further information can be found in the accounting policies in the notes under (b) "Scope of consolidation".)

In addition to the extraordinary factors presented above, the other operating income included write-downs in conjunction with real estate project development in the amount of € 41 million.

The **operating result** improved by € 247 million year-on-year to € -241 million. The adjusted operating result was € -61 million.

The **tax result** was positive at € 8 million. The merger of two companies led to the reversal of tax provisions, resulting in a gain of € 27 million in the tax result. (Further information can be found in the accounting policies in the notes under (b) "Scope of consolidation".)

The tax result also included an expense for the reversal of deferred tax assets totalling € 16 million for the German tax group and the place of business in Luxembourg.

All in all, the unadjusted **consolidated net loss** amounted to € 233 million, € 242 million less than the prior-year figure of € 475 million.

Segment development

The **Credit Products** segment, which covers loans from own funds and public funding schemes as well as equipment leasing, generated a positive result following the operating loss of € -67 million in the previous year. The significant reduction in provision for possible loan losses on the back of the economic upturn and the lower level of administrative expenses meant that the segment recorded an operating result of € 43 million. Provision for possible loan losses fell by € 80 million year-on-year to € 15 million. Although net interest income declined to € 101 million (after € 111 million in the previous year) due to the reduction in the business volume, net fee and commission income rose by around € 4 million to € 13 million thanks to the recovery in new business. The new business volume in the period under review amounted to € 1.5 billion (previous year: € 1.3 billion). This development was largely due to rising demand for credit.

While payments relating to public funding schemes remained unchanged as against the previous year at around € 0.5 billion, the volume for loans from own funds increased to € 0.7 billion (previous year: € 0.5 billion). The new business margin for loans from own funds and public funding schemes improved to 2.29% above the Bank’s average refinancing costs (previous year: 1.28%).

The IKB Leasing Group, which operates nationally and internationally in the field of equipment leasing, achieved a new business volume of € 0.4 billion (previous year: € 0.3 billion) within the segment. The company benefited from the economic recovery and increased investment activity in the first half of the year. Germany accounted for two-thirds of this new business. The IKB Leasing Group operates in nine countries (Germany, France, Austria, Poland, Romania, Russia, Slovakia, Czech Republic, Hungary) through 14 leasing companies.

The segment return on equity amounted to 15.4% (previous year: -20.1%), while the cost/income ratio was 49.5% (previous year: 74.2%).

The **Advisory and Capital Markets** segment bundles the Bank’s consulting activities and capital market and risk management solutions for customers. Net fee and commission income increased to € 4.0 million (previous year: € 2.0 million). Administrative expenses rose to € 34 million on the back of the workforce expansion and current projects aimed at establishing the necessary infrastructure for capital market and risk management solutions in particular. The segment recorded an operating loss of € -21 million, particularly as a result of start-up costs.

The **Treasury and Investments** segment comprises the earnings components and asset positions from the Bank’s asset-liability management, the portfolio of ECB-eligible securities, structured investments and other assets required to be scaled back in accordance with the EU conditions. In the period under review, earnings development was impacted in particular by the pronounced expansion in the credit spreads for certain government and bank risks and the substantial – and briefly severe – reduction in long-term interest rates, which led to high remeasurement losses on long-term assets and liabilities and derivatives (see “Income statement with extraordinary factors” table). As a result, the operating result was clearly negative at € -331 million after a positive figure of € 134 million in the previous year. The Treasury sub-segment was affected by the significant fair value losses on long-term assets and liabilities and derivatives and the expenses for the guarantee commission paid to SoFFin. By contrast, provision for possible loan losses for the portfolios in the Investments sub-segment that no longer form part of the Bank’s core business were reduced significantly. The other operating income of € -47 million primarily includes write-downs on a real estate project and provisions relating in particular to legal costs in connection with the settlement of portfolio investments. In the previous year, the other operating income included earnings from the repurchase of own issues. The segment return on equity was -97.3% (previous year: 36.0%), while the cost/income ratio amounted to -9.5% (previous year: 16.3%).

In addition to the administrative expenses of head office units, the **Head Office/Consolidation** segment reports extraordinary factors and intragroup consolidation items. Due in particular to the effects of the rating-driven measurement of liabilities, which resulted in income of € 189 million in the period under review (previous year: € -629 million), the segment generated a positive result of € 68 million. The other operating income includes the difference between the purchase price and the fair value of the net assets of an acquired company in the amount of around € 20 million. The measurement of liabilities in accordance with IAS 39 AG8 resulted in a loss of € -1 million after a gain of € 132 million in the previous year.

Further details on segment reporting can be found in the notes.

Net assets

Total assets amounted to € 35.8 billion as at 30 September 2010, almost unchanged as against the figure on 31 March 2010.

Loans and advances to customers again declined significantly, falling by € 1.6 billion to € 22.1 billion. This is primarily due to the further reduction in the credit volume in line with the EU conditions. Although new lending business, which was concluded with higher margins, was higher in the first half of the year than in the comparative prior-year period, this was not sufficient to offset maturities and repayments in terms of volume.

Provision for possible loan losses decreased by € 0.2 billion to € 0.9 billion.

Loans and advances to banks increased by € 0.7 billion to € 3.3 billion at the reporting date due to short-term money market trading.

Assets held for trading increased by € 0.9 billion to € 2.3 billion; this was largely due to remeasurement gains and the increase in the volume of derivatives.

Investment securities fell by € 0.2 billion to € 8.1 billion as a result of remeasurement losses as well as maturities and disposals.

Securitised liabilities declined by € 1.8 billion to € 8.9 billion due to final maturities.

Liabilities to banks increased by € 0.6 billion to € 12.6 billion as a result of short-term money market trading.

Liabilities to customers rose by € 0.6 billion to € 8.1 billion. This was largely due to term deposits from institutional investors.

Liabilities held for trading increased by € 1.0 billion to € 3.5 billion, particularly as a result of remeasurement losses and newly concluded derivative transactions.

Subordinated capital remained unchanged at the level € 1.2 billion.

Equity fell by € 0.3 billion to € 0.7 billion, largely as a result of the consolidated net loss.

As at 30 September 2010, the **Tier I ratio** of the IKB Group in accordance with the German Commercial Code (HGB) was 10.2%, while the **overall capital ratio** amounted to 14.7%.

Financial position

IKB's liquidity situation is stable. Factors contributing to this included the utilisation of the SoFFin guarantees, asset disposals and the increase in deposits by customers. It should be noted that the money and capital markets are only still functioning to a limited extent. This means that secured borrowing is mainly available as a financing option. Looking ahead to more positive market development in future, IKB updated its debt issuance programme in February 2010 so as to also allow it to float issues on the capital markets on an unsecured basis.

Overall assessment

All in all, business development and the financial position in the first half of 2010/11 continued to be dominated by the financial crisis, and in particular the strained financial situation in certain euro zone countries, as well as the fulfilment of the EU requirements. The financial crisis is clearly reflected on the asset side in the remeasurement losses on European government and corporate bonds. The extremely low level of interest rates also resulted in remeasurement losses in the first half of the current financial year. At the same time, liabilities measured at fair value saw remeasurement gains due to the expansion of the IKB spread, but this was not sufficient to fully offset the remeasurement losses on assets. One positive development is the fact that provision for possible loan losses in the core business have been reduced significantly on the back of the recovery in the German economy. This achievement and the successful stabilisation of net interest income and net fee and commission income made a significant contribution to the unadjusted consolidated net loss, which more than halved compared with the previous year. The consolidated net loss adjusted for extraordinary factors also improved by more than 50% to € -79 million.

4. Risk report

Where methods and processes have not changed since the start of the financial year, no detailed presentation is provided in the following section and readers should refer to the 2009/10 Group management report.

Regulatory capital resources and risk-bearing capacity

Regulatory capital resources. The German Banking Act (KWG) determines the minimum capital to be maintained by banks. The Bank calculates these regulatory capital resources on the basis of its HGB figures. Capital requirements are calculated according to the standardised approach for credit risk, the base indicator approach for operational risk and to standard methods for market price risk (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 in € million	30 September 2010	31 March 2010
Risk-weighted assets	18,515	19,265
Market risk equivalent	734	313
Operational risk	782	1,100
Risk position	**20,031**	**20,678**
Tier I capital	2,161	2,257
Tier II capital	1,032	1,030
Tier III capital	0	0
Deductions[1)]	-250	-216
Equity capital	**2,943**	**3,071**
Tier I ratio in %	10.2	10.4
Overall capital ratio in %	14.7	14.9

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

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

At 10.2%, the Tier I ratio at Group level is higher than the statutory minimum of 4.0%. At 14.7%, the overall capital ratio at Group level is also higher than the regulatory minimum of 8.0%.

The decline in risk-weighted assets as at 30 September 2010 is due to the active reduction in assets in line with the conditions imposed by the EU on the one hand, and scheduled repayments accompanied by the limitations on new business on the other.

Risk-bearing capacity. For the internal management and monitoring of risk-bearing capacity, the economically available risk cover is compared with the total Bank risk calculated using business methods (economic capital requirements) from an equity capital provider perspective (going concern approach) and a lender perspective (liquidation approach).

Table: Components of economic risk cover

Equity capital provider perspective			Lender perspective		
in € million	**30 Sep 2010**	**31 Mar 2010**	in € million	**30 Sep 2010**	**31 Mar 2010**
"Core capital"*	1,203	1,110	"Core capital"*	444	550
Pro rata profit participation certificates and silent partnership contributions	367	366	Profit participation certificates and silent partnership contributions	559	554
			Subordinated capital	1,000	995
Benchmark capital	-986	-1,005			
Risk cover	**583**	**471**	**Risk cover**	**2,004**	**2,099**

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

* "Core capital" includes share capital, reserves, net retained profits/loss carryforwards and the planned operating result for the next twelve months. Hidden charges are deducted from risk cover[1].
The two figures as at the start of the financial year were restated compared with the Group management report as at 31 March 2010, as the amount reported for core capital at this date was too low.

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

- Increase in core capital in the equity capital provider perspective due to the higher forecast earnings and the reduction in interest- and volatility-induced hidden charges deducted in advance from the equity capital provider perspective.

- Decrease in core capital in the lender perspective due to an increase in credit spread-induced hidden charges, which serve to reduce risk cover, as a result of the crisis in Greece.

- Reduction in the minimum benchmark capital reserved for total Bank risk in the equity capital provider perspective due to the reduction in risk-weighted assets (see also "Regulatory capital situation" table).

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

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

[1] Equity capital provider perspective: All interest-induced hidden charges from closed positions and interest- and volatility-induced hidden charges that are expected to expire and be recognised in the income statement in the next five years. Lender perspective: All interest-, volatility- and credit spread-induced charges with the exception of hidden charges in traditional lending business in illiquid markets.

Equity capital provider perspective

Table: Economic capital requirements – equity capital provider perspective at a 90% confidence level

	30 September 2010		31 March 2010	
	in € million	**in %**	**in € million**	**in %**
Counterparty default risk	229	46	226	54
Market price risk [1]	153	31	89	21
Operational risk	29	6	29	7
Business risk	82	17	75	18
Total	**494**	**100**	**419**	**100**
less diversification effects	-142		-108	
Overall risk position	**352**		**311**	
Risk cover	**583**		**471**	

Some totals may be subject to discrepancies due to rounding differences.
1) Market price risk not including extreme market development from mid-September 2008 to the end of 2008 and credit spread risks for long-term investments. Market price risk increases by € 57 million if both positions are included (31 March 2010: € 102 million).

The increase in the overall risk position is largely due to the higher level of market price risk. The rise in general business risk is the result of the increased volatility of income and expense development over the last two years.

The increase in risk cover means that the utilisation level (overall risk position/risk cover in %) in the equity capital provider perspective has decreased significantly, amounting to 60% as at 30 September 2010 (31 March 2010: 66%). Even adjusted for diversification effects, the risk cover still exceeds the total of all risks.

This means that the risk cover remains comfortably sufficient to cover the economic capital requirements arising from the occurrence of unexpected risks across the risk horizon while maintaining the economic capitalisation target.

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

Table: Economic capital requirements – lender perspective at a 99.76% confidence level

	30 September 2010		31 March 2010	
	in € million	**in %**	**in € million**	**in %**
Counterparty default risk	815	52	821	56
Market price risk [1]	475	31	391	27
Operational risk	84	5	84	6
Business risk	180	12	165	11
Total	**1,554**	**100**	**1,462**	**100**
less diversification effects	-211		-166	
Overall risk position	**1,342**		**1,296**	
Risk cover	**2,004**		**2,099**	

Some totals may be subject to discrepancies due to rounding differences.
1) Market price risk not including extreme market development from mid-September 2008 to the end of 2008. Market price risk increases by € 187 million if this market development is included (31 March 2010: € 163 million).

The slight reduction in risk cover compared with the start of the financial year and the simultaneous slight increase in the overall risk position meant that the utilisation of risk cover increased from 62% to 67%. Even adjusted for diversification effects, the risk cover still exceeds the total of all risks.

Forecast calculations and stress tests. In light of the continued uncertainty with regard to macro-economic development, the Bank prepares various forecast calculations for the next two financial years. In addition to the Bank's business plan, these calculations are based on various stress scenarios. The result of these calculations is that the Bank's risk-bearing capacity will remain intact if the business plan is realised.

An analysis of the economic stress scenarios shows that, from an equity capital provider perspective and a lender perspective alike, the available risk cover is sufficient to cover the overall risk position with an adequate buffer even if the business volume is lower than prescribed in the business plan.

Only extreme stress scenarios (e.g. EU crash, significant haircuts on PIIGS receivables) would lead to the risk cover no longer being sufficient to cover the overall risk position from an equity capital provider perspective and a lender perspective alike. If economic growth fails to meet the potential growth by some distance with a significant impact on counterparty default risk and risk cover accompanied by additional extreme market developments such as those seen after the Lehman insolvency, this would mean that the overall risk position would no longer be fully covered by the risk cover – but only in the equity capital provider perspective. Even this stress scenario would still be covered by a buffer in the lender perspective.

Counterparty default risk

With the conversion of reporting to reflect the new segments (Credit Products, Advisory and Capital Markets, Treasury and Investments, Head Office), the previously separate analyses of the counterparty default risk items cash and term deposits, positive fair values of derivatives and other securities have been integrated into the redefined credit volume. This means that the entire counterparty default risk volume is now reported in a single position. Due to the inclusion of these additional positions, the credit volume increased retrospectively by around € 7.6 billion as at 31 March 2010 (including € 37 million in problem exposures), from the previous figure of € 28.8 billion to € 36.4 billion. The redefinition of the credit volume meant that the ratio of problem engagements also changed retrospectively from 10.4% (former market segments) to 8.0% as at 31 March 2010.

The redefinition of the credit volume had the following impact on the segment view as at 31 March 2010:

		New segments				
	Credit volume by segment (31 March 2010) in € million	**Advisory and Capital Markets**	**Credit Products**	**Treasury and Investments**	**Head Office/ Consoli-dation**	**Total**
Old segments	Corporate Clients	-	14,222	329	-	**14,551**
	Real Estate Clients	-	386	3,196	-	**3,583**
	Structured Finance	-	2,247	3,704	-	**5,951**
	Head Office/ Consolidation	-	52	3,337	22	**3,412**
	Portfolio Investments	-	-	1,313	-	**1,313**
	Sub-total	**-**	**16,908**	**11,879**	**22**	**28,810**
	Counterparty default risk positions previously analysed separately	29	83	7,046	423	**7,581**
	Total	**29**	**16,991**	**18,925**	**445**	**36,390**

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

Structure of counterparty default risk. For internal reporting purposes, the Bank has calculated the credit volumes as at 30 September 2010 and 31 March 2010 as follows:

Credit volume in € million	30 Sep 2010	31 Mar 2010	Change
Loans and advances to banks	3,242	2,459	783
Loans and advances to customers	20,110	21,817	-1,706
Securitised loans	10,391	9,298	1,092
Operating and finance leases	1,961	1,959	2
Contingent liabilities (gross), credit default swaps and guarantees	750	857	-107
Total credit volume	**36,454**	**36,390**	**64**

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

The credit volume has remained essentially unchanged since the start of the financial year.

The decrease in loans and advances to customers relates in particular to corporates and the reduction in non-strategic assets. This was offset by an increase in loans and advances to banks and securitised loans due to the short-term investment of liquidity reserves.

Structure of credit volume.

Size range[1)] in € million	30 September 2010			31 March 2010	
	Credit volume		Number[1)]	Credit volume	
Under € 5 million	4,829	13%	19,005	5,215	14%
Between € 5 million and € 10 million	2,900	8%	407	3,533	10%
Between € 10 million and € 20 million	4,155	11%	293	4,334	12%
Between € 20 million and € 50 million	4,255	12%	119	4,080	11%
Over € 50 million	12,922	35%	65	10,486	29%
Total	**29,060**	**80%**	**19,889**	**27,648**	**76%**
Risk transfers[2)]	7,394	20%		8,742	24%
Group (total)	**36,454**	**100%**		**36,390**	**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

Due to the inclusion of loans and advances to banks, the redefinition of the credit volume primarily impacted the credit volume in the “over € 50 million” size group. The further increase since the start of the financial year is due to the short-term investment of liquidity reserves. The average exposure size in the “over € 50 million” size range for non-bank loans and advances excluding portfolio investments was € 136 million (31 March 2010: € 107 million).

The volume of risk transfers fell by € 1,348 million to € 7,394 million as a result of repayments.

Collateral, risk transfer and securitisation. The provision of cover by means of typical 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 traditional lending business are continually checked and updated.

Collateral in € million	30 September 2010 Credit volume		31 March 2010 Credit volume	
Property liens and charges	5,787	16%	6,327	17%
Transfers of ownership	2,437	7%	2,446	7%
Other collateral[1)]	5,005	14%	5,523	15%
Without collateral	15,831	43%	13,352	37%
Total	**29,060**	**80%**	**27,648**	**76%**
Risk transfers[2)]	7,394	20%	8,742	24%
Group (total)	**36,454**	**100%**	**36,390**	**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

The increase in the credit volume as a result of the redefinition is attributable almost exclusively to loans without collateral.

Due to the reduction in the credit volume in the Credit Products segment, the credit volume backed by collateral also decreased by around € 1.0 billion as against the start of the financial year. The simultaneous increase in the credit volume in the Treasury and Investments segment primarily related to unsecured loans.

The proportion of secured loans in the Credit Products segment after the deduction of risk transfers amounted to just under 83% (31 March 2010: 84%).

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 € 7.4 billion, include loans for which the default risk has been assumed by other banks or public sector entities, as well as the synthetic transfer of loan receivables. The Bank is secured against counterparty default risks by means of synthetic securitisations, although the loan receivables are still reported in the balance sheet and continue to be managed by IKB. At the reporting date, the utilisation of these loans totalled € 4.5 billion, of which € 3.7 billion relates to loans for which the Bank has only retained first loss risks of € 14 million. Loans with a volume of € 0.8 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 30 September 2010, the total credit volume can be broken down by region as follows:

Regions in € million	30 Sep 2010 Credit volume		31 March 2010 Credit volume	
Germany	15,657	43%	16,258	45%
Outside Germany	13,404	37%	11,391	31%
Western Europe	9,951	27%	8,723	24%
Eastern Europe	668	2%	687	2%
North America	2,555	7%	1,719	5%
Other	230	1%	261	1%
Total	**29,060**	**80%**	**27,648**	**76%**
Risk transfers[1)]	7,394	20%	8,742	24%
Group (total)	**36,454**	**100%**	**36,390**	**100%**

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

The redefinition of the credit volume led to an increase in the credit volume in Germany, Western Europe and North America in particular, as at 31 March 2010.

The change in the credit volume since the start of the financial year relates in particular to Germany (€ -0.6 billion) and the lower level of risk transfers (€ -1.3 billion). The former effect was due to the decline in the credit volume in the Credit Products segment. This was offset by an increase in the credit volume in Western Europe (€ +1.2 billion) and North America (€ +0.8 billion) due to short-term investments.

Breakdown of country lending obligations according to IKB country ratings:

Country ratings[1)] Credit volume in € million	30 Sep 2010 Total[2)]	Country ratings				
		1 - 6	7 - 9	10 - 12	13 - 15	16 - 19
Outside Germany	13,404	12,923	307	174	-	-
Western Europe	9,951	9,840	-	112	-	-
Eastern Europe	668	425	229	14	-	-
North America	2,555	2,555	-	-	-	-
Other	230	103	78	49	-	-

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.

96% of the credit volume attributable to countries outside Germany was assigned to the best country risk classes, 1 to 6. In addition, borrowers outside Germany accounted for risk transfers (e.g. secured by Hermes) of € 0.7 billion.

The utilisation of loans and advances in risk classes 10 to 12 primarily related to Greece (€ 112 million), Turkey (€ 23 million), Romania (€ 13 million) and Egypt (€ 12 million).

Within Western Europe, risks relate to the following countries:

in € million	Credit volume	of which direct state risk
UK	2,371	-
France	1,957	37
Italy	1,685	1,203
Spain	1,583	365
Ireland	689	149
Netherlands	353	32
Switzerland	277	-
Portugal	233	148
Austria	148	30
Sweden	138	-
Belgium	117	39
Greece	112	112
Other	287	10
Western Europe (total)	**9,951**	**2,124**

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

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

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 hence to 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 consider these states to be exposed to elevated default risk at this time.

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

Sector structure. In order to measure sector risk, IKB regularly carries out a rating process for approximately 370 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 IKB's Economic Research department is applied here.

Sectors in € million	**30 September 2010 Credit volume**		**31 March 2010 Credit volume[2)]**	
Industrial sectors	12,942	36%	13,542	37%
Mechanical engineering	1,178	3%	1,232	3%
Energy supply	978	3%	1,045	3%
Services	846	2%	967	3%
Metal products	805	2%	776	2%
Wholesale	730	2%	726	2%
Other industrial sectors	8,404	23%	8,796	24%
Real estate	2,326	6%	2,731	8%
Financial sector	1,524	4%	1,643	5%
Banks	9,091	25%	7,565	21%
Public sector	3,177	9%	2,166	6%
Total	**29,060**	**80%**	**27,648**	**76%**
Risk transfers[1)]	7,394	20%	8,742	24%
Group (total)	**36,454**	**100%**	**36,390**	**100%**

Some totals may be subject to discrepancies due to rounding differences.
1) Hermes guarantees, indemnifications, risks transferred
2) Credit volumes in individual sectors have changed slightly retrospectively compared with the Group management report as at 31 March 2010 due to the new sector classification.

The redefinition of the credit volume almost exclusively affected the public sector, banks and finance sector categories.

The degree of diversification in the industrial sectors is still high. No one industrial sector accounts for more than 5% of the portfolio. The higher credit volume in the public sector and banks categories is due to the increased investment of liquidity reserves in government bonds.

In order to enable the initiation of risk reduction measures in the sense of early risk detection and active risk management, special portfolio analyses were carried out as required in sectors that the Bank considered to be critical. The special analysis of the automotive sector, which was particularly hard hit by the weakened economy in 2009, was also updated in the period under review. This did not identify any additional risks compared with the previous report, but instead showed a relaxation in the situation.

Credit rating structure. The total credit volume is broken down into internal rating classes as follows:

Credit rating structure[1)] in € million	**30 September 2010 Credit volume**		**31 March 2010 Credit volume**	
1 - 4	12,159	33%	8,603	24%
5 - 7	3,605	10%	3,968	11%
8 - 10	4,887	13%	5,575	15%
11 - 13	3,984	11%	4,804	13%
14 - 15	2,033	6%	1,890	5%
Problem exposures[2)]	2,392	7%	2,808	8%
Total	**29,060**	**80%**	**27,648**	**76%**
Risk transfers[3)]	7,394	20%	8,742	24%
Group (total)	**36,454**	**100%**	**36,390**	**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 (30 September 2010: € 97 million; 31 March 2010: € 98 million)
3) Hermes guarantees, indemnifications, risks transferred

In particular, the redefinition of the credit volume resulted in an increase in the credit volume in the best rating classes 1 to 4.

The credit volumes and shares of the total portfolio in the middle rating classes 5 to 13 declined as a result of the overall reduction in the credit volume in the Credit Products segment. The higher credit volume in the best rating class is due to increased short-term investments of liquidity in government bonds. The reduction in problem exposures is attributable to the positive macroeconomic environment.

Identification and management of problem exposures. The following table provides an overview of the development of problem exposures:

Table: Problem exposures[1)]

Credit volume	30 September 2010 in € million	31 March 2010 in € million	Change in € million	Change in %
Impaired (non-performing loans)	1,864	2,202	-338	-15%
Non-impaired	625	703	-78	-11%
Total	**2,490**	**2,906**	**-416**	**-14%**
as % of credit volume	6,8%	8,0%		

Some totals may be subject to discrepancies due to rounding differences.
1) Carrying amounts including losses from impaired financial assets (30 September 2010: € 97 million; 31 March 2010: € 98 million)

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

Table: Non-performing loans

Credit volume	30 September 2010 in € million	31March 2010 in € million	Change in € million	Change in %
Germany	1,335	1,574	-239	-15%
Outside Germany	346	424	-78	-18%
Impaired loans	**1,681**	**1,998**	**-317**	**-16%**
Securities (impaired financial assets)[1)]	184	204	-20	-10%
Impaired (non-performing loans), total	**1,864**	**2,202**	**-338**	**-15%**
as % of credit volume	5.1%	6.0%		

Some totals may be subject to discrepancies due to rounding differences.
1) Carrying amounts plus losses from impaired financial assets (30 September 2010: € 97 million; 31 March 2010: € 98 million)

The decrease in non-performing loans affected all risk areas to almost the same extent. The volume of permanently impaired financial assets has declined slightly since the start of the financial year.

As the additional credit volume resulting from the redefinition of the credit volume contains almost no problem exposures, the expansion of the credit volume has led to a significant reduction in the ratio of problem exposures and non-performing loans.

Risk provisions. In the period from 1 April 2010 to 30 September 2010, provision for possible loan losses amounted to € 38 million, down significantly on the prior-year figure of € 210 million and the forecast level. This development related to the Credit Products and Treasury and Investments segments to the same extent. The € 18 million decrease in portfolio allowances was primarily due to the reduction in non-impaired problem exposures. In addition, releases of specific valuation allowances increased by around € 17 million, while direct write-downs declined by € 12 million. Above and beyond the risk provisions presented here, write-downs were recognised on real estate development projects held in the Bank's portfolio in the amount of € 41 million; in the consolidated income statement, these items were reported in the other operating income.

Table: Risk provisioning

	1 April 2010 - 30 September 2010 in € million	1 April 2009 - 30 September 2009 in € million	Change
Additions to individual loan loss provisions/accruals	105.0	216.8	-52%
Direct write-downs	16.8	28.7	-41%
Recoveries on loans previously written off	-3.1	-3.5	-11%
Additions to/releases of portfolio allowances	-18.3	14.0	-
Reversal of specific valuation allowances/provisions	-62.7	-46.0	36%
Provision for possible loan losses	**37.7**	**210.0**	**-82%**
Development of individual loan loss provisions/accruals			
Opening balance	941.0	871.3	8%
Utilisation	-211.9	-175.0	21%
Reversal	-62.7	-46.0	36%
Reclassification	-	-45.7	-100%
Unwinding	-9.5	-12.7	-25%
Additions to individual loan loss provisions/accruals	105.0	216.8	-52%
Effect of changes in exchange rates	-	-6.4	-100%
Total individual loan loss provisions/accruals	**761.9**	**802.3**	**-5%**
Portfolio impairment			
Opening balance	185.1	184.6	0%
Addition/release	-18.3	14.0	-
Effect of changes in exchange rates	-	-0.9	-100%
Total portfolio allowances	**166.8**	**197.7**	**-16%**
Total risk provisions (including accruals)	**928.7**	**1,000.0**	**-7%**

Provision for possible loan losses including portfolio allowances totalled € 929 million as at 30 September 2010. The cover of loans classified as impaired in the form of individual loan loss provisions and accruals amounted to 46% (31 March 2010: 47%). This decline is due to the continued charge-off of commitments considered as uncollectible for which significant valuation allowances had already been recognised in previous years.

Portfolio allowances. Portfolio allowances cover losses that have already been incurred but have not yet been identified individually. The Bank distinguishes between two sub-portfolios. One sub-portfolio relates to loans for which there is no objective indication of individual impairment, and the other for loans that have been identified as problem loans but for which an individual loan loss provision was not considered necessary as a result of their security and/or cash flow expectation.

The loss estimate is calculated on the basis of historical data and expert assessments. In the first half of the year, there were no changes in the methodology or the parameters applied compared with 31 March 2010. The only change was that the business cycle premium previously applied to probabilities of default was discontinued for ratings that are based on current annual financial statements, and hence that already reflect the impact of the recession in 2009. The aim of this business cycle premium is to adjust the probabilities of default derived on the basis of historical data to reflect economic expectations. The time delay until an occurred loss is identified or recognised is taken into account by applying a scale factor for the time between the occurrence of the loss event and its identification (loss identification period factor).

Investments in structured credit products. The volume of these positions was reduced further in the financial year to date. At the same time, the fundamental and fair values of the remaining portfolio investments have increased.

As at 30 September 2010, the credit volume attributable to portfolio investments was composed as follows:

- € 0.34 billion (31 March 2010: € 0.57 billion) in assets transferred to the special purpose entity Rio Debt Holdings Ireland, Ltd. Dublin (Rio Debt Holdings) with a nominal value of € 1.31 billion (31 March 2010: € 1.85 billion). The senior loans issued to Rio Debt Holdings by KfW and Lone Star were fully repaid in July 2010. Any excess proceeds from the settlement of the portfolio following the repayment of the remaining IKB loan with a nominal volume of € 0.16 billion will be divided between IKB and Lone Star.

- € 0.58 billion (31 March 2010: € 0.58 billion) in portfolio investments not sold to Rio Debt Holdings with a nominal value of € 0.61 billion (31 March 2010: € 0.61 billion) which no longer contain any sub-prime risks. Of this figure, a nominal volume of € 0.34 billion relates to synthetic transactions that are being wound up as a result of the Lehman insolvency and are covered by corresponding collateral (see also “Legal risks”). This item also contains two synthetic transactions (nominal volume: € 0.20 billion) that solely reference companies and governments. The portfolio also contains a principal protected note with a nominal volume of € 0.07 billion whose original portfolio risk is fully hedged.

- € 0.11 billion in securitisation positions with a nominal volume of € 0.20 billion (31 March 2010: credit volume € 0.11 billion, nominal volume € 0.21 billion) from own securitisation transactions (SME loans and acquisition finance).

This results in the following situation for IKB in terms of the rating class allocation of structured credit products:

*Table: Credit rating structure of structured credit products of the IKB Group**

	30 September 2010		31 March 2010	
	Nominal volume in € billion	**in %**	**Nominal volume in € billion**	**in %**
Aaa	0.1	5	0.2	7
Aa	0.0	1	0.1	2
A	0.0	1	0.1	1
Baa	0.3	13	0.3	11
Ba/B	0.2	8	0.4	14
Sub B and no rating**	1.5	72	1.7	64
Total	**2.1**	**100**	**2.7**	**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 transactions with a volume of € 0.34 billion that are being wound up as a result of the Lehman insolvency and for which ratings have been withdrawn. The risks for IKB resulting from these transactions are limited to legal risks with regard to the winding upprocess 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 the IKB Group

	30 September 2010		31 March 2010	
Underlying portfolios	**Nominal volume in € billion**	**in %**	**Nominal volume in € billion**	**in %**
Corporates	0.7	35	0.8	31
ABS	1.4	65	1.8	69
thereof with sub-prime content*	1.0	46	1.2	47
Total	**2.1**	**100**	**2.7**	**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 sub-prime underlyings. The risks for IKB resulting from this transaction are limited to legal risks with regard to the winding up process and the credit quality of the collateral provided, i.e. IKB no longer bears any sub-prime risk.

Of the portfolio investments with underlying corporate assets (CDOs of corporates and CLOs), a nominal volume of € 0.4 billion relates to the rating classes Sub B/no rating, which are held solely by the Bank. 37% (31 March 2010: 38%) of the reference companies are domiciled in North America.

€ 1.2 billion of the portfolio investments with ABS underlyings are held by Rio Debt Holdings. The item also contains an investment being wound up (CDO of ABS) in the amount of € 0.1 billion. The vast majority of the underlying assets are located in North America (96%; 31 March 2010: 97%).

Liquidity and market price risk

Liquidity risk. The Bank covered its short-term liquidity requirements in the reporting period – and will continue to do so in future – mainly by secured borrowing on the interbank money market (cash and term deposits), participating in ECB tenders and accepting customer deposits. The volume of new client deposits developed positively in the reporting period and now amounts to around € 3.3 billion.

Medium and long-term liquidity was 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.

Depending on the development of its new business, the Bank expects its liquidity requirements to amount to between € 5 billion and € 5.5 billion over the next twelve months. To refinance these requirements, the main options available are drawing options at the ECB, secured borrowing on the money markets, accepting liabilities guaranteed by the Deposit Protection Fund and selling balance sheet assets. Secured refinancing on the capital markets could also cover part of the Bank's liquidity requirements.

Liquidity planning is based on a range of assumptions as to the above and other factors which can determine liquidity on the asset and liability side alike. In the event that a number of these assumptions do not come to fruition, this may result in liquidity bottlenecks. One possible scenario would be market developments that do not allow assets to be sold, liabilities guaranteed by the Deposit Protection Fund to be increased or IKB's secured or unsecured bonds to be placed on the capital market.

Market price risk. 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. Credit spread risk at IKB results in particular from securities and promissory note loans, the first loss piece retained from the transaction with Rio Debt Holdings and other remaining portfolio investments. Currency positions largely only exist in USD, GBP, JPY and CHF. Loans and advances denominated in foreign currencies, including their future income streams, are almost essentially hedged in full.

Development of the market price risk profile. The following table shows the development of the market risk profile.

in € million	30 September 2010	31 March 2010
Basis point value[1)]	**-0.9**	**0.02**
Vega[2)]	**0.7**	**-1.0**
VaR[3)] – foreign currency	-7.9	-8.6
VaR – interest rate and volatility	-80.3	-38.1
VaR – spread	-101.4	-112.6
Correlation effect	71.1	49.6
VaR (total)	**-118.5**	**-109.7**

1) Basis point value (BPV) indicates the change in the present value of the portfolio assuming a parallel shift of +0.01% (1 basis point) across all interest rate curves.
2) Vega indicates the change in the present value of the portfolio assuming a 1% increase in interest rate volatility.
3) Value at risk at a 99% confidence level assuming a holding period of 10 days.

The slight increase in value at risk is due to entering into a long interest rate position (BPV € -0.9 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 the remaining portfolio investments is of only minor significance.

Operational risk

The loss volume identified in the first half of the financial year totalled € 1.6 million (excluding operational risks that are also credit risks). The Bank currently considers the most substantial operating risks to lie in its legal risks (see “Legal risks”). A further risk factor that should not be underestimated is that entailed by rising, externally driven reporting requirements, 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.

Legal risk

The following material changes have occurred since the report as at 31 March 2010:

Legal proceedings due to alleged incorrect capital market information. Around 90 suits by investors have already been rejected by the courts with binding effect. Some 40 cases (with a provisional value of around € 9.6 million) are still pending, while a number of plaintiffs have now voluntarily abandoned their claims. In nine cases, different civil divisions of the Düsseldorf Higher Regional Court have dismissed appeals by the plaintiffs and declared these decisions to be irreversible. Claims for non-admissibility are pending with the Federal Court of Justice in two of these cases. Plaintiffs were not awarded damages in any of the cases in which decisions have been passed.

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. IKB continues to hold the view that the claims brought by investors that have not yet been finally rejected are also unfounded.

Despite this, the possibility that additional investors will assert claims for damages against the Bank cannot be ruled out. The success of these claims could increase the overall risk to which the Bank is exposed.

In addition to the claims detailed above, some shareholders and investors in IKB securities have approached the Bank with out-of-court claims for damages. Institutional investors in particular have asserted new claims totalling around € 28 million as part of applications for the initiation of conciliation proceedings, presumably in order to effect the suspension of the statute of limitations. IKB has declined to participate in these proceedings.

Other legal proceedings. With respect to the claims filed by the US Financial Guaranty Insurance Company and its British subsidiary (together "FGIC") and Crédit Agricole Corporate & Investment Bank ("Calyon"), the parties are currently in discovery proceedings. IKB is of the opinion that the accusations made against IKB by the plaintiffs are unfounded.

With respect to the unspecified class actions filed in October 2009 by King County and Iowa Student Loan Liquidity Corporation against IKB and others, applications by IKB for the rejection of the claims due to the incompetence of the court owing to, among other things, a lack of standing and failure to state a claim were rejected by way of rulings dated 4 May and 18 May 2010. Due to the applicable provisions of US procedural law, IKB is currently in discovery proceedings for both cases. On 13 October 2010, the court instructed IKB and the plaintiffs to enter into negotiations on a settlement as soon as possible. The court instructed the other defendants and the plaintiffs to enter into negotiations on a settlement separately in early 2011. IKB is of the opinion that the accusations made against IKB by the plaintiffs are unfounded.

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 LLC, 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 or 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, the indemnification claim to this specific claim may expire under certain circumstances. The Board of Managing Directors regards the risk of a dereliction of duty as slight because, in order to ensure IKB's contractual obligations, the necessary implementation steps for maintaining the behaviour required by the agreement were specified in detail and documented in writing in close coordination and cooperation with KfW.

IKB's indemnification claims will also expire retroactively if the share sale and transfer agreement or the share transfer in rem between KfW and LSF6 Europe prove to be null and void or one of the parties exercises a right to influence a legal relationship by unilateral declaration which results in the possible reversal of the performance rendered in the transaction covering the obligation.

Furthermore, the claims arising from the indemnification agreement will expire if, also taking into account the claims arising from the indemnification agreement, there are grounds for insolvency at IKB or insolvency proceedings have been initiated against IKB's assets.

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. The proceedings for breach of trust, which relate solely to charges in connection with construction projects for properties inhabited by former members of the Board of Managing Directors but owned by the Bank, were provisionally suspended as part of the main proceedings in accordance with section 154 (2) of the German Code of Criminal Procedure (StPO).

On 14 July 2010, the Düsseldorf Regional Court sentenced Mr Ortseifen to a suspended custodial sentence of ten months due to deliberate market manipulation. This verdict is not yet final.

CDOs arranged by Lehman Brothers. IKB invested in five structured credit products (synthetic CDOs) with a total nominal volume of € 334 million and US$ 213.15 million in which Lehman Brothers acted as the secured party via 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 an 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 provisions, in the event of its insolvency, the swap counterparty shall be subordinate to the investors in the distribution of the proceeds from the transaction collateral.

This provision 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 the provision for three of the five transactions, a first instance insolvency court in the US has granted a violation of the basic principles of insolvency law. An appeal against this verdict has recently been allowed. The appeal and any further decisions by the courts of instance are expected to go in favour of the investors.

The documentation in three of the five transactions is subject to English law. This means that, from IKB's perspective, they are not affected by the proceedings under US law as long as the English courts do not change their position. These transactions, which are subject to the law of New York, have already mostly been paid out to IKB. The remaining amount outstanding is € 37 million. A confirmation of the legal position of the counterparty could lead to payment not being made, and hence to claims for recovery. The Bank considers it unlikely that this situation will occur.

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 EU Commission qualified the measures as aid and approved them in October 2008 under strict conditions. The Company is committing considerable resources to meet these conditions and is reporting annually on their implementation, most recently on 26 July 2010. If this should fail the Company could be exposed to significant legal and economic disadvantages. 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. The legal actions against resolutions by the General Meetings on 28 August 2008, 25 March 2009 and 27 August 2009 described in the Group management report on the 2009/10 financial year are still pending. Although actions have not yet been brought against resolutions by the General Meeting on 26 August 2010, the Bank also expects this to be the case.

Risks in connection with SoFFin conditions. One SoFFin condition requires IKB to prepare monthly, quarterly, half-yearly and annual reports presenting its financial and economic situation. 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 prescribed by section 2 (6) sentence 2 of the German Solvency Ordinance (SolvV) and that it maintains a liquidity ratio within the meaning of section 2 (1) no. 1 of the German Liquidity Ordinance (LiqV) (maturity band 1) of 1.2 at individual Bank level. If the Tier I capital of the Bank in accordance with section 10 (2a) KWG declines to less than 8% of the denominator of the overall capital ratio prescribed by section 2 (6) sentence 2 SolvV and/or the liquidity ratio declines to less than 1.2 during the term of the guarantee agreement, IKB must inform SoFFin of this immediately and take all necessary action without delay in order to return to the required Tier I ratio of at least 8% of the denominator of the overall capital ratio prescribed by section 2 (6) sentence 2 SolvV and/or the required liquidity ratio.

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 the operational risk of non-compliance.

In addition, the Board of Managing Directors is not permitted to propose dividend payments and the Company is not 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.

The Company is also required to structure its remuneration systems in a sustainable and transparent manner and to gear them towards sustainable corporate development (for further conditions in this context, please see the "Remuneration report" contained in the Group management report as at 31 March 2010).

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

Other risks

Information on IT, compliance, personnel, business, strategic, reputational and participation risks can be found in the Group management report as at 31 March 2010.

Overall assessment of the risk situation

The risk situation at IKB has continued to improve in recent months. Following a tangible reduction in market price risk in the previous financial year, there was a significant decline in credit risks during the period under review, with a corresponding effect on provision for possible loan losses. Risks from structured credit products have also been substantially limited. In line with planning, liquidity is secured until early 2012 with a sufficient buffer.

The Group's Tier I ratio of 10.2% is higher than the minimum of 8% required by SoFFin, among others. Risk-bearing capacity is also ensured as at 30 September 2010 and for the forecast period from an equity capital provider perspective and a lender perspective alike.

The good economic development in Germany is currently being reinforced, which is expected to lead to lower defaults in future. By contrast, economic development in other European countries and, in particular, the USA is still subject to significant uncertainty and volatility. This means that IKB remains exposed to risks from unexpected defaults as well as interest and liquidity risks. The Bank is also still exposed to the legal risks presented above.

In particular, the continued existence of IKB as a going concern depends on 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 – continues to lead to success and the planned income is generated in the Bank's customer business. To date, the development of new business and the growth in net fee and commission income from customer lending and derivatives business has been in line with forecasts.

This is closely linked with the ability to generate sufficient funding for the planned business activities. Due to the change in its business model, the Bank's refinancing requirements will be lower than at present when the SoFFin guarantees expire from 2012 onwards. IKB's prospects for obtaining asset-based, secured refinancing on the capital markets have also improved over recent months, while stronger customer deposits will make a further contribution to stabilising the refinancing situation.

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

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

In particular, this requires 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 location are ceased on schedule and
- risk-bearing capacity is also ensured in future, taking into account 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 ratio of at least 8% and to ensure its risk-bearing capacity, additional equity will be required.

The Board of Managing Directors assumes that

- the EU conditions will be met in god time and the business conditions will be complied with,
- the amended business model will be successfully implemented in the medium term,
- refinancing will be ensured,
- the good economic situation in Germany will continue, and
- the regulatory environment will not deteriorate dramatically.

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

The information on the internal control and risk management system provided in the annual report as at 31 March 2010 also applies for the interim Group management report with the following changes:

“Organisation of accounting” section:

- Accounting for the Paris and London branches has been transferred from the Luxembourg location to Düsseldorf. This is primarily due to the implementation of the EU conditions (including the closure of the Luxembourg location). Accounting for the Luxembourg branch will continue at the Luxembourg location until its closure. The centralisation of the majority of IKB AG’s accounting functions at the Düsseldorf location will also improve the communication, process transparency and process standardisation of Accounting for the overall preparation of the single-entity financial statements of IKB AG.

“Use of IT and specifications in the internal control system” section:

- As part of an internal project, the existing authorisation concept for the SAP environment was reviewed and specified in greater detail. Authorisation roles were defined more precisely in order to ensure that sensitive data can only be processed and viewed by a defined group of persons.

“Designing the ICSA” section:

- As part of an internal project, IKB AG’s chart of accounts was modified and optimised in order to improve transparency and traceability. In addition to making posting logic clearer for knowledgeable third parties, posting procedures were made less complex by ensuring a clear correlation between account numbers and balance sheet and income statement items in order to facilitate the correct recording of business transactions. In this context, the posting rules for the upstream systems were revised and updated, making the interface programmes as a whole highly stable.

In addition, an IT-based entry and approval system was implemented in the SAP financial accounting system. Entry and approval are required to be performed by different people (principle of dual control) and are clearly regulated through the technical implementation. This is intended to prevent incorrect entries. SAP logs serve to ensure traceability and control by third parties and the auditor.

6. Related party disclosures

Related party transactions primarily relate to liabilities from compensation agreements relating to the parent company LSF6 Europe Financial Holdings, L.P. and companies assigned to it. The related party transactions contained in loans and advances primarily relate to loans issued to associated companies and other investees and investors that are not required to be included in consolidation. They are presented in note (39).

7. Events after 30 September 2010 (Supplementary report)

The following new developments have arisen since 30 September 2010.

Status of implementation of EU conditions

IKB continued its activities aimed at fulfilling the EU conditions in a timely manner after 30 September 2010. The current status is discussed in “Significant events in the reporting period”.

Planned sale by Lone Star

In mid-October 2010, the Lone Star Group announced that it was looking for a strategic partner for IKB to press ahead with the Bank’s development. The investment bank Perella Weinberg Partners is talking to potentially interested parties, who can obtain additional information via an information memorandum, a data room and discussions with IKB’s management.

The Board of Managing Directors of IKB is providing constructive support for this project. It is in the Bank’s long-term interest to find a partner and shareholder for the accelerated implementation and further development of its new business model.

8. Outlook

Forward-looking statements generally relate to the current financial year and the financial year immediately following it. All forecasts are subject to significant uncertainty. Risks primarily relate to the possibility that the economic recovery will not prove to be sustained and there will be a new crisis of confidence on the financial markets. A further risk lies in the possibility that the new rules and regulations for banks in terms of capital resources and liquidity could be implemented more quickly or more comprehensively at a national level than in other countries, which could have an unequal effect on different banks and their business models.

The planned sale of IKB by Lone Star could have an impact on future business development. It is not possible to provide concrete information on the potential consequences at present.

Future macroeconomic conditions

Most industrialised countries will continue to enjoy dynamic economic development in 2011, but to a lesser extent than at the start of this year. In particular, a pronounced recovery in the USA is not yet in sight, as the structural problems – such as the situation on the property market and consumer-driven growth – are only declining slowly.

The recovery in IKB's main core markets will also remain muted, particularly due to the stifling impact of the decidedly restrictive fiscal policy. In their autumn reports, the leading research institutions are forecasting GDP growth of 1.5% for France and 0.9% for Italy in both 2010 and 2011. By contrast, economic output in Spain will contract by a further 0.3% this year before starting to recover extremely slowly in 2011 (+0.5%). For the United Kingdom, GDP growth is forecast at 1.7% in 2010 before the wide-scale budgetary consolidation slows this development to 1.2%.

Germany's economic development is expected to continue, albeit at a slower pace than in the first half of this year due to the loss of momentum in the global economic expansion. The research institutions are forecasting export growth of 15% in 2010 and 7% in 2011. This means that the downturn recorded in the crisis year of 2009 would be recovered by as early as next year.

The investment climate will remain favourable in 2011, although the sales outlook will deteriorate slightly. With a further increase in capacity utilisation, modernisation and expansion projects are likely to become increasingly relevant. The further improvement in profitability will strengthen internal financing and make it easier to obtain external finance. All in all, the institutions expect investment in equipment to increase by 8.9% in 2010 and 5.8% in 2011. Based on this forecast, around 60% of the downturn recorded as a result of the crisis will be recovered by the end of 2011. The positive development of the German employment market means that private consumption is likely to pick up momentum for the first time since the crisis, rising by 1.4% in 2011.

Even allowing for a slowdown in macroeconomic development towards the end of the year, the institutions expect that GDP growth for the year as a whole will be in excess of 3%, while a rise of 2% is forecast for 2011. This means that the economic situation is significantly more favourable than had been anticipated by the institutions in spring. Nevertheless, the financial crisis and the resulting severe recession in a number of countries have not been overcome in full and have left their mark, including on Germany.

Future development is also subject to significant risks in the context of the ongoing financial crisis. In particular, the slow economic recovery in the USA is providing increasing grounds for concern. The institutions are not forecasting another recession, but are not ruling out the possibility completely. There is also the potential for a massive correction in China as a result of excessive growth on the property market. The pronounced downturn in the world's two largest economies would also have a substantial impact on the export prospects for the German economy.

The exchange rates of the key currencies have moved considerably in recent times, not least as a result of the uncertainty concerning future economic development in the USA. As a result, the Euro has appreciated significantly against the US Dollar. If this trend continues, it would lead to a slowdown in the growth in German exports. An increase in protectionist tendencies as a result of exchange rate developments would have an even more serious impact.

In addition, the debt and confidence crisis in certain Euro zone countries is still in full swing, as is reflected in the extremely high risk premiums for government bonds from these countries. An exacerbation of the situation, with high general risk premiums for Euro zone bonds or even the utilisation of the European financial stabilisation mechanism by a Euro zone country, would have a knock-on effect on the German economy.

Furthermore, the situation in the banking sector remains difficult. Against the background of rising investment levels, the possibility that the supply of credit to the German economy is not sufficiently guaranteed cannot be ruled out, whether for the economy as a whole or for certain groups of SME companies, for example. Lending by banks continues to be hampered by various factors, and this could remain the case for some time. For Germany, the extent to which banks can extend their lending scope by way of loan securitisation will also become important, among other things. However, the securitisation market is still not functional.

All in all, the stability of the financial markets has been sustainably impaired since the crisis. As such, further crises of confidence on the finance markets cannot be ruled out.

Opportunities of future development

The fundamental organisational changes aimed at expanding IKB's business model have now been initiated. The Bank has been recapitalised, risk management has been expanded, risks have been reduced and liquidity has been ensured for the forecast period. In addition, the limitations and burdens imposed by the fulfilment of the EU conditions will be gradually removed between now and September 2011. The conditions have already been fulfilled to a large extent.

The upheaval in the banking market will continue for some time. As such, IKB has good prospects for selectively and sustainably expanding its activities in the area of consulting, hedging and credit products. With time, these business relationships will generate the diversified income that IKB's business model is striving for. This applies even more in light of the broad-based economic recovery that has established itself since the crisis year of 2009, leading to growth in demand for financing options and the associated services – and hence rising interest and fee and commission income.

The complexity arising from the large number of business areas and subsidiaries is being reduced further. This streamlining is also important in terms of capping the anticipated additional expenses resulting from the redesign of the qualitative regulatory provisions for banks and more intensive ongoing monitoring.

One element of IKB's revised business model is that it will return to using the capital markets to a greater extent for itself and its customers. This will require the markets to become more functional once again, something that will gradually come about as the economic recovery continues. In terms of placing out risks 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 through such transactions. This will also allow financing maturities to be matched.

The sale of IKB could lead to the accelerated implementation and further development of its new business model.

Net assets

At 14.7% and 10.2% respectively, IKB's solvency ratio and Tier I ratio are significantly higher than the current minimum statutory requirements. The main control parameter to date has been the Tier I ratio, which is well over 8% for IKB AG and the Group alike. IKB is contractually required, particularly in respect of SoFFin, to maintain a Tier I ratio of at least 8%. IKB expects to continue to meet these minimum targets.

Impact of Basel III

On the occasion of its meeting on 12 September 2010, the oversight body of the Basel Committee on Banking Supervision, the Group of Governors and Heads of Supervision, published new recommendations on the strengthening of existing capital requirements and the introduction of a non-risk-sensitive maximum leverage ratio. Although these recommendations are yet to be specified in greater detail and will require ratification, IKB has already conducted preliminary investigations into the potential consequences for its business.

IKB's capital and liquidity resources are currently significantly in excess of the Basel III thresholds.

The reform package published by the Basel Committee will increase the minimum requirement for core Tier I capital from 2% to 4.5% and the minimum requirement for Tier I capital as a whole from 4% to 6%. These requirements must be met on a step-by-step basis in the period from 1 January 2013 to 1 January 2015. Banks will also be obliged to maintain a capital conservation buffer of 2.5% to be backed by core Tier I capital; this requirement must be met on a step-by-step basis in the period from 1 January 2016 to 1 January 2019. A countercyclical capital buffer consisting of core Tier I capital or other fully loss-absorbing capital will also be introduced. This buffer will be between 0% and 2.5% depending on the respective national circumstances.

All in all, this means that IKB will be required to maintain a core Tier I ratio of between 7% and 9.5% throughout the economic cycle, with an average core Tier I ratio during the cycle of 8.25%.

To ensure this and other minimum ratios, IKB will primarily manage its total assets by reducing risk assets and transferring risk as well as establishing reserves.

Liquidity situation

From a current perspective, IKB has sufficient liquidity resources until the first quarter of 2012 even without accessing refinancing options via the capital markets 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 be sufficient to bridge an unexpected temporary liquidity shortfall. The Bank will also have sufficient liquidity for the rest of 2012 subject to the successful implementation of the refinancing measures that are currently being examined and, in some cases, have already been initiated. This includes the extension of customer deposits, the placement of promissory note loans and secured or unsecured refinancing on the capital markets. Further asset sales are also planned. According to current planning, the reduction in balance sheet assets is expected to have a cumulative liquidity effect of around € 1 billion.

Secured financing and 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 also uses secured borrowing as an instrument to cover its liquidity requirements, including in the area of foreign currencies to a greater extent. Furthermore, IKB will continue to actively utilise programme loans and global loans from government development banks for its customers.

Given the current rating (Baa3/BBB-, individual rating: E/E), the economically rational issuance of unsecured bearer bonds on the capital markets is only possible extremely selectively and in small tranches. This situation may improve in the longer term as a result of changes in investor behaviour and/or positive changes in the rating or if the capital markets start to become more functional once again.

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

Earnings performance

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

IKB expects to have a different earnings structure in future, with a lower overall level of income as in the financial years prior to 2007/08 accompanied by reduced risk. The lower level of total Group assets as a result of the EU conditions means that net interest income will decrease. One positive factor is that provision for possible loan losses are expected to have a relatively minor impact on earnings for the 2010/11 financial year.

The guarantee commission payable to SoFFin as a result of the crisis at IKB is reducing net fee and commission income. The Group's administrative expenses will be driven by the planned fulfilment of the EU conditions. Following the significant reduction in the previous year, administrative expenses will rise moderately once again as IKB invests in the infrastructure required to support its business model.

The significant restructuring costs are expected to come to an end by the middle of the next calendar year. The reduction in the workforce and a more effective IT infrastructure will also lead to structural cost savings. In the medium term, the stabilisation of the income situation – i.e. interest and fee and commission income from new lending business, which will enjoy a return to moderate growth – will be accompanied by commission from consulting, derivatives and capital market business.

The gradual return to normality on the capital markets as a result of the economic upturn, lower refinancing requirements, secured transactions and clear progress in the implementation of the business model will help to limit refinancing costs.

Despite the publication of the roadmap for Basel III, the impact of new regulations (particularly concerning banking supervision and accounting) on the earnings situation cannot be reliably estimated due to the large number of proposals involved. The levy on banks, the future costs of deposit protection and the financial market transaction tax all require further clarification.

With a solid, high-margin lending business, reduced provision for possible loan losses, rising net fee and commission income thanks to the expanded service range and lower fair value fluctuations in investment securities, IKB expects to see an improvement in its profitability.

The need to service the agreements on compensation from future profits entered into in return for the provision of regulatory core capital of € 1,050 million by KfW Bankengruppe in the 2007/08 financial year, the compensation agreement relating to the waiver by LSF6 Europe of its repayment claim and future interest payment claims arising from the subordinated bonds of IKB assumed in November and December 2008 (in the amount of € 101 million) and the impairment loss reversal rights of hybrid investors are likely to result in the Group and IKB AG not reporting any, or only minimal, profit for several financial years to come.

Düsseldorf, 18 November 2010

IKB Deutsche Industriebank AG
The Board of Managing Directors

Consolidated Interim Financial Statements in accordance with International Financial Reporting Standards for the period ended 30 September 2010

Consolidated statement of total comprehensive income

Consolidated income statement

in € million	Notes	1 April 2010 - 30 Sep 2010	1 April 2009 - 30 Sep 2009*
Net interest income	(1)	**71.5**	**94.1**
Interest income		964.3	1,026.0
Interest expenses		892.8	931.9
Provision for possible loan losses	(2)	**37.7**	**210.0**
Net interest income after provision for possible loan losses		**33.8**	**-115.9**
Net fee and commission income	(3)	**-44.5**	**-13.0**
Fee and commission income		24.4	22.4
Fee and commission expenses		68.9	35.4
Net income from financial instruments at fair value	(4)	**-57.8**	**-365.2**
Net income from investment securities	(5)	**37.2**	**12.6**
Net income from investments accounted for using the equity method	(6)	**0.0**	**-1.1**
Administrative expenses	(7)	**145.8**	**145.7**
Personnel expenses		76.9	81.4
Other administrative expenses		68.9	64.3
Other operating result	(8)	**-63.9**	**140.3**
Other operating income		92.8	226.1
Other operating expenses		156.7	85.8
Operating result		**-241.0**	**-488.0**
Taxes on income	(9)	-10.4	-14.9
Other taxes		2.3	1.9
Consolidated net loss		**-232.9**	**-475.0**
Minority interests		0.0	0.2
Consolidated net loss after minority interests		**-232.9**	**-474.8**

* Figures adjusted

Earnings per share

	1 April 2010 - 30 Sep 2010	1 April 2009 - 30 Sep 2009*
Consolidated net loss after minority interests (€ million)	-232.9	-474.8
Average number of shares outstanding (million)	633.4	609.2
Earnings per share (€)	**-0.37**	**-0.78**

* Figures adjusted

Diluted earnings per share were not calculated.

Condensed statement of comprehensive income

in € million	1 April 2010 - 30 Sep 2010	1 April 2009 - 30 Sep 2009*
Consolidated net loss	**-232.9**	**-475.0**
Changes in financial assets available for sale recognised directly in equity	-6.3	47.7
Changes in financial assets available for sale recognised in profit or loss	-11.7	4.0
Changes in derivatives hedging fluctuations in future cash flows recognised directly in equity	1.9	1.8
Currency translation differences recognised directly in equity	-0.4	2.5
Changes due to actuarial gains/losses (IAS 19) recognised directly in equity	-22.7	28.2
Deferred taxes on other income	11.8	-25.2
Other comprehensive income	**-27.4**	**59.0**
Total comprehensive income	**-260.3**	**-416.0**

* Figures adjusted

in € million	1 April 2010 - 30 Sep 2010	1 April 2009 - 30 Sep 2009*
Total comprehensive income attributable to		
Shareholders of IKB AG	-260.3	-415.8
Minority interests	0.0	-0.2

* Figures adjusted

Consolidated balance sheet

in € million	Notes	30 Sep 2010	31 March 2010*	31 March 2009**
Assets				
Cash reserve		123.5	14.9	4.2
Loans and advances to banks	(10)	3,252.8	2,518.3	2,979.5
Loans and advances to customers	(11)	22,092.6	23,665.1	27,927.9
Provision for possible loan losses	(12)	-877.0	-1,072.2	-997.7
Assets held for trading	(13)	2,264.5	1,341.3	3,732.8
Investment securities	(14)	8,147.5	8,340.7	10,236.3
of which € 1,782.3 million investment securities pledged as collateral, available for sale or reassignment by the protection purchaser as of 30 September 2010 (31 March 2010: € 576.9 million; 31 March 2009: € 631.4 million)				
Companies accounted for using the equity method	(15)	9.3	9.5	7.5
Intangible assets		10.4	12.9	19.1
Property, plant and equipment	(16)	169.8	179.5	256.1
Current tax assets	(17)	44.0	42.7	57.7
Deferred tax assets	(17)	227.7	233.2	256.2
Other assets	(18)	205.9	258.5	228.2
Non-current assets held for sale	(19)	102.6	197.9	3.1
Total		**35,773.6**	**35,742.3**	**44,710.9**

Equity and liabilities				
Liabilities to banks	(20)	12,571.4	11,998.0	15,318.7
Liabilities to customers	(21)	8,080.7	7,517.9	5,818.8
Securitised liabilities	(22)	8,943.9	10,788.6	14,025.9
Liabilities held for trading	(23)	3,460.3	2,481.9	5,480.0
Provisions	(24)	178.7	156.8	172.3
Current tax liabilities	(25)	110.2	109.8	94.8
Deferred tax liabilities	(25)	102.7	103.3	139.6
Other liabilities	(26)	482.2	432.1	547.9
Liabilities in connection with assets held for sale	(27)	2.6	2.6	-
Subordinated capital	(28)	1,164.2	1,214.2	1,357.9
Equity		676.7	937.1	1,755.0
Issued capital		1,621.3	1,621.3	1,497.8
Capital reserve		597.8	597.8	597.8
Retained earnings		-1,273.6	-291.2	-206.8
Currency translation reserve		-17.6	-17.2	-20.5
Revaluation surplus		-18.3	-6.9	-35.9
Minority interests		0.0	0.0	0.1
Consolidated cumulative loss		-232.9	-966.7	-77.5
Total		**35,773.6**	**35,742.3**	**44,710.9**

* Figures adjusted

** See consolidated financial statements as at 31 March 2010

Statement of changes in equity

in € million	Issued capital*	Capital reserve	Retained earnings: Actuarial gains/ losses (IAS 19)	Retained earnings: Other	Currency translation reserve	Revaluation surplus: Financial assets available for sale	Revaluation surplus: Derivatives hedging fluctuations in future cash flows	Consoli-dated income/ cumulative loss*	**Total***	Minority interests	**Total equity***
Equity as of 1 April 2009	**1,497.8**	**597.8**	**-27.1**	**-179.7**	**-20.5**	**-27.6**	**-8.3**	**-77.5**	**1,754.9**	**0.1**	**1,755.0**
Capital increase	123.5								**123.5**		**123.5**
Netting of consolidated net loss 1 April 2008 to 31 March 2009				-77.5				77.5	**-**		**-**
Total comprehensive income*			19.3		2.5	36.0	1.2	-474.8	**-415.8**	-0.2	**-416.0**
Equity as of 30 Sep 2009	**1,621.3**	**597.8**	**-7.8**	**-257.2**	**-18.0**	**8.4**	**-7.1**	**-474.8**	**1,462.6**	**-0.1**	**1,462.5**
Changes: Other				-0.2					**-0.2**	0.1	**-0.1**
Total comprehensive income*			-26.0		0.8	-7.5	-0.7	-491.9	**-525.3**		**-525.3**
Equity as of 31 March 2010	**1,621.3**	**597.8**	**-33.8**	**-257.4**	**-17.2**	**0.9**	**-7.8**	**-966.7**	**937.1**	**0.0**	**937.1**
Changes: Other				-0.1					**-0.1**		**-0.1**
Netting of consolidated net loss 1 April 2009 to 31 March 2010				-966.7				966.7	**-**		**-**
Total comprehensive income			-15.6		-0.4	-12.7	1.3	-232.9	**-260.3**		**-260.3**
Equity as of 30 Sep 2010	**1,621.3**	**597.8**	**-49.4**	**-1,224.2**	**-17.6**	**-11.8**	**-6.5**	**-232.9**	**676.7**	**0.0**	**676.7**

* Figures adjusted

For comprehensive income, see condensed statement of comprehensive income.

Condensed cash flow statement

in € million	2010	2009
Opening balance as of 1 April	**14.9**	**4.2**
Cash flow from operating activities	57.0	-1,408.5
Cash flow from investing activities	62.1	1,525.1
Cash flow from financing activities	-10.5	-95.6
Closing balance as of 30 September	**123.5**	**25.2**

Notes to the consolidated financial statements

Principles of Group accounting

The consolidated interim financial statements of IKB Deutsche Industriebank AG (IKB AG), for the period ended 30 September 2010 have been prepared in accordance with the International Financial Reporting Standards (IFRS) applicable at the reporting date on the basis of Regulation No. 1606/2002 of the European Parliament and of the Council of 19 July 2002 and the related subsequent regulations.

This includes the interpretations issued by the Standing Interpretations Committee (SIC) and the International Financial Reporting Interpretation Committee (IFRIC). The consolidated interim financial statements have been prepared as condensed financial statements in accordance with the requirements of IAS 34 "Interim Financial Reporting". The national provisions of section 315a (1) of the German Commercial Code (HGB) were also applied as applicable at the reporting date. In accordance with section 37w in conjunction with section 37y no. 2 of the German Securities Trading Act (WpHG), IKB prepares a half-yearly report that includes the condensed consolidated interim financial statements presented here as well as an interim Group management report and a responsibility statement that meets the provisions of section 297 (2) HGB and section 315 (1) sentence 6 HGB.

Unless otherwise indicated, all amounts are stated in millions of euro (€ million). Amounts are generally rounded to € million and percentages are generally rounded to one decimal place in accordance with standard commercial principles. Some totals and percentages may contain discrepancies between the various presentations due to rounding differences. The term "previous year" is used to describe the prior-period comparative figures in the income statement.

Overview of changes in accounting principles

Over recent years, the International Accounting Standards Board (IASB) has published a number of amendments to standards, in some cases in response to the crisis on the financial markets. The following table provides a chronological overview of these standards ordered by their publication date.

Standard/ Interpretation	Title	Date of publication by the IASB	Required to be applied for financial years beginning on or after the following date according to the IASB	Adoption into European law	
				on	from the start of the first financial year beginning after [date]
Accounting standards to be applied for the first time in the first half of the 2010/11 financial year					
IFRS 3/IAS 27	Business Combinations and Consolidated and Separate Financial Statements	10 January 2008	1 July 2009	3 June 2009	30 June 2009
IFRIC 15	Agreements for the Construction of Real Estate	3 July 2008	1 January 2009	22 July 2009	31 December 2009
IFRIC 16	Hedges of a Net Investment in a Foreign Operation	3 July 2008	1 October 2008	4 June 2009	30 June 2009
IAS 39	Financial Instruments: Recognition and Measurement of Exposures Qualifying for Hedge Accounting	31 July 2008	1 July 2009	15 September 2009	30 June 2009
IFRS 1	First-time Adoption of International Financial Reporting Standards - amended 2008	27 November 2008	1 July 2009	25 November 2009	31 December 2009
IFRIC 17	Distributions of Non-cash Assets to Owners	27 November 2008	1 July 2009	26 November 2009	31 October 2009
IFRIC18	Transfers of Assets from Customers	29 January 2009	1 July 2009	27 November 2009	31 October 2009
AIP (2009)	Improvements to IFRS	16 April 2009	1 July 2009/1 Jan 2010	23 March 2010	31 December 2009
IFRS 2	Group Cash-Settled Share-based Payment Transactions	18 June 2009	1 January 2010	23 March 2010	31 December 2009
IFRS 1	First-time Adoption of International Financial Reporting Standards: second amendment	23 July 2009	1 January 2010	23 June 2010	31 December 2009
IAS 32	Financial Instruments: Presentation: Classification of Rights Issues	8 October 2009	1 February 2010	23 December 2009	31 January 2010
Accounting standards to be applied in the coming 2011/12 financial year					
IAS 24	Related Party Disclosures	4 November 2009	1 January 2011	19 July 2010	31 December 2010
IFRIC 14	Prepayments of a Minimum Funding Requirement	26 November 2009	1 January 2011	19 July 2010	31 December 2010
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	26 November 2009	1 July 2010	23 July 2010	30 June 2010
IFRS 1/IFRS 7	First-time Adoption of International Financial Reporting Standards: Revision in conjunction with the amendments to IFRS 7	28 January 2010	1 July 2010	30 June 2010	30 June 2010
Standards published by the IASB but not yet adopted into EU law					
IFRS 9	Financial Instruments: Classification and Measurement for financial assets	12 November 2009	1 January 2013		
AIP (2010)	Improvements to IFRS	6 May 2010	1 July 2010		
IFRS 7	Financial Instruments: Disclosure - Transfer of Financial Assets	7 October 2010	1 July 2011		
IFRS 9	Financial Instruments: Classification and Measurement for financial liabilities	28 October 2010	1 January 2013		

Accounting standards applied for the first time in the consolidated interim financial statements

These consolidated interim financial statements are based on standards and interpretations that are mandatory within the European Union for the financial year.

The following standards and interpretations are not currently relevant for IKB: IFRS 1, IFRIC 16, IFRIC 17, IFRIC 18 and IFRS 2.

While the revised version of IFRS 3 “Business Combinations” reconsiders the acquisition accounting for business combinations, the modified version of IAS 27 “Consolidated and Separate Financial Statements” mainly contains changes in the accounting of minority interests and the loss of control over a subsidiary. The amendments apply solely to future transactions. In accordance to the new provisions, changes to a parent’s ownership interest in a subsidiary as a result of the acquisition of minority interests or the disposal of shares in minorities without losing control are recognised as equity transactions. Any difference between the purchase price or the proceeds from the sale and the pro rata carrying amount of the recognised net assets of the subsidiary are offset in equity under retained earnings. However, sales of shares resulting in a loss of control are recognised in profit and loss. This amendment has not had any significant effect for IKB.

The basic question behind IFRIC 15 “Agreements for the Construction of Real Estate” is whether a contract is designed in such a way that it falls within the scope of IAS 11 “Construction Contracts” or if it has more features requiring the application of IAS 18 “Revenue”. This includes clarification of whether revenue can only be recognised on completion of the real estate or whether it is reported in line with the percentage of completion. The amendments did not have any significant effects for IKB.

The amendment to IAS 39 “Financial Instruments: Recognition and Measurement – Eligible Hedged Items” relates to the hedging of inflation risk with hedged items in certain cases and the designation of options as hedging instruments at their intrinsic or fair value. The amendments did not have any significant effects for IKB.

With the “Improvements to IFRS” amendment standard published in April 2009, a number of changes to existing standards were implemented with the general aim of remedying inconsistencies within or between existing standards or clarifying the wording of the standards. The amendments did not have any significant effects for IKB.

In accordance with the amendments to IAS 32 “Classification of Rights Issues”, the issuers of certain subscription rights, options and warrants for the purchase of a fixed number of equity instruments in a currency other than the functional currency are now required to recognise such items as equity instruments and not as liabilities as was previously the case. The amendments are not currently significant for IKB.

Accounting standards to be applied in future

The following section discusses the standards and interpretations published by the IASB and adopted by the European Union during the past half-year.

The amendment to IFRS 1/IFRS 7 is not relevant for IKB.

The provisions of IAS 24 “Related Party Disclosures” contain changes to the definition of related parties as well as clarifying that certain government-controlled entities are excluded from some of the disclosure requirement of the standard in respect of their relationships with the government or other government-controlled entities. The modification of the definition means that the definition of related parties within the meaning of the standard may extend to IKB’s current major shareholder.

The amendment to IFRIC 14 “Prepayments of a Minimum Funding Requirement” modifies the accounting treatment of pension claims. The amendment relates to entities that are subject to minimum funding requirements and that make prepayments of the corresponding contributions. The amendment means that entities are now permitted to recognise the benefit of such prepayments as an asset. The amendments did not have any effects for IKB.

IFRIC 19 “Extinguishing Financial Liabilities with Equity Instruments” applies when an entity issues equity instruments to extinguish all or part of a financial liability. Accordingly, the liability is derecognised to the extent that it is extinguished with equity instruments. The equity instruments issued are measured at fair value if this can be reliably determined. If the fair value cannot be reliably determined, the equity instruments issued are measured at the value of the liability extinguished. The difference between the carrying amount of the financial liability extinguished and the fair value of the equity instruments issued is recognised in profit or loss. The amendments are not currently significant for IKB.

The following standards and interpretations were adopted by the IASB but not yet endorsed in EU law as of 30 September 2010:

The following standards and interpretations published by the IASB but not yet endorsed in EU law could have an impact on IKB's accounting practice. The amendments are expected to be implemented from the date on which they are required to be applied.

The provisions of IFRS 9 "Financial Instruments: Classification and Measurement", which had only been published for financial assets as at 30 September 2010, are intended to improve the coherence of the financial statements with regard to the classification and measurement of financial instruments. The previous classification of financial assets into four categories in accordance with IAS 39 is superseded by two measurement categories: "amortised cost" and "fair value". On the basis of the entity's business model, financial instruments must be automatically allocated to one of these two categories on initial recognition. As a matter of principle, initial measurement is performed at fair value, taking any transaction costs into account. Subsequent measurement is based on amortised cost or fair value depending on the initial classification of the respective instrument. Financial assets are measured at amortised cost if the objective of the entity's business model is to hold the financial asset to collect the contractual cash flows. The cash flows must also constitute payments of principal or interest on the principal outstanding. Financial instruments that do not meet both of these conditions cumulatively must be measured at fair value with the exception of equity instruments which are subject to an option.

In addition, the Annual Improvements Projects in May 2010 resulted in further amendments to the existing IFRS standards. This generally related to inconsistencies in or between existing standards or changes to the wording of such standards to reflect changes in circumstances. The majority of the amendments apply for financial years beginning on or after 1 January 2011.

On 7 October 2010, the IASB adopted amendments to IFRS 7 "Financial Instruments: Disclosures" as part of the "Derecognition of financial assets" project. The derecognition provisions contained in IAS 39 remain unchanged. The new provisions provide for additional disclosure requirements for financial assets that have been transferred but not, or not fully, derecognised. This is intended to regulate the relationship between these assets and the corresponding liabilities. In addition, the nature of financial assets that have been transferred and derecognised and the potential risks involved from the continued exposure are required to be disclosed in the notes. The modified disclosure requirements apply for financial years beginning on or after 1 July 2011.

In addition the provisions of IFRS 9 "Financial Instruments: Classification and Measurement", provisions on the accounting treatment of financial liabilities were published on 28 October 2010. The changes primarily relate to financial liabilities for which an entity has exercised the fair value option. The portion of the change in the fair value attributable to credit risk must be immediately recognised in other income in future. All other changes to the fair value must be recognised in profit or loss. The new provisions are aimed at resolving the problem of volatility in the income statement due to proprietary credit risk. The IFRS provisions for financial liabilities apply for financial years beginning on or after 1 January 2013.

Changes in line with IAS 8

These consolidated financial statements contain various changes as against the consolidated interim financial statements as at 30 September 2009. These amendments are described in the consolidated financial statements for the year ended 31 March 2010. The following changes were also applied:

(a) Changes to estimates

The fundamental measurement of the US RMBS bonds held by Rio Debt Holdings Ltd., Dublin, is performed using the discounted cash flow method. In addition to the relevant parameters for calculating future portfolio performance, yield curves are required to determine the forward rates for cash flow generation and for the discounting of interest and repayment cash flows for the respective bond. In the original RMBS model, interest rates and forecasts from the providers Intex and Bloomberg were applied for pricing purposes. Due to the increased precision of the assumptions applied and in order to achieve greater independence and transparency, the Bank has switched to only using internal interest rate forecasts in calculating the fundamental values.

This transition results in fundamental values that are approximately US$ 13.0 million higher than in accordance with the former method.

(b) IAS 8 amendments

30 September 2009

In calculating the tax positions of IKB Capital Corporation, New York, a deductible temporary difference between the financial assets reported in the consolidated financial statements and the tax base was not recognised as at 30 September 2009. This required the recognition of a deferred tax asset in the amount of € 17.8 million. The resulting adjustment led to a reduction in income tax expense from € 2.9 million to € -14.9 million and an increase in deferred tax assets from € 251.5 million to € 269.3 million. As a result, the consolidated net loss decreased from € -492.8 million to € -475.0 million. Total comprehensive income changed from € -433.8 million to € -416.0 million, while equity increased from € 1,444.7 million to € 1,462.5 million.

31 March 2010

Due to the insufficient recognition of minority interests in connection with a property company held for sale, the other operating income reported in the consolidated financial statements as at 31 March 2010 was € 7.2 million too low. The corresponding adjustment resulted in an increase in other operating income for the 2009/10 financial year from € 329.2 million to € 336.4 million and an increase in non-current assets held for sale from € 190.7 million to € 197.9 million. The consolidated net loss declined from € -974.1 million to € -966.9 million, while total comprehensive income changed from € -948.5 million to € -941.3 million. Equity increased from € 929.9 million to € 937.1 million.

Accounting policies

(a) General

With the exception of the changes presented above, the same accounting policies were applied in preparing these consolidated interim financial statements as for the consolidated financial statements for the year ended 31 March 2010.

Income tax was determined in accordance with IAS 34.30.

(b) Scope of consolidation

In addition to the parent company, a total of 28 German companies (31 March 2010: 30; 30 September 2009: 27) and 17 foreign companies (31 March 2010: 17; 30 September 2009: 17) are included in the consolidated interim financial statements of IKB as at 30 September 2010 in accordance with IAS 27. IKB AG holds the majority of the voting rights in these companies.

The consolidated interim financial statements include four (31 March 2010: four; 30 September 2009: six) foreign special-purpose entities in accordance with SIC-12.

The consolidated companies are listed in note 42.

There were the following changes in the scope of consolidation as at 30 September 2010:

IKB Dritte Equity Suporta GmbH, Düsseldorf, was merged into IKB Equity Capital Fund GmbH, Düsseldorf, with effect from 1 January 2010 by way of an agreement dated 30 March 2010. The merger was entered in the commercial register of the absorbing company on 14 April 2010. This means that the transferred company has expired.

IKB Equity Finance GmbH, Düsseldorf, was merged into IKB Private Equity GmbH, Düsseldorf, with effect from 1 January 2010 by way of an agreement dated 30 March 2010. The merger was entered in the commercial register of the absorbing company on 16 April 2010. This means that the transferred company has expired.

Aleanta GmbH, Düsseldorf, (Aleanta) was included in the consolidated interim financial statements for the first time with effect from 30 September 2010. The purpose of the company is to acquire, hold and sell equity interests in other companies.

In accordance with the spin-off plan and the adoption resolution by the Shareholders' Meeting on 9 July 2010, Aleanta was formed by way of the spin-off and transfer of the assets of IKB Beteiligungen GmbH, Düsseldorf, (IKB Beteiligungen) (transferring entity) to Aleanta. IKB Deutsche Industriebank AG, Düsseldorf (IKB AG), the shareholder of the transferring entity, was granted shares in Aleanta as consideration. The transfer date under German commercial law is 1 April 2010. With the spin-off, the profit and loss transfer agreement between Erste Equity Suporta GmbH, Düsseldorf, and IKB Beteiligungen was also transferred to Aleanta. The spin-off became effective with its entry in the commercial register of the transferring entity on 25 August 2010. The difference between the carrying amount of the assets transferred and the share capital was recognised in Aleanta's capital reserves.

IKB Struktur GmbH, Düsseldorf, (IKB Struktur) acquired all of the shares of a company from a business partner by way of an agreement dated 28 May 2010. The exercise of the contractual right of replacement meant that IKB Struktur transferred its rights and obligations under the purchase agreement to Aleanta on 25 August 2010. The agreement was enforced on 30 August 2010 (disposal transaction). The acquired company was subsequently renamed Olessa GmbH, Düsseldorf, (Olessa).

The agreement on the merger of Olessa into Aleanta was concluded on 30 September 2010. The merger was submitted to the registry court of the transferring entity on 9 November 2010 and entered on 11 November 2010. The transferring entity submitted a request for entry dated 9 November 2010.

The purchase price for all of the shares was € 74.8 million. Bank balances in the amount of € 81.9 million and tax provisions of € 27.0 million were acquired. The difference between the purchase price and the fair value of the assets acquired in the amount of € 19.9 million was recognised in profit or loss. The tax provisions acquired were reversed within the tax group.

94.9% of the limited partner's share in IKB Grundstücks GmbH & Co. Objekt Degerloch KG, Düsseldorf, was sold as of 31 July 2010. The company was deconsolidated due to the loss of control. The assets of the company primarily consist of land and buildings. The deconsolidation, which resulted in proceeds of € 2.7 million, did not have a material effect on the income statement.

Notes on the consolidated income statement

(1) Net interest income

in € million	1 April 2010 - 30 Sep 2010	1 April 2009 - 30 Sep 2009
Interest income from lending and money market transactions and securities and derivatives	879.5	929.8
Income from leasing transactions	81.4	93.1
Other interest income/income from shares and participations	3.4	3.1
Total interest income	**964.3**	**1,026.0**
Interest expenses for securitised liabilities, subordinated capital and other liabilities and for derivatives	853.7	881.3
Amortisation from discontinued hedges IFRS 1 IG 60A	25.0	35.0
Expenses from leasing transactions	14.1	15.6
Total interest expenses	**892.8**	**931.9**
Net interest income	**71.5**	**94.1**

No current interest income is recognised for impaired loans and advances. Instead, the increase in the present value of future payments as a result of the passage of time is recognised as interest income (unwinding). The interest income resulting from the unwinding effect amounted to € 16.6 million (previous year: € 17.6 million).

(2) Provision for possible loan losses

1 April 2010 - 30 Sep 2010 in € million	Amortised cost		Fair value in equity	Finance lease receivables	Provisions for off-balance-sheet transactions	Total
	Loans and advances to customers	Investment securities	Investment securities	Loans and advances to customers		
Additions to specific valuation allowances/provisions	91.8	-	-	6.2	7.0	105.0
Direct write-downs	16.8	-	-	-	-	16.8
Recoveries on loans previously written off	3.1	-	-	-	-	3.1
Additions to (+) reversals of (-) portfolio allowances	-19.6	-	-	1.3	-	-18.3
Reversal of specific valuation allowances/provisions	47.5	-	-	6.1	9.1	62.7
Provision for possible loan losses	**38.4**	**-**	**-**	**1.4**	**-2.1**	**37.7**
Additions to (+) reversals of (-) impairment on investment securities (net income from investment securities)	-	-16.8	-	-	-	-16.8
Total	**38.4**	**-16.8**	**-**	**1.4**	**-2.1**	**20.9**

1 April 2009 - 30 Sep 2009 in € million	Amortised cost		Fair value in equity	Finance lease receivables	Provisions for off-balance-sheet transactions	Total
	Loans and advances to customers	Investment securities	Investment securities	Loans and advances to customers		
Additions to specific valuation allowances/provisions	199.7	-	-	8.5	8.6	216.8
Direct write-downs	28.7	-	-	-	-	28.7
Recoveries on loans previously written off	3.5	-	-	-	-	3.5
Additions to (+)/reversals of (-) portfolio allowances	15.0	-	-	-1.0	-	14.0
Reversal of specific valuation allowances/provisions	38.0	-	-	4.0	4.0	46.0
Provision for possible loan losses	**201.9**	**-**	**-**	**3.5**	**4.6**	**210.0**
Additions to (+)/reversal of (-) impairment on investment securities (net income from investment securities)	-	-18.3	-0.1	-	-	-18.4
Total	**201.9**	**-18.3**	**-0.1**	**3.5**	**4.6**	**191.6**

(3) Net fee and commission income

in € million	1 April 2010 - 30 Sep 2010	1 April 2009 - 30 Sep 2009
Net fee and commission income from lending business	18.5	14.7
Net fee and commission income from securitisation	-0.1	0.8
Commission for liquidity generation	-63.9	-27.4
Other	1.0	-1.1
Total	**-44.5**	**-13.0**

Commission for liquidity generation contains the guarantee and commitment fees paid to SoFFin in conjunction with the guaranteed bonds.

(4) Net income from financial instruments at fair value

in € million	1 April 2010 - 30 Sep 2010	1 April 2009 - 30 Sep 2009
Net trading result	-23.2	13.3
Net result from fair value option	-29.5	-374.3
Hedging result	-5.1	-4.2
Total	**-57.8**	**-365.2**

The negative effects in net trading income primarily relate to the derivative result of € -45.8 million (previous year: € -5.2 million), the securities trading result of € 10.5 million (previous year: € 10.6 million) and the currency result of € 15.2 million (previous year: € 7.9 million).

Liabilities for which the fair value option was exercised resulted in rating-driven income of € 189.3 million within net income from financial instruments at fair value (previous year: expenses of € 629.4 million) in the half-year under review due to the expansion of the IKB credit spread. Until the planned repayment of these financial instruments, net income from financial instruments at fair value will continue to be affected by potential changes in credit spreads in future periods. Non-current assets, liabilities and derivatives developed in the opposite direction due to the sharp reduction in long-term interest rates, recording a negative earnings contribution of € 218.8 million that exceeded the positive rating-driven effects.

The result from fair value hedges contains the result from hedged items of € 97.8 million (previous year: € 32.8 million) and from hedging derivatives of € -102.9 million (previous year: € -37.0 million).

(5) Net income from investment securities

in € million	1 April 2010 - 30 Sep 2010	1 April 2009 - 30 Sep 2009
Net income/loss from securities	36.6	19.7
Net income/loss from investments and shares in affiliated companies	0.6	-7.1
Total	**37.2**	**12.6**

Net income from investment securities includes reversals of impairment losses in the amount of € 16.8 million (previous year: € 18.3 million) on securities classified as loans and receivables in accordance with IAS 39. The sale of securities resulted in net income of € 19.9 million (previous year: € 1.3 million).

(6) Net income from investments accounted for using the equity method

in € million	1 April 2010 - 30 Sep 2010	1 April 2009 - 30 Sep 2009
Linde Leasing GmbH	0.0	-0.2
MD Capital Beteiligungsgesellschaft mbH	0.0	-
Movesta Lease and Finance GmbH	-	-0.9
Total	**0.0**	**-1.1**

(7) Administrative expenses

in € million	1 April 2010 - 30 Sep 2010	1 April 2009 - 30 Sep 2009
Personnel expenses	76.9	81.4
Other administrative expenses	62.4	56.7
Write-downs on operating and office equipment, real estate and intangible assets	6.5	7.6
Total	**145.8**	**145.7**

Other administrative expenses include expenses for consulting and other services for managing the crisis totalling € 6.8 million (previous year: € 4.4 million) and expenses for contributions to the Deposit Protection Fund in the amount of € 7.3 million (previous year: € 8.0 million).

(8) Other operating result

in € million	1 April 2010 - 30 Sep 2010	1 April 2009 - 30 Sep 2009
Other operating income	92.8	226.1
thereof: Income from the remeasurement of compensation from future profits and hybrid financial instruments	15.4	132.4
Other operating expenses	156.7	85.8
thereof: Expenses from the remeasurement of compensation from future profits and hybrid financial instruments	16.8	-
Total	**-63.9**	**140.3**

Expenses from the remeasurement of compensation from future profits and hybrid financial instruments (IAS 39 AG8) are discussed in note 21 “Liabilities to customers” and note 28 “Subordinated capital”.

Other operating expenses include an expense for the derecognition of a difference arising from the acquisition of a company in the amount of € 19.9 million and a write-down of € 40.7 million on a property reported in non-current assets held for sale.

(9) Taxes on income

in € million	1 April 2010 - 30 Sep 2010	1 April 2009 - 30 Sep 2009*
Current taxes on income	-26.6	42.9
Deferred taxes	16.2	-57.8
Total	**-10.4**	**-14.9**

* Figures adjusted

Current income taxes include income from the reversal of tax provisions acquired as part of a merger in the amount of € 27.0 million. Deferred tax expenses primarily relate to the reversal of deferred tax assets.

Notes on the consolidated balance sheet (assets)

(10) Loans and advances to banks

in € million	30 Sep 2010	31 March 2010
Loans and advances to banks (remaining term up to one year)	3,179.8	2,399.0
Loans and advances to banks (remaining term 1-5 years)	57.5	85.5
Loans and advances to banks (remaining term more than 5 years)	15.5	33.8
Total	**3,252.8**	**2,518.3**

(11) Loans and advances to customers

in € million	30 Sep 2010	31 March 2010
Loans and advances to customers (remaining term up to one year)	4,520.9	4,434.6
Loans and advances to customers (remaining term 1-5 years)	10,142.2	10,929.2
Loans and advances to customers (remaining term more than 5 years)	5,607.7	6,483.9
Finance lease receivables	1,821.8	1,817.4
Total	**22,092.6**	**23,665.1**

The reduction in loans and advances to customers is primarily attributable to the reduction in loans to customers as a result of the EU conditions.

The carrying amount of loans and advances to customers includes adjustments from hedged items in the amount of € 239.5 million (31 March 2010: € 177.5 million) as a result of hedge accounting.

(12) Provision for possible loan losses

Special provision for possible loan losses are recognised in order to hedge against identifiable risks in the Bank's lending business.

	Impairment		Portfolio allowances	Provisions for off-balance-sheet transactions	**Total**
	Amortised cost	Finance lease receivables			
in € million	Loans and advances to customers	Loans and advances to customers			
Opening balance (1 April 2010)	877.0	10.1	185.1	53.9	**1,126.1**
Utilisation	211.9	0.0	0.0	0.0	**211.9**
Reversal	47.5	6.1	21.0	9.1	**83.7**
Unwinding	9.4	0.0	0.0	0.1	**9.5**
Addition	91.8	6.2	2.7	7.0	**107.7**
Effects of exchange rate changes	0.0	0.0	0.0	0.0	**0.0**
Closing balance (30 Sep 2010)	**700.0**	**10.2**	**166.8**	**51.7**	**928.7**
less provisions	-	-	-	51.7	**51.7**
Provision for possible loan losses as of 30 Sep 2010	**700.0**	**10.2**	**166.8**	**-**	**877.0**

Provision for possible loan losses in the form of specific valuation allowances and provisions amounted to € 761.9 million (31 March 2010: € 941.0 million).

in € million	Impairment		Portfolio allowances	Provisions for off-balance-sheet transactions	**Total**
	Amortised cost	Finance lease receivables			
	Loans and advances to customers	Loans and advances to customers			
Opening balance (1 April 2009)	806.4	6.7	184.6	58.2	**1,055.9**
Utilisation	334.0	0.0	0.0	15.4	**349.4**
Reversal	84.0	11.1	21.6	10.8	**127.5**
Unwinding	24.4	0.0	0.0	0.4	**24.8**
Addition	517.9	14.4	23.1	22.3	**577.7**
Effects of exchange rate changes	-4.9	0.1	-1.0	0.0	**-5.8**
Closing balance (31 March 2010)	**877.0**	**10.1**	**185.1**	**53.9**	**1,126.1**
less provisions	-	-	-	53.9	**53.9**
Provision for possible loan losses as of 31 March 2010	**877.0**	**10.1**	**185.1**	**-**	**1,072.2**

(13) Assets held for trading

in € million	30 Sep 2010	31 March 2010
Bonds and other fixed-income securities	88.3	94.8
Promissory notes carried as trading assets	32.5	38.1
Derivatives with positive fair values	1,697.8	941.3
Derivatives with positive fair values on fair value option financial instruments	385.8	237.5
Hedging derivatives with positive fair values	60.1	29.6
Total	**2,264.5**	**1,341.3**

The change of € 0.9 billion is primarily due to the increase in the positive fair values of derivative financial instruments due to remeasurement effects and volume growth.

(14) Investment securities

Investment securities include the following items:

in € million	30 Sep 2010	31 March 2010
Bonds and other fixed-income securities	8,024.5	8,207.2
Investments	122.7	133.3
Shares in affiliated companies	0.3	0.2
Total	**8,147.5**	**8,340.7**

The change in bonds and other fixed-income securities is primarily due to maturities and sales.

(15) Investments accounted for using the equity method

in € million	30 Sep 2010	31 March 2010
Linde Leasing GmbH	8.3	8.5
MD Capital Beteiligungsgesellschaft mbH	1.0	1.0
Total	**9.3**	**9.5**

(16) Property, plant and equipment

in € million	30 Sep 2010	31 March 2010
Operating lease assets	139.5	141.7
Land and buildings including advance payments and assets under construction	14.2	20.6
Operating and office equipment	16.1	17.2
Total	**169.8**	**179.5**

The change in land and buildings is primarily due to the sale and subsequent deconsolidation of a subsidiary.

(17) Tax assets

in € million	30 Sep 2010	31 March 2010
Current tax assets	44.0	42.7
Deferred tax assets	227.7	233.2
Total	**271.7**	**275.9**

In accordance with IAS 34.30, income taxes are calculated by applying the expected effective tax rate to the profit/loss before taxes as of 30 September 2010.

Deferred tax assets and liabilities were offset in accordance with IAS 12 within tax groups and companies on the basis of maturities.

(18) Other assets

Other assets in the amount of € 205.9 million (31 March 2010: € 258.5 million) primarily include receivables from leasing transactions, trade receivables and prepaid expenses.

(19) Non-current assets held for sale

Non-current assets held for sale amounted to € 102.6 million (31 March 2010: € 197.9 million) and related exclusively to assets from the consolidation of a subsidiary that is scheduled to be sold in the next financial year. In this context, liabilities of € 2.6 (31 March 2010: € 2.6 million) were reported in liabilities in connection with assets held for sale.

The loans and advances to customers reported in this item as at 31 March 2010 in the amount of € 54.7 million were sold in the period under review.

Notes on the consolidated balance sheet (equity and liabilities)

(20) Liabilities to banks

in € million	30 Sep 2010	31 March 2010
Liabilities to banks (remaining term up to one year)	5,167.7	3,744.4
Liabilities to banks (remaining term 1-5 years)	5,112.9	5,282.6
Liabilities to banks (remaining term more than 5 years)	2,290.8	2,971.0
Total	**12,571.4**	**11,998.0**

The increase is primarily attributable to short-term money market transactions.

(21) Liabilities to customers

in € million	30 Sep 2010	31 March 2010
Liabilities to customers (remaining term up to one year)	3,976.8	3,279.9
Liabilities to customers (remaining term 1-5 years)	1,263.1	1,420.7
Liabilities to customers (remaining term more than 5 years)	2,840.8	2,817.3
Total	**8,080.7**	**7,517.9**

The increase in liabilities to customers is primarily due to the higher level of customer deposits.

The loans with debt waivers and compensation from future profits measured in accordance with IAS 39 AG8 and reported in this item are measured at their present value at each reporting date. This is calculated using an estimate of the expected interest and principal cash flow discounted using the original yield. The carrying amount was € 558.0 million (31 March 2010: € 548.0 million). This increase is attributable to unwinding expenses (increase in carrying amount) of € 25.4 million (previous year: € 25.3 million) and a remeasurement gain (decrease in carrying amount) of € 15.4 million (previous year: € 54.4 million).

(22) Securitised liabilities

in € million	30 Sep 2010	31 March 2010
Bonds issued (remaining term up to one year)	2,593.5	2,753.6
Bonds issued (remaining term 1-5 years)	6,319.9	7,972.5
Bonds issued (remaining term more than 5 years)	30.5	62.5
Total	**8,943.9**	**10,788.6**

The change in securitised liabilities is primarily due to repayments in the amount of € 1.7 billion (31 March 2010: € 6.4 billion).

Securitised liabilities include changes in value of € 18.0 million (31 March 2010: € 10.6 million) from matched basic transactions of hedge accounting.

(23) Liabilities held for trading

in € million	30 Sep 2010	31 March 2010
Derivatives with negative fair values	2,800.8	1,971.6
Derivatives with negative fair values on fair value option financial instruments	382.8	320.0
Hedging derivatives with negative fair values	276.7	190.3
Total	**3,460.3**	**2,481.9**

The change of € 1.0 billion is primarily due to the increase in the negative fair values of derivative financial instruments due to remeasurement effects and volume growth.

(24) Provisions

in € million	30 Sep 2010	31 March 2010
Provisions for pensions and similar obligations	45.9	24.2
Provisions for restructuring	19.8	26.3
Other provisions	113.0	106.3
Total	**178.7**	**156.8**

The increase in provisions for pensions and similar obligations is primarily due to the change in the discount rate for the calculation of pension provisions from 5.25% to 4.75%. The change in the discount rate resulted in actuarial losses that were taken directly to equity.

(25) Tax liabilities

in € million	30 Sep 2010	31 March 2010
Current tax liabilities	110.2	109.8
Deferred tax liabilities	102.7	103.3
Total	**212.9**	**213.1**

Deferred tax assets and liabilities were offset in accordance with IAS 12 within tax groups and companies on the basis of maturities.

(26) Other assets

in € million	30 Sep 2010	31 March 2010
Trade payables	88.0	93.4
Deferred items	58.5	16.0
Restructuring liabilities	0.6	1.5
Other liabilities	335.1	321.2
Total	**482.2**	**432.1**

Other liabilities include an ABS transaction under which lease receivables were sold to an unconsolidated special purpose entity. The ABS transaction did not result in derecognition, meaning that IKB still reports lease receivables of € 280.0 million (31 March 2010: € 276.8 million) and a corresponding liability to the buyer. Other liabilities also include € 13.1 million relating to former silent partnership contributions that were repaid on 17 November 2010.

(27) Liabilities in connection with non-current assets held for sale

Liabilities in connection with non-current assets held for sale include obligations of € 2.6 million (31 March 2010: € 2.6 million). The corresponding item is discussed in note 19 “Non-current assets held for sale”.

(28) Subordinated capital

in € million	30 Sep 2010	31 March 2010
Subordinated liabilities	943.5	908.4
Profit participation certificates	55.3	76.5
Silent partnership contributions/preferred shares	165.4	229.3
Total	**1,164.2**	**1,214.2**

Subordinated capital includes subordinated liabilities, profit participation rights, silent partnerships and preferred shares classified as other financial liabilities and measured in accordance with IAS 39 AG8 at amortised cost at each balance sheet date. In the event of changes in expectations with regard to payments, new present values are calculated using the original effective interest rate to reflect the change in expectations and the valuation effect is recognised immediately in profit or loss. The effects are summarised in the following table:

in € million	Unwinding (interest expense)	Changes in present value (other operating income)	Unwinding (interest expense)	Changes in present value (other operating income)
	1 April 2010 - 30 Sep 2010		1 April 2009 - 30 Sep 2009	
Subordinated liabilities	-1.7	-6.6	-2.6	75.6
Profit participation certificates	-0.8	-2.0	-1.4	2.4
Silent partnership contributions/preferred shares	-1.4	-8.2	-2.0	0.0
Total	**-3.9**	**-16.8**	**-6.0**	**78.0**

Expenses are shown with a minus sign.

As well as the effects of the application of IAS 39 AG8, the changes in the carrying amounts are primarily due to rating- and interest-driven changes in the fair values of holdings measured using the fair value option.

Subordinated liabilities

As at 30 September 2010, there were the following significant subordinated liabilities in excess of € 100.0 million:

Start of term	Original nominal amount in € million	Currency	Interest rate in %	Maturity
2003/2004	310.0	EUR	4.50	9 July 2013
2006/2007	128.6	EUR	2.56	23 Jan 2017
2008/2009	101.3	EUR	12.00	27 Nov 2018

Profit participation certificates

The profit participation capital is composed as follows:

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

Silent partnership contributions/preferred shares

The carrying amount of silent partnership contributions/preferred shares was € 165.4 million as at 30 September 2010 (31 March 2010: € 229.3 million). This includes preferred shares with a carrying amount of € 134.8 million (31 March 2010: € 141.8 million) that were issued by two US subsidiaries formed for this purpose, as well as silent partnership contributions with a carrying amount of € 30.6 million (31 March 2010: € 87.5 million). The decrease in the carrying amounts is due to changes in the measurement of financial instruments. In addition, silent partnership contributions that were repaid on 17 November 2010 were reported in other liabilities as at the balance sheet date.

Notes on segment reporting

(29) Segment reporting

Segment reporting is based on the internal income statement, which forms part of IKB's management information system. The presentation is based on the internal management reporting that is used by the full Board of Managing Directors as the chief operating decision-maker (CODM) to assess the performance of the segments and to allocate resources. Segment reporting is prepared in accordance with IFRS 8.

Segment reporting is geared towards the Bank's product units. Segment information is presented to show each segment as an independent enterprise responsible for its own earnings, and with its own capital resources.

Segment structure

The previous segment structure was discontinued at the end of the 2009/10 financial year due to changes in the Bank's organisational structure and business policy. Since 1 April 2010, reporting has been based on a product-oriented approach with the following business segments:

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

The **Credit Products segment** contains the earnings components and asset items from the Bank's lending business. This includes loans from own funds and development funds as well as the IKB Leasing Group's business and the mezzanine financing of the subsidiary IKB Private Equity GmbH. Gains and losses from collateralised loan obligations are also allocated to this segment.

The **Advisory and Capital Markets segment** comprises firstly the Bank's consultancy activities in the fields of M&A, structuring, restructuring, structure/income optimisation and private equity. This sub-segment is a new product offering that IKB will further expand in future. In addition, the Capital Markets sub-segment offers capital market solutions for equity and debt capital, risk management solutions in the area of customer derivatives, the management of deposits from institutional and private investors and the structuring of own securitisation transactions, as well as advisory services and structuring for third-party securitisation transactions.

The **Treasury and Investments segment** contains the earnings components resulting from Treasury's investment decisions within the scope of asset-liability management. The segment also includes structured investments such as bonds and promissory note loans, the Bank's portfolio investments, which represent the Bank's investments in securitisation products including first loss pieces, and the Bank's proprietary trading activities. In the segment reporting by product, which was published for the first time in the 2009/10 Annual Report for information purposes, proprietary trading activities were reported in the Advisory and Capital Markets segment. The impact on earnings from the reclassification is not material for the segments' earnings performance. Credit exposures that are no longer included in the strategic portfolio and assets of the Bank not related to customers and managed as investments are also assigned to the Treasury and Investments segment. These portfolios are intended to be reduced while protecting equity by way of active portfolio management.

Segment results and key figures

Income and expenses are allocated to the segments in accordance with their respective profit responsibility. Net interest income from lending business is calculated using the market interest method and is allocated to the segments on a theoretical basis. In accordance with IFRS 8.23, this is presented as a net amount rather than as separate items for interest income and interest expense. The segments are regarded as independent entities with their own capital resources. Capital is allocated based on risk-weighted assets (in accordance with the standard Basel II approach) with an equity ratio of 8%, taking into account existing hybrid funds. In addition to the investment income from this economic capital, net interest income also comprises expenditure for hybrid and subordinated capital. The interest rate for equity investments corresponds to a risk-free interest rate on the long-term capital market.

The reported carrying amount of the provision for possible loan losses in the segments corresponds to the difference between additions to and reversals of valuation allowances for credit defaults and the recoveries on loans and advances previously written off.

To the extent that such costs can be properly allocated, head office staff and operating expenses are allocated to the segments. Project costs are allocated to the segments if the projects were directly attributable to them. Administrative expenses for projects and corporate functions incurred for company law and regulatory reasons are allocated to the Head Office/Consolidation segment.

Each segment's earnings are represented by the operating result. The results are also measured on the basis of their return on equity and cost/income ratio. The return on equity is the ratio of the operating result to the average allocated equity, while the cost/income ratio is calculated as the ratio of administrative expenses to income.

Segment reporting

	Credit Products		Advisory and Capital Markets		Treasury and Investments		Head Office/Consolidation		Total	
in € million	1 April 2010 - 30 Sep 2010	1 April 2009 - 30 Sep 2009	1 April 2010 - 30 Sep 2010	1 April 2009 - 30 Sep 2009	1 April 2010 - 30 Sep 2010	1 April 2009 - 30 Sep 2009	1 April 2010 - 30 Sep 2010	1 April 2009 - 30 Sep 2009	1 April 2010 - 30 Sep 2010	1 April 2009 - 30 Sep 2009
Net interest income	101.4	110.7	0.2	0.0	34.7	28.8	-64.8	-45.4	71.5	94.1
Provision for possible loan losses	15.4	95.7	0.0	0.0	22.3	114.3	0.0	0.0	37.7	210.0
Net interest income after provision for possible loan losses	**86.0**	**15.0**	**0.2**	**0.0**	**12.4**	**-85.5**	**-64.8**	**-45.4**	**33.8**	**-115.9**
Net fee and commission income	12.6	8.5	4.0	2.0	-62.2	-24.7	1.1	1.2	-44.5	-13.0
Net income from financial instruments at fair value	-2.6	-2.2	7.5	6.2	-245.2	266.5	182.5	-635.7	-57.8	-365.2
Net income from investment securities	0.0	0.0	0.0	0.0	37.2	12.9	0.0	-0.3	37.2	12.6
Result of investments accounted for using the equity method	0.0	-0.2	0.0	0.0	0.0	0.0	0.0	-0.9	0.0	-1.1
Administrative expenses	57.4	81.9	34.3	3.1	26.9	48.5	27.2	12.2	145.8	145.7
Other operating income	4.6	-6.4	1.4	0.8	-46.6	13.7	-23.3	132.2	-63.9	140.3
Operating result	**43.2**	**-67.2**	**-21.2**	**5.9**	**-331.3**	**134.4**	**68.3**	**-561.1**	**-241.0**	**-488.0**
Cost/income ratio in %	49.5	74.2	261.1	34.4	-9.5	16.3	-	-	-253.6	-110.1
Return on equity in %	15.4	-20.1	0.0	0.0	-97.3	36.0	-	-	-51.8	-55.5
Average allocated equity	562	670	0	0	681	748	-313	337	930	1,755
Credit volume*	16,054	17,915	0	0	20,103	23,963	297	386	36,454	42,264
Volume of new business	1,547	1,263	0	0	66	92	0	0	1,613	1,355

* Figures for the previous year have been adjusted.

Head Office/Consolidation reconciliation

Within the reconciliation, the earnings and assets allocated to the segments on the basis of the internal reporting systems are reconciled to the consolidated financial statements. IKB's earnings are influenced by extraordinary factors that cannot be controlled by the operating units and for which they cannot be held responsible. In particular, these extraordinary factors include accounting effects from the rating-driven measurement of liabilities, the measurement of liabilities in accordance with IAS 39 AG8 and the amortisation of adjustments for realised hedged items in accordance with IFRS 1 IG 60A.

The “Consolidation” column is used to present the effects of methodological differences between management reporting and the consolidated financial statements as well as intra-Group consolidation matters separately for each item.

in € million	Other		Consolidation		Head Office/Consolidation	
	1 April 2010 - 30 Sep 2010	1 April 2009 - 30 Sep 2009	1 April 2010 - 30 Sep 2010	1 April 2009 - 30 Sep 2009	1 April 2010 - 30 Sep 2010	1 April 2009 - 30 Sep 2009
Net interest income	-49.9	-61.5	-14.9	16.1	-64.8	-45.4
Provision for possible loan losses	0.0	0.0	0.0	0.0	0.0	0.0
Net interest income after provision for possible loan losses	**-49.9**	**-61.5**	**-14.9**	**16.1**	**-64.8**	**-45.4**
Net fee and commission income	0.8	0.4	0.3	0.8	1.1	1.2
Net income from financial instruments at fair value	189.3	-629.4	-6.8	-6.3	182.5	-635.7
Net income from investment securities	0.0	0.0	0.0	-0.3	0.0	-0.3
Result of investments accounted for using the equity method	0.0	-0.9	0.0	0.0	0.0	-0.9
Administrative expenses	27.2	12.2	0.0	0.0	27.2	12.2
Other operating income	-23.0	132.3	-0.3	-0.1	-23.3	132.2
Operating result	**90.0**	**-571.3**	**-21.7**	**10.2**	**68.3**	**-561.1**
Credit volume*	297	386	0	0	297	386

* Figures for the previous year have been adjusted.

Results by geographical market

The allocation of income, expenditure and credit volumes is based on the domicile of the respective facility or Group company.

in € million	Germany		Rest of Europe		America		Total	
	1 April 2010 - 30 Sep 2010	1 April 2009 - 30 Sep 2009	1 April 2010 - 30 Sep 2010	1 April 2009 - 30 Sep 2009	1 April 2010 - 30 Sep 2010	1 April 2009 - 30 Sep 2009	1 April 2010 - 30 Sep 2010	1 April 2009 - 30 Sep 2009
Net interest income	-9.9	28.3	81.7	63.3	-0.3	2.5	71.5	94.1
Provision for possible loan losses	23.3	136.4	14.4	50.6	0.0	23.0	37.7	210.0
Net interest income after provisions for possible loan losses	**-33.2**	**-108.1**	**67.3**	**12.7**	**-0.3**	**-20.5**	**33.8**	**-115.9**
Net fee and commission income	-49.9	-3.1	5.4	-9.2	0.0	-0.7	-44.5	-13.0
Net income from financial instruments at fair value	-96.8	-406.0	22.8	83.3	16.2	-42.5	-57.8	-365.2
Net income from investment securities	0.2	-9.7	37.0	22.3	0.0	0.0	37.2	12.6
Result of investments accounted for using the equity method	0.0	-1.1	0.0	0.0	0.0	0.0	0.0	-1.1
Administrative expenses	124.8	122.3	21.0	21.6	0.0	1.8	145.8	145.7
Other operating income	-61.8	139.0	6.0	1.1	-8.1	0.2	-63.9	140.3
Operating result	**-366.3**	**-511.3**	**117.5**	**88.6**	**7.8**	**-65.3**	**-241.0**	**-488.0**
Credit volume*	30,339	33,999	6,111	8,116	4	149	36,454	42,264

* Figures for the previous year have been adjusted.

Notes on financial instruments

(30) Classification of financial instruments in accordance with IFRS 7

The following table shows the carrying amounts of the Bank's financial instruments (before deduction of risk provisions) in accordance with the IFRS 7 reporting classes:

IFRS 7 reporting categories for financial instruments in € million		30 Sep 2010	31 Mar 2010
Assets			
Fair value through profit or loss	Held for trading	**2,204.4**	**1,311.7**
	Assets held for trading	1,818.6	1,074.2
	Derivative financial instruments recognised at fair value through profit or loss	385.8	237.5
	Fair value option	**2,440.7**	**2,758.7**
	Investment securities	2,440.7	2,758.7
Hedging derivatives	Assets held for trading	**60.1**	**29.6**
Fair value in equity	Available for sale	**2,366.0**	**1,594.9**
	Investment securities	2,366.0	1,594.9
Carried at amortised cost	Loans and receivables	**26,864.4**	**28,407.8**
	Loans and advances to banks	3,252.8	2,518.3
	Loans and advances to customers (including hedge fair value adjustments)	20,270.8	21,847.7
	Investment securities	3,340.8	3,987.1
	Non-current assets held for sale	0.0	54.7
Receivables from finance leases	Loans and advances to customers	**1,821.8**	**1,817.4**
	Loans and advances to customers	1,821.8	1,817.4
Other financial instruments not covered by IFRS 7	Companies accounted for using the equity method	**9.3**	**9.5**
	Companies accounted for using the equity method	9.3	9.5
Total		**35,766.7**	**35,929.6**
Equity and liabilities			
Fair value through profit or loss	Held for trading	**3,183.6**	**2,291.6**
	Liabilities held for trading	2,800.8	1,971.6
	Derivative financial instruments recognised at fair value through profit or loss	382.8	320.0
	Fair value option	**9,810.8**	**10,914.8**
	Liabilities to banks	684.3	946.6
	Liabilities to customers	1,760.1	1,885.7
	Securitised liabilities	7,075.8	7,739.1
	Subordinated capital	290.6	343.4
Hedging derivatives	Liabilities held for trading	**276.7**	**190.3**
Carried at amortised cost	Other financial liabilities	**20,949.4**	**20,603.9**
	Liabilities to banks	11,887.1	11,051.4
	Liabilities to customers	6,320.6	5,632.2
	Securitised liabilities	1,868.1	3,049.5
	Subordinated capital	873.6	870.8
Total		**34,220.5**	**34,000.6**
Off-balance sheet transactions	Contingent liabilities	698.5	628.4
	Other obligations	1,725.3	2,265.7
Total		**2,423.8**	**2,894.1**

(31) Fair value of financial assets and liabilities

The following table shows a comparison of fair values and the corresponding carrying amounts:

	Fair value		Carrying amount		Difference	
in € million	30 Sep 2010	31 Mar 2010	30 Sep 2010	31 Mar 2010	30 Sep 2010	31 Mar 2010
Assets						
Loans and receivables	**25,628.9**	**26,769.7**	**26,164.4**	**27,530.8**	**-535.5**	**-761.1**
Loans and advances to banks	3,273.4	2,518.2	3,252.8	2,518.3	20.6	-0.1
*Loans and advances to customers (including hedge fair value adjustments)**	19,005.9	20,236.2	19,570.8	20,970.7	-564.9	-734.5
Investment securities	3,349.6	3,960.6	3,340.8	3,987.1	-8.8	-26.5
Non-current assets held for sale	0.0	54.7	0.0	54.7	0.0	0.0
Finance lease receivables	**1,811.6**	**1,807.3**	**1,811.6**	**1,807.3**	**0.0**	**0.0**
*Loans and advances to customers**	1,811.6	1,807.3	1,811.6	1,807.3	0.0	0.0
Assets after provision for possible loan losses	**27,440.5**	**28,577.0**	**27,976.0**	**29,338.1**	**-535.5**	**-761.1**
Equity and liabilities						
Other financial liabilities	**21,192.7**	**20,680.2**	**20,949.4**	**20,603.9**	**243.3**	**76.3**
*Liabilities to banks***	12,192.5	11,302.7	11,887.1	11,051.4	305.4	251.3
Liabilities to customers	6,457.9	5,780.3	6,320.6	5,632.2	137.3	148.1
Securitised liabilities (including hedge fair value adjustments)	1,825.5	2,964.2	1,868.1	3,049.5	-42.6	-85.3
Subordinated capital	716.8	633.0	873.6	870.8	-156.8	-237.8
Equity and liabilities	**21,192.7**	**20,680.2**	**20,949.4**	**20,603.9**	**243.3**	**76.3**

* The carrying amount of loans and advances to customers is shown net of specific valuation allowances in the amount of € 710.2 million (31 March 2010: € 887.1 million).
** The fair value as of 31 March 2010 has been adjusted by € 270.9 million.

(32) Derivatives

The following table shows a breakdown of derivatives:

	Nominal amount		Fair value					
			Positive		Negative		Total	
in € million	30 Sep 2010	31 Mar 2010	30 Sep 2010	31 Mar 2010	30 Sep 2010	31 Mar 2010	30 Sep 2010	31 Mar 2010
Interest rate derivatives	62,032.6	48,237.6	1,995.7	1,114.6	3,330.3	2,350.2	-1,334.6	-1,235.6
Credit derivatives	347.9	602.1	1.9	15.5	10.2	13.6	-8.3	1.9
Currency derivatives	3,561.1	3,041.9	145.9	78.3	119.8	118.1	26.1	-39.8
Total	**65,941.6**	**51,881.6**	**2,143.5**	**1,208.4**	**3,460.3**	**2,481.9**	**-1,316.8**	**-1,273.5**

Other disclosures

(33) Changes in equity recognised directly in equity

in € million	**Balance as of 1 April 2010**	Changes recognised directly in equity	Changes recognised in profit or loss	**Balance before income tax changes as of 30 Sep 2010**	Income tax effects on changes recognised directly in equity	Income tax effects on changes recognised in profit or loss	**Balance after income tax changes as of 30 Sep 2010**
Financial assets available for sale	**0.9**	-6.3	-11.7	**-17.1**	1.8	3.5	**-11.8**
Derivatives hedging fluctuations in future cash flows	**-7.8**	1.9	-	**-5.9**	-0.6	-	**-6.5**
Currency translation reserve	**-17.2**	-0.4	-	**-17.6**	-	-	**-17.6**
Actuarial gains/losses (IAS 19)	**-33.8**	-22.7	-	**-56.5**	7.1	-	**-49.4**
Total comprehensive income	**-57.9**	**-27.5**	**-11.7**	**-97.1**	**8.3**	**3.5**	**-85.3**

in € million	**Balance as of 1 April 2009**	Changes recognised directly in equity	Changes recognised in profit or loss	**Balance before income tax changes as of 30 Sep 2009**	Income tax effects on changes recognised directly in equity	Income tax effects on changes recognised in profit or loss	**Balance after income tax changes as of 30 Sep 2009**
Financial assets available for sale	**-27.6**	47.7	4.0	**24.1**	-14.5	-1.2	**8.4**
Derivatives hedging fluctuations in future cash flows	**-8.3**	1.8	-	**-6.5**	-0.6	-	**-7.1**
Currency translation reserve	**-20.5**	2.5	-	**-18.0**	-	-	**-18.0**
Actuarial gains/losses (IAS 19)	**-27.1**	28.2	-	**1.1**	-8.9	-	**-7.8**
Total comprehensive income	**-83.5**	**80.2**	**4.0**	**0.7**	**-24.0**	**-1.2**	**-24.5**

The actuarial losses are primarily attributable to the change in the discount rate for calculating pension provisions, which fell from 5.25% to 4.75%.

(34) Contingent assets/liabilities and other commitments

IKB's contingent liabilities and other commitments break down as follows:

in € million	30 Sep 2010	31 Mar 2010*
Contingent liabilities	**698.5**	**628.4**
Guarantees, warranties, other	282.8	341.8
Assumptions of liability	415.7	286.6
Other obligations	**1,725.3**	**2,265.7**
Commitments up to one year	889.8	1,108.1
Commitments of more than one year	835.5	1,157.6
Total	**2,423.8**	**2,894.1**

* Figures adjusted

Within contingent liabilities, € 163.7 million representing assumptions of liability was reported under the item "Guarantees, warranties, other" as at 31 March 2010.

Contingent liabilities are offset by contingent assets in the same amount.

The figures presented reflect the amounts that would have to be paid if the respective customers were to use the relevant credit facilities in full, adjusted for provisions.

(35) Other financial obligations

As of the balance sheet date, the Group's payment obligations from equities not fully paid in, investments in GmbHs, investments in affiliated companies, the interests held by IKB Private Equity GmbH and subordinated loans amounted to € 20.9 million (31 March 2010: € 22.1 million).

Off-balance sheet contractual obligations for rental agreements, leases and other agreements totalled € 274.8 million as of 30 September 2010 (31 March 2010: € 261.6 million).

There is a proportionate obligation to make additional contributions with respect to Liquiditäts-Konsortialbank GmbH, Frankfurt am Main, in accordance with section 26 of the German Limited Liability Companies Act *(Gesetz betreffend die Gesellschaften mit beschränkter Haftung – GmbHG*). IKB AG also has a proportionate contingent liability for the fulfilment of the obligation to meet the contributions of other members of the Association of German Banks. In accordance with section 5 (10) of the by-laws of the Deposit Protection Fund, IKB AG is required to indemnify the Association of German Banks from any losses incurred by banks in which it holds a majority interest. For further information, please see the annual financial statements and management report of IKB AG as of 31 March 2010.

(36) Disclosures on collateral

Disclosures on collateral provided for own liabilities and contingent liabilities

IKB provides collateral primarily for open market operations with the European Central Bank (ECB). Financial assets of € 2.0 billion (31 March 2010: € 2.1 billion) have been pledged as collateral in accordance with the German Commercial Code for the ECB's tender and loan application process (collateral pool). On 30 September 2010, credit facilities at the ECB totalling € 0.0 billion had been utilised (31 March 2010: € 1.8 billion).

Cash collateral in the amount of € 1,671.6 million (31 March 2010: € 1,590.7 million) was assigned for derivatives as part of collateral management.

With the exception of cash collateral, assets pledged as collateral do not grant any rights of resale.

(37) Securities repurchase agreements

As a provider, IKB transferred investment securities with a carrying amount of € 1,782.3 million (31 March 2010: € 576.9 million) (repo agreements) as of 30 September 2010. These assets included collateral that can be resold or re-pledged. The repurchase agreements resulted in liabilities to banks of € 1,685.3 million (31 March 2010: € 540.2 million).

As a borrower, IKB received and re-pledged collateral (reverse repos) in the amount of € 479.2 million as of 30 September 2010 (31 March 2010: € 132.0 million). This resulted in loans and advances to banks with a carrying amount of € 400.7 million (31 March 2010: € 132.0 million). In line with the usual conditions for repo agreements, there is a return obligation in the same amount for the collateral received.

(38) Average number of employees

	30 Sep 2010	31 Mar 2010
Men	954	987
Women	575	626
Total	**1,529**	**1,613**

(39) Related party disclosures

Related party transactions primarily relate to refinancing by the parent of IKB's main shareholder LSF6 Europe Financial Holdings, L.P. and companies assigned to it. Loans and advances from customers primarily relate to loans issued to associated companies and subsidiaries that are not required to be included in consolidation. The following table shows the related parties:

	Parent company		Companies allocated to the parent company		Subsidiaries		Associates		Total	
in € million	30 Sep 2010	31 Mar 2010	30 Sep 2010	31 Mar 2010	30 Sep 2010	31 Mar 2010	30 Sep 2010	31 Mar 2010	30 Sep 2010	31 Mar 2010
Receivables										
Loans and advances to banks	-	0.2	-	-	-	-	-	-	-	0.2
Loans and advances to customers	-	-	-	-	31.0	30.3	74.1	64.9	105.1	95.2
Assets held for trading	0.1	0.1	-	-	-	-	2.9	0.4	3.0	0.5
Equities and other non-fixed-income securities	-	-	-	-	-	-	44.7	45.1	44.7	45.1
Total	**0.1**	**0.3**	**-**	**-**	**31.0**	**30.3**	**121.7**	**110.4**	**152.8**	**141.0**
Liabilities										
Liabilities to banks	-	-	-	-	-	-	-	-	-	-
Liabilities to customers	-	-	579.4	721.3	1.4	1.4	0.3	0.5	581.1	723.2
Subordinated liabilities	37.6	29.3	-	13.4	-	-	-	-	37.6	42.7
Total	**37.6**	**29.3**	**579.4**	**734.7**	**1.4**	**1.4**	**0.3**	**0.5**	**618.7**	**765.9**

There are no significant changes in the net assets, financial position and results of operations due to related party transactions as compared to 31 March 2010.

Letter of comfort

IKB undertakes to ensure that its subsidiaries indicated in the scope of consolidation (note (42)) 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 Rt, Budapest.

IKB Projektentwicklung GmbH & Co. KG has issued a letter of comfort to Zoo & Co. in the amount of € 340 thousand (31 March 2010: € 340 thousand) for ilmenau center GmbH & Co. KG.

(40) Events after 30 September 2010

Please see the supplementary report in the interim Group management report for information on events after 30 September 2010.

(41) Executive bodies

Board of Managing Directors

Hans Jörg Schüttler (Chairman of the Board of Managing Directors)
Dr. Dieter Glüder
Claus Momburg
Dr. Michael H. Wiedmann

Supervisory Board

Bruno Scherrer (Chairman)
Dr. Karsten von Köller (Deputy Chairman)
Stefan A. Baustert
Wolfgang Bouché*
Olivier Brahin
Dr. Lutz-Christian Funke
Ulrich Grillo
Arndt G. Kirchhoff
Jürgen Metzger* (until 26 August 2010)
Dr. Claus Nolting
Dr. Thomas Rabe
Dr. Carola Steingräber* (since 26 August 2010)
Carmen Teufel*
Dr. Andreas Tuczka
Ulrich Wernecke*
Andreas Wittmann*

* elected as employee representatives

(42) Scope of consolidation as at 30 September 2010

	Letter of comfort	Share of capital in %
A. Consolidated subsidiaries		
1 Foreign banks		
IKB International S.A., Luxembourg	x	100
2 Other German companies		
Aleanta GmbH, Düsseldorf		100
Erste Equity Suporta GmbH, Düsseldorf		100[1)]
ICCO Grundstücks-Vermietungsgesellschaft mbH & Co. KG, Düsseldorf	x	100[1)]
ICCO Grundstücks-Vermietungsgesellschaft mbH, Düsseldorf	x	100[1)]
IKB Autoleasing GmbH, Hamburg	x	100[1)]
IKB Beteiligungen GmbH, Düsseldorf	x	100
IKB Data GmbH, Düsseldorf	x	100
IKB Equity Capital Fund GmbH, Düsseldorf	x	100[1)]
IKB Grundstücks GmbH & Co. Objekt Hamburg KG, Düsseldorf	x	100
IKB Grundstücks GmbH & Co. Objekt Holzhausen KG, Düsseldorf	x	100
IKB Grundstücks GmbH & Co. Objekt Uerdinger Straße KG, Düsseldorf	x	100
IKB Grundstücks GmbH, Düsseldorf	x	100
IKB Immobilien Management GmbH, Düsseldorf	x	100
IKB Leasing Berlin GmbH, Erkner	x	100[1)]
IKB Leasing GmbH, Hamburg	x	100[1)]
IKB Private Equity GmbH, Düsseldorf	x	100[1)]
IKB Projektentwicklung GmbH & Co. KG, Düsseldorf	x	100
IKB Projektentwicklungsverwaltungsges. mbH, Düsseldorf	x	100
IKB Struktur GmbH, Düsseldorf		100[1)]
IMAS Grundstücks-Vermietungsges. mbH, Düsseldorf	x	100
ISOS Grundstücks-Vermietungsgesellschaft mbH & Co. KG, Düsseldorf	x	100[1)]
ISOS Grundstücks-Vermietungsgesellschaft mbH, Düsseldorf	x	100[1)]
ISTOS Beteiligungsverwaltungs- und Grundstücksvermietungsges. mbH, Düsseldorf	x	100
ISTOS Dritte Beteiligungsverwaltungs- und Grundstücksvermietungsgesellschaft mbH & Co. KG, Düsseldorf		100
ISTOS Erste Beteiligungsverwaltungs- und Grundstücksvermietungsges. mbH & Co. KG, Düsseldorf	x	100
ISTOS Zweite Beteiligungsverwaltungs- und Grundstücksvermietungsgesellschaft mbH & Co. KG, Düsseldorf		100
Tempelhofer Hafen GmbH, Düsseldorf		94.9[1)]
Zweite Equity Suporta GmbH, Düsseldorf		100[1)]

1) Indirect interest

3 Other foreign companies		
IKB Capital Corporation, New York[3]		100
IKB Finance B.V., Amsterdam	x	100
IKB Funding LLC I, Wilmington, Delaware	x[2]	100
IKB Funding LLC II, Wilmington, Delaware	x[2]	100
IKB Leasing Austria GmbH, Vienna	x	100[1]
IKB Leasing ČR s.r.o., Prague	x	100[1]
IKB Leasing Finance IFN SA, Bucharest	x	100[1]
IKB Leasing France S.A.R.L., Marne	x	100[1]
IKB Leasing Hungária Kft., Budapest	x	100[1]
IKB Leasing Polska Sp. z o.o., Posen	x	100[1]
IKB Leasing SR, s.r.o., Bratislava	x	100[1]
IKB Leasing srl, Bucharest	x	100[1]
IKB Lux Beteiligungen S.á.r.l., Luxembourg	x	100
IKB Penzüdyi Lizing Hungaria Rt., Budapest	x	100[1]
Still Location S.A.R.L., Marne	x	100[1]
ZAO IKB Leasing, Moscow	x	100[1]
B. Joint ventures/associates		
Linde Leasing GmbH, Wiesbaden		30[1]
MD Capital Beteiligungsgesellschaft mbH, Düsseldorf		50[1]
C. Special purpose entities in accordance with SIC-12		
Bacchus 2008-1 Plc, Dublin		
Bacchus 2008-2 Plc, Dublin		
IKB Partner Fonds, Luxembourg		
Rio Debt Holdings Ltd., Dublin		

1) Indirect interest
2) Subordinated letter of comfort
3) In liquidation

Düsseldorf, 18 November 2010

IKB Deutsche Industriebank AG
The Board of Managing Directors

Hans Jörg Schüttler

Dr. Dieter Glüder

Claus Momburg

Dr. Michael H. Wiedmann

Review Report

To IKB Deutsche Industriebank AG, Düsseldorf

We have reviewed the condensed consolidated interim financial statements – comprising the condensed financial position, condensed statement of comprehensive income, condensed cash flow statement, condensed statement of changes in equity and selected explanatory notes – and the interim group management report of IKB Deutsche Industriebank Aktiengesellschaft, Düsseldorf, for the period from April, 1, to September, 30, 2010, which are part of the half-year financial report in pursuant to § (Article) 37w WpHG ("Wertpapierhandelsgesetz": German Securities Trading Act). The preparation of the condensed consolidated interim financial statements in accordance with the IFRS applicable to interim financial reporting as adopted by the EU and of the interim group management report in accordance with the provisions of the German Securities Trading Act applicable to interim group management reports is the responsibility of the parent Company's Board of Managing Directors. Our responsibility is to issue a review report on the condensed consolidated interim financial statements and on the interim group management report based on our review.

We conducted our review of the condensed consolidated interim financial statements and the interim group management report in accordance with German generally accepted standards for the review 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 review so that we can preclude through critical evaluation, with moderate assurance, that the condensed consolidated interim financial statements have not been prepared, in all material respects, in accordance with the IFRS applicable to interim financial reporting as adopted by the EU and that the interim group management report has not been prepared, in all material respects, in accordance with the provisions of the German Securities Trading Act applicable to interim group management reports. A review is limited primarily to inquiries of company personnel and analytical procedures and therefore does not provide the assurance attainable in financial statement audit. Since, in accordance with our engagement, we have not performed a financial statement audit, we cannot express an audit opinion.

Based on our review, no matters have come to our attention that cause us to presume that the condensed consolidated interim financial statements have not been prepared, in all material respects, in accordance with the IFRS applicable to interim financial reporting as adopted by the EU nor that the interim group management report has not been prepared, in all material respects, in accordance with the provisions of the German Securities Trading Act applicable to interim group management reports.

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 interim group 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 – continues to lead to success and generate 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 particulary 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, November, 19, 2010

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Michael Maifarth
Wirtschaftsprüfer (German Public Auditor)

ppa. Marc Lilienthal
Wirtschaftsprüfer (German Public Auditor)

Responsibility statement in accordance with section 37y of the German Securities Trading Act in conjunction with section 37w no. 2 (3) of the German Securities Trading Act

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

Düsseldorf, 18 November 2010

IKB Deutsche Industriebank AG
The Board of Managing Directors

Hans Jörg Schüttler

Dr. Dieter Glüder

Claus Momburg

Dr. Michael H. Wiedmann

Information 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 uncertainties. A large number of material factors can contribute towards actual results deviating considerably from forward-looking statements. Such factors include (but are not limited to) the condition and development of the financial 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.

IKB Deutsche Industriebank AG
Investor Relations and Communications – COM
Wilhelm-Bötzkes-Str. 1
40474 Düsseldorf
Germany
Tel.: +49 211 8221-4511
Fax: +49 211 8221-2511
E-mail: investor.relations@ikb.de