IKB Deutsche Industriebank AG Financial Statements and Management Report 2007/2008

IKB Deutsche Industriebank

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from 29 July 2007)

Frank Braunsfeld (until 15 October 2007)

Dr Volker Doberanzke (until 7 August 2007)

Dr Dieter Glüder (from 29 July 2007)

Dr Reinhard Grzesik (from 15 October 2007)

Dr Markus Guthoff (until 15 October 2007)

Dr Andreas Leimbach (from 1 April 2008)

Claus Momburg

Stefan Ortseifen (until 29 July 2007)

Management Report of IKB Deutsche Industriebank AG

1. Business conditions and basic parameters

The significant factor for the IKB in the financial year 2007/08 was the international capital and credit markets crisis which resulted in the Portfolio Investment segment suffering heavy losses and led to the IKB's crisis. The most important environmental conditions relevant to IKB's core business are the overall health of the economy, in particular the medium-sized industrial businesses, the German commercial real estate markets, and trends in private equity markets.

Conditions for Portfolio Investments

Until the early summer of 2007 the international capital and credit markets were stable. Problems, however, began to appear in the residential mortgage market in the USA. Increases in interest rates led to freezing and then falling real estate prices, the number of forced sales and repossessions increased. In addition growing doubts surfaced about the lending practices in the USA in the residential mortgage market, particularly to sub-prime borrowers. A rapid increase in defaults was expected, and with it significantly more losses than had been anticipated.

As the practice of securitising residential mortgages in the USA and selling them worldwide had grown rapidly in recent years, the risks were spread throughout the financial community worldwide. The long term residential mortgages were in some cases financed by short term financing using asset backed commercial papers.

By the middle of July 2007 the rating agencies began to regard credit portfolios with sub-prime risk as critical ("CreditWatch Negative"). As a result investors rapidly lost confidence in asset backed commercial papers (ABCP).

By the end of July 2007 the market for this type of commercial paper was almost at a standstill. As a result the credit lines issued by the banks to the issuers of the commercial papers were then fully utilised on a long term basis. Due to the utilisation of these lines of credit, and to spreading uncertainty as to the potential extent of sub-prime risks, a massive liquidity shortage for highly structured products arose, which then spread to related markets.

In the second half of 2007, and the first quarter of 2008, highly structured credit products lost significant value. This was also true for securities which were assumed to have good and very good ratings. Although the loss of value initially affected paper with exposure to real estate risks in the USA, almost all structured and unstructured securities suffered some significant increase in credit spreads.

Particularly affected were securities with complex risk profiles. After July 2007 the market for collateralized debt obligations (CDOs) backed by asset backed security (ABS) and corporate debt was almost non-existent. Market participants reacted by applying significant risk-discounts when valuing these securities, which effectively ended trading.

Conditions in the IKB's core business

General conditions applying to the Bank's domestic and foreign lending business were positive during the financial year.

The German economy achieved 2.5% GDP growth in 2007 and this trend showed no sign of weakening by the spring of 2008. Driver of this growth was an 8.2% growth of the companies' capital investment, which is particularly important to IKB's core business. But also exports – despite the continued strength of the Euro – again increased significantly.

However growing uncertainty in the future of the economy took hold during the past financial year which also affected the German property market and to a much larger extent the property markets in Spain, Great Britain, and in particular the USA. This uncertainty began to burden the economies of those countries as a whole.

West European and Central European economies, which are important for the IKB's lending business, were generally in a healthy state. Growth in investment and particularly private consumption growth helped the EU to 2.6% and Central Europe to 7% GDP growth in 2007.

The private equity boom weakened noticeably from mid 2007, with the effect that it was no longer possible to syndicate large acquisition transactions. The mid-cap market, which is the segment most relevant to the IKB, was also affected, but not to the same extent.

Strategic direction of the IKB

IKB is a leading German specialist bank in long-term finance for medium-sized corporate clients, estate investors, and project partners. In terms of granting long-term corporate loans to the manufacturing industry, the Bank is the market leader with a market share of just under 10%. IKB's main rivals in Germany are the major universal banks, as well as selected larger credit institutions from the public banking sector. In addition, we are increasingly serving European customers from outside Germany. In the European markets we maintain our focus on the mid-cap sector.

IKB's strengths are to be found in its specialisation, in its skill and expertise in this area of specialisation, and in the high level of trust placed in the Bank by its clients. For this reason our customers have stood by the IKB during its crisis, and continued to do business with the Bank.

The foundation for the activities is provided by the IKB's exceptionally well trained and highly dedicated team of employees. What is important is that the employees strongly identify with the Bank. This is shown in the level of staff turnover, which although it has increased since the beginning of the crisis in July 2007, is still relatively low considering the situation.

Following the onset of the crisis, the new Board of Managing Directors has reviewed and realigned the Bank's business model. IKB's future business model will be focused more strongly on the Bank's three core business segments: Corporate Clients, Structured Finance and Real Estate Finance. Innovative financing solutions for customers and own securitsation issues will remain an integral component of this business model.

Corporate Clients

The Corporate Clients segment encompasses domestic corporate lending, leasing and private equity.

In terms of issuing long-term investment loans to German medium-sized companies within the manufactoring sector, IKB is Germany's market leader. In addition to the high quality of the advisory services on offer, clients value the Bank's clear commitment to Germany's medium-sized businesses – all the more so during difficult economic times. The Bank has particular competence in promoting state support programmes.

Via the Bank's leasing subsidiaries, the IKB is engaged in equipment leasing both in the domestic market and internationally. In Germany for example, the Bank is a market leader in plant and machinery leasing.

Internationally the IKB Leasing Group is engaged in Central and Eastern Europe (Poland, Romania, Russia, Slovakia, the Czech Republic and Hungary) as well as in France and Austria.

The IKB Private Equity Group is one of the leading German full-service providers for medium-sized business growth finance. In this business we provide medium sized companies with direct shareholdings as well as various forms of mezzanine capital. In addition to the so-called Standard-Mezzanine-Programs, individual solutions are increasingly important.

Through the IKB's sales network, the Bank is able to offer its customers a complete portfolio of structured and real estate finance.

Real Estate Clients

The Real Estate Clients segment offers IKB's customers a wide spectrum of real estate services as well as bespoke financing. Further, the IKB offers real estate leasing through the Movesta Lease and Finance GmbH – a joint venture with the KfW IPEX Bank.

The IKB is further engaged in real estate financing internationally, particularly in Great Britain, the Benelux countries, France, Italy and Spain.

Structured Finance

The Structured Finance segment offers acquisition services and project financing throughout Europe. In Germany as well as in France, Italy and Spain, the Bank has achieved recognition as a leading arranger, with a particular focus on the mid-cap market, and the IKB participates in similar transactions in Great Britain and the USA.

In acquisition finance IKB uses its transaction-specific competence and sector know-how, with particular emphasis on the industrial mid-cap companies. Of crucial importance is IKB's local presence in all of the key Western European markets enabling the Bank to take due account of regional characteristics on the ground.

As part of the Bank's project finance activities, IKB arranges and structures the financing of national and international projects. Using its sales network the bank is able to provide its complete portfolio of financial products to German customers operating throughout Europe, and at the same time offer financing for cross-border transactions.

Securitisations

Since the late 1990's, IKB has been engaged in risk-based external placement of loans and advances made to customers. Until 31 March 2008 the Bank had securitised assets with a total volume of € 24 billion, placed largely synthetically on national and international capital markets. This process has no effect on the Bank's relationship to its customers. The transactions enable IKB to reduce its credit risk and to free up equity.

IKB has enjoyed attractive issuing conditions due to the high granularity of the individual risks, the convincing performance of previous placement transactions and the friendly market conditions. Europe-wide lending, sales networks and securitisation combine to form an integrated overall strategy. The current turbulent market conditions have however affected the securitisations market generally, so that investors are only willing to accept risks in return for a higher risk premium. The IKB expects that the markets will return to normal, if not to the levels seen prior to the sub-prime crisis, so that the strategy of placing credit risks can be continued. In March 2008 the Bank synthetically placed a mid-cap portfolio amounting to € 1.5 billion (Promise I Mobility 2008-1).

For the IKB this meant achieving access to capital markets for its medium-sized customers, and a reduction of its own credit portfolio risk.

Portfolio Investments

In 2001, IKB started to invest increasingly in securities that were collateralised by specific credit portfolios of different asset classes (mainly asset-backed securities – ABS and collateralised debt obligations – CDOs) which contained significant sub-prime risks. Such financial instruments are collectively reported within Portfolio Investments.

Further, in 2002, the Rhineland Funding conduit was launched (Rhineland Funding), which also invested in credit backed securities and was financed by the revolving issue of commercial papers. The IKB and other banks extended considerable lines of credit as security for these commercial paper issues. The investments in long-term securities and their refinancing using commercial papers required maturity arbitrage, through which the conduit earned additional income.

The objective was to improve the Bank's income-risk structure. These portfolio investments improved the IKB's income stream significantly. A strategy involving such portfolio investments and special purpose entities will in future no longer be followed by the IKB.

Although the transactions with Rhineland Funding were restructured in connection with the crisis and the rescue package put together by the KfW and the Banking Associations, as described below, € 4.9 billion of structured securities remain in the IKB AG balance sheet at 31 March 2008 (nominal €5.7 billion in the Group balance sheet at 31 March 2008) and are written down commensurate with their loss of value. The IKB plans to sell a portion of these securities, possibly in small packages. First transactions of this type were realised in June 2008.

2. Important events in the reporting period

On 27 July 2007, IKB faced a crisis that threatened its very existence, caused by the developments on the US sub-prime mortgage market. It took a comprehensive rescue package put together by the KfW Bankengruppe supported by three German banking associations (BdB, BVR, DSGV) to secure the Bank's future.

Background to the crisis

The IKB had invested to a significant extent in structured securities with high levels of risk exposure to credit risk in the real estate mortgage market in the USA. At 31 July 2007 these activities comprised the following:

- The Conduit "Rhineland Funding" (comprising the refinancing entity Rhineland Funding Capital Corporation and a number of special purpose vehicles) with a nominal investment volume of € 13.2 billion. The IKB has provided the Conduit with a credit facility of € 8.1 billion.

  Other banks also had committed lines of credit to Rhineland Funding. The special purpose vehicles Havenrock I Ltd and Havenrock II Ltd provided security for 25% of the liquidity risk and the credit default risk of individual Banks. The IKB and the IKB International S.A. provided Havenrock I Ltd and Havenrock II Ltd with credit lines and thereby assumed credit default risks of a nominal € 1.2 billion.

- Portfolio investments of the IKB AG and IKB International S.A., Luxemburg, of nominal € 5.0 billion and € 1.3 billion, and
- The special purpose vehicle Rhinebridge plc with a nominal investment volume of € 1.8 billion, in which IKB itself had invested € 109 million in capital notes.

Despite the originally high proportion of investment grade assets – 100% of Rhineland Funding and 99.2% of Rhinebridge investments – the risks in these investments exceeded, in retrospect, the risk taking capacity of the bank considerably.

In particular there was an increasing risk that the high sub-prime element in the Rhineland Funding portfolio could not meet its asset backed commercial paper refinancing commitments indefinitely. The capital market and banking sector assumed that the IKB's liquidity commitments would be utilised over an extended period of time and would therefore be exposed to significant sub-prime credit risks. As a result, several banks questioned the creditworthiness of the IKB, and the IKB was no longer able to obtain sufficient sources of liquidity.

Rescue package

To avoid a moratorium of IKB, a rescue package (risk shield) was put together during the weekend of 27–29 July 2007 by KfW Bankengruppe (KfW) together with the BaFin, the Bundesbank, the Federal Finance Ministry and three associations of the German banking industry (BdB, BVR and DSGV). These rescue measures were expanded repeatedly-during the course of the financial year 2007/08 and by the end of March 2008 comprised the following elements:

Rhineland Funding and Havenrock

In an initial step, on 30 July 2007 the KfW took over the IKB's € 8.1 billion liquidity facility committed to Rhineland Funding. Further, initial risks of € 0.8 billion arising from the IKB's obligations to the Havenrock entities were assumed. In November 2007, signs emerged that the shield covering the threat of losses from Havenrock was probably insufficient. Consequently, KfW and the banking pool approved a shield covering all risks related to Havenrock – totalling a nominal € 1.2 billion – except for an amount of € 54 million. The corresponding agreements were concluded in January 2008.

On 7 January 2008 a convertible bond with an obligatory conversion was issued with a volume of € 54.3 million which was fully subscribed for by the KfW, whereby pre-emptive rights were excluded. The bonds were converted in February 2008. As a result, the subscribed capital of the IBG AG was increased to € 247.8 million (previously € 225.3 million) and the number of notional no-par value shares to € 96.8 million (€ 88.0 million) on 28 February 2008. The share of KfW Bankengruppe of the IKB AG's share capital increased accordingly to 43.4% (37.8%).

By the end of March 2008 the KfW's share in the IKB had increased to 45.5%.

Portfolio investments

At the outbreak of the crisis, the IKB AG and IKB International S.A., Luxemburg had invested a nominal € 5.0 billion and € 1.3 billion in structured securities. These portfolio investments were split into two parts as part of the rescue package as follows:

- A "higher-risk sub-portfolio", containing securities with higher default risks, notably CDOs and ABS with sub-prime shares and so-called first-loss pieces, with a nominal volume of € 3.3 billion at the end of July 2007 (AG: € 2.4 billion). For this sub-portfolio, the KfW, with the support of the three banking associations committed itself to covering initial losses of up to € 1 billion.

- A second portfolio, the "unshielded sub-portfolio", with a nominal volume of € 3.0 billion for the Group (AG: € 2.6 billion) at the end of July 2007 includes primarily CDOs based on Corporate Loans and ABS transactions.

The nominal volumes of both sub-portfolios changed over time, as a result of repayments and changes in the €/US $ exchange rate, and have decreased over the course of the crisis and over the period to the end of the financial year.

To compensate for the high amounts of losses on both portfolios and the resulting reduced liable capital, the KfW increased the IKB's liable capital on 19 February 2008 by € 600 million and on 19 March 2008 by a further € 450 million. This was effected by means of a loan with immediate debt waiver and recorded in these financial statements as addition to the capital reserve in the sense of section 272 (2) (4) HGB. These loan agreements include provisions for compensation out of future profits with the following principal terms:

- The measures amounted to funding of € 1.05 billion (plus expenses and interest). Rights to repayment in a financial year arise only to the extent that as a result of the compensation payments the IKB does not incur a loss in its financial statements under German GAAP (HGB) and the IKB retains a regulatory liable capital ratio of at least 9%.

- Interest payments are due only in years in which, and to the extent that, such interest payments or partial settlement of interest payments do not result in the IKB reporting a loss in its financial statements under German GAAP (HGB). Should payment by the borrower result in the Bank, at the time of making payment, having a regulatory liable capital ratio of less than 9%, the IKB is permitted to defer payment until payment can be made without lowering the capital ratio below 9%.

- Compensation payments out of future profits will always precede profit-participation certificates and the IKB's silent participations.

- The IKB AG is obliged, as far as legally permitted, to ensure a maximum dividend distribution is made by subsidiaries directly owned by the IKB AG.

Rhinebridge

Through the purchase of securities, the special purpose vehicle Rhinebridge invested in credit portfolios towards the end of June 2007. The London branch of IKB Credit Asset Management GmbH (IKB CAM) acted as Portfolio Manager. Rhinebridge was financed by capital notes and by means of short term commercial papers (CP). From August 2007 the latter could no longer be placed as a result of the turbulence in the worldwide CP markets. In August 2007 the IKB invested in capital notes and CPs to stabilise Rhinebridge. As a result of further deterioration in the markets, Rhinebridge no longer fulfilled various portfolio ratio obligations and was placed in receivership in October 2007. The Receiver was appointed on 22 October 2007. As a consequence, Rhinebridge management is the responsibility of the Receiver. At that time, the Bank was engaged with € 183 million in capital notes and € 222 million in CPs. In the meantime CP repayments have been received amounting to € 35 million.

The IKB AG is exposed to default risk in respect of the Rhinebridge structured investment vehicles as a result of the Bank's own investments. These are recorded as assets within "Portfolio investments" and are, to the extent that they are not covered by the risk shield written down by € 74 million.

Capital increase

On 27 March 2008, shareholders in General Meeting approved a capital increase in return for new liquid funds of up to € 1.49 billion (offered to existing shareholders at a ratio of 1:6). The KfW has committed to the BaFin it will subscribe for sufficient shares that the IKB will raise at least € 1.25 billion additional capital (before issue costs) from this issue. This commitment has been made under the reservation that the BaFin grants the buyer of the shares certain exemptions from the Securities Trading Act and Takeover legislation. The Board, based on all the available facts and circumstances, continue to expect that the capital increase in August 2008 will take place despite some legal challenges being raised thereto, and that in addition to other shareholders, the KfW and/or a purchaser of KfW's shares will subscribe for shares in connection with the capital increase.

Findings of the PwC agreed upon procedures

On 1 August 2007, auditors PricewaterhouseCoopers (PwC) were engaged to conduct comprehensive agreed upon procedures. The findings of the agreed upon procedures were submitted on 15 October 2007.

As a consequence of the findings of the auditors, the Board of Managing Directors adopted an immediate package of measures which has already been largely implemented. This package comprises, in particular, the following key points:

- No further new business in portfolio investments;
- Implementation of a comprehensive evaluation of existing assets and implementation of a significantly improved asset management (including an update of valuation models);
- Re-Integration of the subsidiary IKB Credit Asset Management GmbH, which was responsible for advising the special purpose vehicles and for the management of the IKB's portfolio investments and transfer of functions and human resources to IKB AG;
- Strengthening the function of the Chief Risk Officer (CRO), specifically by merging responsibility for risk controlling and credit risk management
- Establishing a risk committee to be headed by the CRO, for the overall valuation and control of all risk items;
- Improving reporting to the Supervisory Board, particularly with respect to the portfolio investments remaining;
- Reviewing the conception of risk-bearing capacity; and
- Restatement of the Annual Report as well as Financial Statements and Management Report of IKB AG as of 31 March 2007.

Personnel Changes

The Supervisory Board of the IKB AG has, to combat the Bank's existence-threatening crisis, and on the basis of the agreed-upon procedures performed by PwC, made major personnel changes: The speaker of the Board of Managing Directors, Stefan Ortseifen, and the Chief Financial Officer, Dr Volker Doberanzke, are with effect from 29 July 2007 resp. 7 August 2007 no longer members of the Board of Managing Directors. The Board of Managing Directors mandates of Dr Markus Guthoff and Frank Braunsfeld were terminated with effect from 15 October 2007.

The Supervisory Board have appointed Dr Günther Bräunig, Member of the Board of Managing Directors at the KfW, as Chairman of the IKB AG Board of Managing Directors, and Dr Dieter Glüder, until then Director at the KfW, as a Member of the Board of Managing Directors of the IKB AG with effect from 29 July 2007. During his appointment at the IKB AG, Dr Günther Bräunig's position as Member of the KfW Board of Managing Directors will be suspended. Dr Reinhard Grzesik was appointed as the new CFO with effect from 15 October 2007. On 26 March 2008, with effect from 1 April 2008, the Supervisory Board appointed Dr Andreas Leimbach to the IKB's Board of Managing Directors.

At the shareholders meeting on 17 March 2008 Ulrich Grillo, Werner Oerter, Dieter Pfundt and Dr Alfred Tacke were appointed to the Supervisory Board. The Supervisory Board mandates of Dr Jürgen Behrend, Dr h.c. Ulrich Hartmann, Dr-Ing. Mathias Kammüller and Dr Alexander v. Tippelskirch ended on 27 March 2008. From 29 March 2008, Werner Oerter is Chairman of the Supervisory Board.

Shareholder's meeting and dividends

The shareholder's meeting, originally planned for 30 August 2007, was held on 27 March 2008. All motions proposed by management were approved by a large majority, including the approval of the capital increase described above. Pricewaterhouse-Coopers Aktiengesellschaft Wirtschaftsprüfungs-gesellschaft were appointed as auditors of the Annual Financial Statements of the IKB AG and as auditors of the Bank's Consolidated Financial Statements for the year ended 31 March 2008. Voting results on the individual motions can be found under www.ikb.de.

Further motions proposed by the German Shareholders Association (Deutsche Schutzvereinigung für Wertpapierbesitz e.V. (DSW)) to request agreed-upon procedures to investigate the responsibility of former members of the Board of Managing Directors and Supervisory Board were approved. The results of these procedures are currently outstanding.

As no net profits were reported in the Restated Annual Financial Statements of the IKB AG to 31 March 2008, no dividend is declared. Originally a dividend of € 0.85 per share was planned for the year 2006/07.

Current rating situation

The rating agencies Moody's and Fitch have amended their rating for the IKB on a number of occasions during the 2007/08 financial year. The results are shown in the table below:

IKB ratings		Long-term	Short-term	Financial strength/ Individual rating	Outlook
Moody's		Aa3 (from 15 Sep 03)	P-1	B (negative)	Stable
	31 Jul 2007	Aa3	P-1	C (negative)	Negative
	4 Sep 2007	A2	P-1	D– (negative)	Negative
	22 Jan 2008	A3	P-2	E+ (developing)	Negative
	1 Apr 2008	Baa3	P-3	E (stable)	Negative
Fitch		A+ (from 5 Oct 98)	F1	B/C (from 15 Dec 05)	Stable
	2 Aug 2007	A+	F1	C (negative)	Stable
	21 Dec 2007	A+	F1	E	Stable

Liquidity situation

Refinancing the IKB's business in the financial year 2007/08 was very difficult after the crisis in July 2007, and was achieved primarily using borrowings against collateral. Since the onset of the crisis in summer 2007 the capital markets were difficult for most banks, and the level of normal business between financial institutions was declined significantly. Instead, collateralised borrowings and depositing securities with the European Central Bank has become an important source of finance for the IKB and for all banks.

Sale process

On 18 January 2008, KfW launched the process whereby its shares in IKB will be sold. The Stiftung Industrieforschung, IKB's second largest shareholder, also intends to sell its shares in the IKB as part of this process.

IKB has given selected bidders an opportunity to conduct a due diligence. On the basis of this exercise, bidders could make indicative offers.

The IKB welcomes this process. The IKB's business model, which comprises the Corporate Clients, Real Estate Clients and Structured Finance segments will gain added impetus from working with a new partner and the sale will enable the Bank to open up new potential. IKB's refinancing opportunities can also be improved by a strategic buyer. For these reasons, the Board of Managing Directors has decided to support the sale process. The Supervisory Board of IKB is monitoring the process and has set up its own committee for this purpose.

The process continues after the balance sheet date and is discussed in more detail in the supplementary report.

3. Earnings, financial, and asset position

Business developments

As the activities of the IKB AG and its subsidiaries are closely related, the following information on the development of the IKB's business is provided on a consolidated basis for the IKB Group as a whole unless otherwise stated.

The volume of new loan and other business amounted to € 11.8 billion (2006/07: € 12.8 billion), although the IKB significantly reduced the volume of new business since August 2007 particularly for liquidity and capital adequacy reasons. No new portfolio investment engagements have been entered into since the crisis began.

Overall, IKB disbursed € 9.8 billion in the three core business segments Corporate Clients, Real Estate Clients, and Structured Finance (2006/07: € 11.1 billion). Significant business developments in the segments were as follows:

Corporate Clients

In the business segment Corporate Clients the IKB has disbursed € 4.6 billion (2006/07: € 4.6 billion), of which € 3.6 billion (€3.7 billion) represented new domestic loan business. 171 new customers were recorded (2006/07: 285). This is comparable with the levels seen in the 2005/06 financial year (190 new customers). The margin on new domestic lending business, calculated against the Bank's average refinancing cost, has fallen to 1.02% as a result of the high level of competition before the capital markets crisis and the increased refinancing costs following the onset of the crisis (2006/07: 1.12%). A slight improvement in the average credit rating attached to new business could again be achieved.

The largest proportion of new business (61%) was with customers with a turnover of between € 25 million and € 1 billion. 34% of new disbursements was to customers with a turnover of over € 1 billion. 5% went to customers with a turnover of less than € 25 million.

The overwhelming majority of disbursements were for long term loans. At the same time the IKB was able to improve its position as specialist for placing and brokering long term loans from public funding programmes. Public development loans made up 47% of the new domestic lending business in the financial year 2007/08. In the past two years these represented 43% (2006/07) and 28% (2005/06) of new domestic lending business.

Increasingly the IKB was also able to arrange promissory loan notes for smaller customers. In 2007/08 11 promissory loan notes with a total volume of € 150 million were arranged.

The IKB Leasing Group, which is engaged in equipment leasing in both domestic and international markets, achieved just over € 1 billion of new business for the first time, representing a 23% increase compared to 2006/07 (€ 0.8 billion).

Approximately three quarters of this new business was in Germany, where IKB Leasing is building on its established market presence. At the same time the international aspect of this business continues to be developed. The IKB Leasing Group's spread has now grown to 13 leasing companies in nine countries (Germany, France, Austria, Poland, Romania, Russia, Slovakia, The Czech Republic, and Hungary). After successfully establishing itself in Romania and Russia the IKB Leasing now covers almost all the Central and Eastern European area.

The IKB Private Equity Group achieved disbursements of € 51 million in the year. Two new direct participations were entered into, and two sold successfully. A total of five new mezzanine financing arrangements were placed. In addition IKB Private Equity participated as investor in the equiNotes II-Transaction. equiNotes II is a securitised portfolio of mezzanine capital invested in mid-cap companies. IKB Private Equity now manages approximately € 850 million in assets.

Real Estate Clients

New business of € 1.4 billion (2006/07: € 1.3 billion) was achieved in the Real Estate Clients segment in 2007/08, whereby the Bank deliberately limited itself to business with its existing customers. International financing (€ 0.3 billion), was at a similar level to last year, the IKB limited the scope of this business in the light of the Bank's problems and did not pursue the original plan of forcing growth. The margin on new business fell to 1.07% (1.32%).

As in prior years, activities were concentrated on real estate property projects with third party letting and a good rating quality. As well as office properties, urban shopping centres were in focus, which are currently of interest to local government agencies and project developers. Property developments for use in the logistics industry are also showing dynamic growth. The IKB is engaged in several ambitious contract logistics and distribution centre projects.

In addition, as at year end, there are 18 Joint Ventures in progress, in which the IKB is working on complex projects together with mid-cap project developers.

Structured Finance

In 2007/08 a total of € 3.8 billion of new business was written with Structured Finance products (acquisition and project financing, and export credit). The comparative figure for 2006/07 was € 5.3 billion. The reduced volume of new business reflects the weakness – following a record year in 2006 – in the LBO markets. The level of new business is however still higher than in 2005/06 (€ 3.5 billion), an achievement made possible due to IKB's focus on mid-cap transactions which were less affected by the downturn. In addition the new business margin improved slightly to 2.09% (2006/07: 2.01%).

Approximately half of new acquisitions financing business was written by the offices (Frankfurt, London, Madrid, Milan und Paris) and the subsidiary IKB Capital Corporation in New York. The IKB was engaged as lead arranger in a substantial number of mid-cap European transactions.

The IKB organises its own original acquisition financing and employs an active Portfolio Management, which means that a systematic securitisation strategy is employed. In April 2007 the IKB placed „Bacchus 2007-1“ with a volume of € 450 million. This transaction, comprising of over 80 mid-cap acquisition finance assets, attracted much interest from investors due to its high level of diversification.

As part of the Bank‘s project finance activities, IKB arranged and structured the financing of national and international projects. This business amounted to approximately half of new Structured Finance business. In addition the Bank financed export transactions (loans with guarantees from the Export Credit Agency (ECA)) and supported mid-cap businesses seeking to develop new or additional production capacity in other countries.

Income

The IKB AG‘s profit and loss account is significantly affected by the Bank‘s crisis. The direct effect of the crisis is reported in the profit and loss account in the position „Depreciation and write-downs on investments, interests in affiliates, and long term investment securities“ (hereafter referred to, together with the other positions in this category, as „trading result“), the position „Amortisation/depreciation and write-downs of receivables and specific securities, as well as additions to loan loss provisions“ (hereafter „risk provisions“) and the income position „extraordinary income“. „Extraordinary income“ represents income received as a result of the rescue package. The transactions and amounts included in these positions are presented in the following table:

in € million	Net income from investment securities: Depreciation and write-downs on Luxembourg investments	Net income from investment securities: Other	Risk provisioning	Extra-ordinary income	Total 2007/08	Total 2006/07	Change from previous year
Havenrock	–54				–54	–	
Higher risk sub-portfolio	–433	–408	–1 059	779	–1 121	–	
Unshielded sub-portfolio	–121	–45	–1		–167	–	
Rhinebridge		–164	–74	164	–74	–	
Losses on portfolio investments, sub-total	**–608**	**–616**	**–1 134**	**943**	**–1 416**	**–**	**–1 416**
Depreciation and losses on sale of other securities in the investment portfolio		–80			–80	–2	–78
Write-downs on investments in affiliated companies		–36			–36		–36
Gains on sale of affiliates and of investment securities		14			14	180	–166
Other securities in liquidity reserve			–70		–70	–74	4
Net risk provisions in core lending business			–288		–288	–230	–58
Other	46				46		46
Sub-total	**–562**	**–719**	**–1 493**	**943**	**–1 832**	**–126**	**–1 706**
Net interest income					294	381	–87
Net commission income					90	164	–74
Net result from financial operations					–4	–10	6
Personnel expenses					155	146	9
Other administrative costs					166	113	53
Administrative expenses					321	259	62
Net other operating income/expenses					–9	–16	7
Income from taxes (previous year: tax expense)					21	–24	45
Result (after taxes)					**–1 760**	**110**	**–1 871**
Share of losses attributable to holders of profit participating certificates and silent partners (Loss participation)					485	0	485
Additions to fund for general banking risks (HGB section 340g)					0	–110	110
Net loss after participation of hybrid instruments					**–1 276**	**0**	**–1 276**

Rounding differences may occur

The “Financial result” of € –1,281 million in total includes, directly and indirectly write-downs on the Company’s investment in IKB International S.A. of € 562 million. The primary reasons for the write-downs are apparent from the first column of the table: A substantial proportion of portfolio investments and part of the obligation to the Havenrock entities were entered into by IKB International S.A. The losses incurred by IKB International S.A. in connection with the crisis had to be absorbed by the IKB AG and financed by means of capital increases, as IKB AG letters of comfort had been issued with IKB International as beneficiary. The amount of the write-down was determined on the basis of a valuation on a cash-flow basis, of future expected surpluses, whereby the reasons for the need to make the write-down are identified. The absorption of € 125 million of losses by IKB International’s silent partnership interests compensated for losses incurred to a lesser extent, this is included, together with the other elements of the valuation, in the position “Other”.

Further information on the individual items in the table is presented below:

Havenrock. No additional losses in respect of the Havenrock entities over and above the € 54 million of loss not covered by the rescue package are reported as in the Bank’s single entity commercial law accounts. The risk shield is treated in the same way as collateral.

Higher risk sub-portfolio. Losses on the higher risk sub-portfolio include € 433 million losses of the IKB International S.A., € 408 million portfolio investment losses recorded by the IKB AG, and € 1,059 million of losses on the IKB AG’s credit default swaps and separable embedded derivatives. The latter position is an element of risk provisions made for future losses. Allowing for the € 779 million risk absorbed by the KfW, the higher-risk sub-portfolio has contributed directly and indirectly € 1,121 million to losses.

Unshielded sub-portfolio. This sub-portfolio, containing primarily corporate risks, has required risk provisions of € 167 million, most of which is recorded by IKB International S.A. Some of this amount has been recorded directly by the IKB AG.

Rhinebridge. Losses of € 164 million on capital notes were covered by the rescue package. The Rhinebridge capital notes write-downs contributed € 74 million to the loss reported in the year.

The total losses on portfolio investments charged against income amounted to € 1,416 million.

In addition significant charges were made against current year income in the following positions:

Structured financial instruments reported within the category long term investment securities were sold at a € 66 million loss; in addition a valuation loss on separate pension assets (Contractual Trust Arrangement) was recorded so that a total loss of € 80 million was recorded.

Other write-downs on participations amounting to € 36 million were made against the investment in IKB CC, New York, (€ 15 million), and against property holding companies which own buildings used by branches (€ 15 million), and against smaller participations.

Income from the sale and valuation of participations amounting to € 14 million resulted primarily from the merger, within the Group, of IKB Financière France S.A. with IKB Beteiligungen GmbH (see position Nr. 5 in the income statement). The prior year figure of € 180 million resulted primarily from the sale, within the Group, of the participation in IKB International S.A. Luxemburg to the holding company IKB Lux Beteiligungen S.à.r.l..

Other securities held as liquidity reserve have suffered a net loss of € 70 million due to widening credit spreads and to a lesser extent due to changes in market interest rates.

Net provisions for possible loan losses from normal loan business increased from € 230 million to € 288 million. The loan portfolio has been reviewed by the new Board of Managing Directors. Partial provisions against first loss pieces in securitisation transactions originated by the Bank have been made to reflect their substantial loss of market value, although no long term impairment is expected.

The other positions in the profit and loss account have developed as follows:

The broad measure of net interest income (including current income from participations) fell by 22.9% to € 294 million (2006/07: € 381 million). The decline is primarily as a result of lower profit transfers from Group companies, lower income from own deposits, higher refinancing costs and defaults on interest due on portfolio investments.

Net commission income fell by 45.0% to € 90 million (€ 164 million). The fall was primarily a result of lower advisory fee income from the Rhineland Funding Conduit compared to the previous year.

The net result of financial operations was a loss of € –4 million (€ –10 million), in particular as a result of the fall in market values of fixed income and equity securities.

Administration expenses increased by 24.1% to € 321 million (€ 259 million), which can be attributed primarily to the high project and consultancy costs incurred related to resolving the IKB's crisis. Although personnel expenses increased moderately from € 146 million to € 155 million as a result of a higher number of employees, other administrative expenses increased by 47.2% to € 166 million (€ 113 million).

A net tax income of € 21 million is reported in the current year, compared to the tax expense of € 24 million reported in the prior year. The IKB is liable to no current period taxes in Germany, and could release certain tax accruals from prior periods. Similarly, outside Germany the Bank is liable to only small amounts of tax due to the carry back of tax losses.

In the 2007/08 financial year the IKB's hybrid financial instruments participate in the reported losses, absorbing € 485 million, leaving a net of € 1,276 million. Accordingly no dividend will be paid for the year.

Balance sheet

Total assets at 31 March 2008 amounted to € 50.0 billion, € 4.3 billion lower than at 31 March 2007 (€ 54.3 billion).

The total loan volume (before provisions) at 31 March 2008 was € 35.0 billion and thus slightly lower than the previous year (€ 35.1 billion). The total loan volume as at the reporting date comprises loans and advances to banks, loans and advances to customers, securitised lending (in the form of debt securities), and guarantees.

Loans and advances to customers rose by € 1.2 billion compared with 31 March 2007, to € 26.1 billion. The increase is mainly a result of advances made to the Havenrock entities, secured by the KfW and the Banking associations, drawn down under credit lines provided by the Bank, and is also a result of loans made within the group.

Loans and advances to banks fell by € 4.3 billion to € 8.3 billion, as the IKB reduced inter-bank market deposits significantly during the crisis.

Securitised lending and other fixed interest securities amounted to € 12.3 billion (€ 14.5 billion) including securitised loan business of € 4.3 billion (€ 5.0 billion). The lower amount compared to 31 March 2007 is a result of write-downs against portfolio investments, scheduled repayments, and the effects of changes in currency exchange rates.

Investments in affiliated companies remains constant at € 1.0 billion. The Bank's investment in IKB International S.A. was increased following a capital increase of € 385 million, and reduced by a write-down of € 192 million. Further write-downs of € 370 million were made against the book value of IKB Lux Beteiligungen S.à.r.l.. The book value of IKB Beteiligungen GmbH was increased by € 171 million following a capital increase.

Other assets amounted to € 1.7 billion (€ 1.1 billion), the increase representing primarily amounts receivable from the KfW in connection with the rescue package.

On the liabilities side of the balance sheet, liabilities to banks increased by € 2.7 billion to € 18.9 billion. Within this total, amounts payable on demand (i.e. short term borrowings in the inter-bank market) fell by € 2.4 billion to € 0.1 billion. The reduction clearly reflects the liquidity crisis. Liabilities with an agreed term or notice period increased to € 18.8 billion (€ 13.7 billion). The increase reflects a heavy increase in collateralised borrowings drawn from the EZB and other banks as well as higher individual refinancing arrangements in connection with state support schemes promoted by the KfW and other state agencies.

Liabilities to customers increased by € 2.2 billion to € 6.9 billion, particularly as a result of higher levels of promissory note loans (Schuldscheindarlehen).

Only limited quantities of bond issues were possible in the light of the crisis, accordingly the level of securitised liabilities fell by € 9.4 billion to € 18.4 billion. Emissions totalled € 1.8 billion, scheduled repayments € 10.2 billion and early repayments amounted to € 1.0 billion.

Provisions increased by € 1.1 billion to € 1.5 billion as a result of provisions made for credit derivatives.

Subordinated liabilities fell by € 0.1 billion to € 1.8 billion. Profit-participation certificates fell by € 0.3 billion to € 0.3 billion, and the silent partnership interests by € 0.2 billion to € 0.2 billion, primarily as a result of loss participation. Funds for general banking risks remained constant at € 190 million.

Equity at 31 March 2008 is € 1.34 billion (€ 1.70 billion). Within this figure the conversion of convertible bonds in February 2008 resulted in an increase in subscribed capital to € 247.8 million (€ 225.3 billion). The annual net loss (Bilanzverlust) is € 1.28 billion (€ 0.0 billion). In order to strengthen the Bank's regulatory capital, the capital reserve was increased by € 1.05 billion, primarily through two loans provided by the KfW. The capital reserve amounts to € 1.6 billion at the balance sheet date (€ 0.6 billion).

The Bank's regulatory capital in accordance with section 10 of the German Banking Act (KWG) totalled € 2.5 billion.

The Bank has hidden encumbrances of € 0.9 billion at the balance sheet date which are the result of the effect of changes of interest rates and interest rate volatility affecting interest positions on long-term interest bearing securities refinanced with non-matching maturities, derivates, non-matching maturities of loan book refinancing arrangements and changes in interest rate volatilities. This is a burden on net interest income or, on the sale of securities or derivates before their maturity, affect reported net income from investment securities.

Financial position

IKB's liquidity position at 31 March 2008 was tight. Borrowing on the money and capital markets was virtually possible only on a short term basis and in collateralised form. For further details please refer to the remarks made in the risk report below.

Overall view

Overall, the Bank's business performance and its position in 2007/08 were strongly impacted by the crisis that it faced at the end of July 2007. Ultimately, IKB's survival could only be ensured by the comprehensive rescue measures put together by KfW with support from the banking pool.

4. Risk report

Risk management organisation

Risk management tasks and responsibilities are described and documented in the Bank's risk management rules and regulations, which document the Bank's specific organisational rules and the principles of the IKB's risk management system taking due account of statutory and internal requirements as well as the business and risk strategy.

Supervisory Board. The Board of Managing Directors regularly provides the Supervisory Board at its meetings with detailed briefings on the risk situation, on the business and risk strategy, and on the Bank's risk management.

Board of Managing Directors. The Board of Managing Directors is responsible for IKB's risk management. Based on the business strategy and the Bank's overall risk-bearing capacity the Board determines the principles of the Bank's risk policy, which, together with a structure of limits forms the basis of the IKB's risk strategy. In its decisions, the Board takes account of the quality of the Bank's risk processes and controls.

The departmental responsibility for managing and monitoring decisions in the lending business, in particular the monitoring of individual risks, workout, restructuring and settlement cases, credit portfolio management, market price controlling, management of operating risks and compliance risk lies with the Chief risk officer. The Chief financial officer is responsible for earnings management risk and for capital adequacy management. The Board of Managing Directors as a whole is responsible for dealing with risks related to the Bank's business strategy, reputation risks and the most important legal risks.

Risk committees. Specific committees established to manage and supervise risk relevant operational matters support the Board in its risk management and decision making process. At the end of the financial year the most significant of these is the newly created Risk and Capital Committee, which is responsible for planning the Bank's risk profile and capital basis and for the supervision of the Bank's risk capacity. The committee comprises the members of the Board, as well as heads of the Economic Research Department, and the Lending Risk Management and Controlling, Market Price Controlling and Treasury departments. The Chief Risk Officer is Chairman of this committee; the Chief Financial Officer is deputy chairman.

The Risk and Capital Committee is supported in specific tasks by sub-committees. These committees comprise members of the Managing Board, as well as representatives from operating segments and the relevant head office departments.

Credit risk supervision. From the start of the 2008/09 financial year the tasks of supervising individual and portfolio risks will be centralised in the Risk Management and Controlling department in order to ensure a coordinated risk analysis and reporting under consideration of portfolio effects. The tasks of the Risk Management and Controlling department include the design and management of independent credit approval processes, as well as the development and supervision of group standards for the lending business. In addition the department is tasked with assisting with loan portfolio management and the managing and improving the Bank's rating system.

Special management units operate within the Risk Management and Controlling department to deal with higher-risk exposures and workout cases. Further special units are responsible for timely and continuous supervision, analysis and reporting on lending risks on a portfolio level as well as the validation of models critical for risk assessments used in the rating system.

Market price risk and liquidity management. One of the two principle tasks of the Credit Risk Controlling and Operations is the daily calculation and analysis of the securities and trading book, supervision of limits set by the Board, and reporting on the market price risk positions. In addition the department is responsible for the continuous evaluation and improvement of the valuation models used to value financial instruments and regular supervision and reporting on liquidity risks.

Supervision of results and capital adequacy. Results Controlling prepares monthly performance analyses of existing and new business to identify and analyse any divergence in income and assets from target values. This ensures the timely monitoring and reporting of business risk.

Capital Controlling is responsible for an integrated capital planning process for the IKB Group, taking into account regulatory and economic aspects.

Operational Risk Management. Operational Risk Management is responsible for the monitoring of operational risk throughout the IKB Group. This includes identifying, analysing and reporting on operational risk, plus responsibility for defining the methodology used throughout the IKB Group to measure operational risk. The central Operational Risk Management unit is supported by a network of decentralised Operational Risk Managers in the business divisions, subsidiaries and corporate centres.

Internal Audit. Group Audit is organised as an independent part of the risk management system and internal control process in accordance with the Minimum Requirements for Risk Management (MaRisk). It operates on behalf of the entire Board of Managing Directors, with no duty to comply with instructions, as an independent body that reports directly to the Board of Managing Directors. Process based audits are, as a general rule, used to examine all activities and processes across the Group. The focus is placed on particularly risk-sensitive qualitative processes, quantitative methods and the IT processes used in the lending and trading businesses. Group Audit is also responsible for conducting credit and business checks on individual exposures. The Board are informed on the results of the audits on a continuous basis. Internal Audit submits an annual summary report to the Board of Managing Directors on significant and serious audit results and the progress in rectifying deficiencies. In turn, the member of the Board of Managing Directors responsible for audit regularly briefs the Supervisory Board on current results and developments.

Risk bearing capacity and regulatory capital

Risk bearing capacity. IKB's risk management process is based on the Bank's risk-bearing capacity; the use of its capital resources is assessed in terms of achieving an adequate risk/return ratio. In addition to managing regulatory minimum capital and targeted ratios set by the authorities; also the available economic risk cover in relation to total risk on a Group basis are monitored within the scope of risk capacity management. Aggregate risk cover comprises mainly equity components including silent partnership contributions, profit-participation certificates and subordinated liabilities, unrealised assets, and the operating result before income taxes.

One significant consequence of the crisis has been the revision of the existing risk capacity concept. The risk quantification has been extended to include macro-economic stress scenarios to test the effects on the Bank of different possible economic situations which might occur. The limits set until now, which were determined from the point of view of a non-subordinated creditor, are amended to include analyses of long term security under narrower limits set in view of the available cover for economic risk capital requirements purposes.

Regulatory capital. The Bank determines the regulatory capital for credit risk using the credit risk standard approach, for operational risk using the basis indicator approach and for the market price risk using standard methods (interest risk: Maturity method, Option risks: Delta Plus Method).

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

Group (section 10 a KWG)

Regulatory Risk Capital	31 Mar 2008 in € million	31 Mar 2007 in € million	31 Mar 2006 in € million
Risk weighted assets	30 269	32 747	30 634
Market risk equivalent[1]	795	750	463
Operational risk	1 330	0	0
Risk position	**32 394**	**33 497**	**31 097**
Tier I capital	1 941	2 435	2 421
Tier II capital	1 191	1 726	1 793
Tier III capital	45	9	0
Deductions[2]	–18	–88	–71
Equity capital	**3 159**	**4 082**	**4 143**
Tier I ratio in %	6.0	7.1	7.7
Capital ratio (Principle I) in %	9.8	12.2	13.3

[1] The increase from 2006 to 2007 is due to the increase in open currency positions of foreign subsidies

[2] The deductions at 31 March 2007 included first loss pieces from securitisation transactions, which under the new Solvency Regulations (SolvV) are included in risk weighted asset with a risk weighting of 1,250%.

Individual entity (section 10 KWG)

Regulatory Risk Capital	31 Mar 2008 in € million	31 Mar 2007 in € million	31 Mar 2006 in € million
Risk weighted assets	27 243	31 138	29 366
Market risk equivalent	94	433	190
Operational risk	976	0	0
Risk position	**28 313**	**31 571**	**29 556**
Tier I Capital	1 510	1 869	1 772
Tier II capital	1 003	1 458	1 510
Tier III capital	5	25	11
Deductions[1)]	0	–68	–48
Equity capital	**2 518**	**3 284**	**3 245**
Tier I ratio in %	5.3	5.8	5.9
Capital ratio (Principle I) in %	8.9	10.4	11.0

[1)] The deductions at 31 March 2007 included first loss pieces from securitisation transactions, which under the new Solvency Regulations (SolvV) are included in risk weighted asset with a risk weighting of 1,250%.

At 5.3% the IKB AG at the individual entity level, and at 6.0%, the IKB Group at consolidated level, the Bank has a core capital quote above the regulatory minimum of 4.0%. The reported total capital ratio of 9.8% at Group level and 8.7% at the AG level are also above the regulatory minimum total capital ratio of 8%. Given the capital injections made by KfW and the approved capital increase, the Board of Managing Directors anticipates that minimum regulatory requirements will continue to be achieved in the future.

Economic capital. The Group's credit risk, market price risk and general business risk economic capital requirement are determined using the Bank's own models. Operational risk is calculated using the basic indicator approach stipulated by the supervisory authority. Liquidity and strategic risks are also monitored and checked continuously, but are not managed through risk capital as such risks (for example insufficient liquidity) cannot be solved by a higher level of capital. Liquidity risks are managed by separate limits on the net maturity of balances. This shows the Bank's expected liquidity requirements on maturity of the Bank's holdings and the level of intervention required.

Economic capital tied up by the individual types of risk is determined within the scope of an annual planning process, and in the course of the ongoing monitoring and reporting to the Board of Managing Directors and the Supervisory Board.

As a result of the loss of value of the portfolio investments after 30 September 2007 and the associated fall in the Bank's risk cover, the Bank's risk bearing capacity was lost, and restored by means of the capital increase.

Counterparty and credit risk

The IKB distinguishes default risk between credit risk and counterparty risk. The concept of credit risk defines the risk that a loan cannot be repaid at all, or can only be partially repaid (in line with contractual agreement), due to default by a contractual partner. The IKB is exposed to counterparty risk as a consequence of potential replacement risks related to interest rate and currency derivatives, which may be incurred in the event of counterparty default. Issuer risk and settlement risk are further variations of counterparty risk. Issuer risk is defined as potential loss resulting from the default of the issuer of securities held by IKB, whilst the concept of settlement risk refers to the risk of non-performance of a counterparty within the framework of a settlement process, after IKB has already made payment or delivery. Given the central importance of the lending business as the Bank's core activity, credit risk is a priority.

The starting point for risk management in the lending business is in the planning process. On the basis of the Bank's risk-bearing capacity, and growth and earnings targets, risk is explicitly integrated in the planning process. Targets derived from the strategy include not only the targeted volume of new business, interest, commission income, and personnel costs, but also include risk and capital costs. The Bank's guidelines for managing individual credit exposures and portfolio risks ensure lasting influence on the quality of new business and asset management and thereby on the portfolio structure. These include limits and benchmarks for business and product lines, branches and foreign participations as well as individual and consolidated group risks.

Credit risk strategy. The credit risk strategy defines the framework for the medium-term direction of IKB's credit business. Particular attention is paid to growth in various target groups and products, to limiting risk concentrations, with a strong focus on credit portfolio management. The objectives stipulated by the credit risk strategy are implemented in the Bank's operative business through guidelines for managing individual credit exposures and portfolio risks.

Credit approval process and monitoring of individual exposures. The primary task in the credit approval process (credit analysis, approval, workout, restructuring and settlement) are performed by the Credit risk management and controlling department, and therefore – as required by regulators – separately from the market facing sales and business development teams.

With the exception of minor decisions concerning existing exposures, the credit approval process is conducted either centrally, by duly authorised persons in the Risk Management unit, or by the Board of Managing Directors, in accordance with approval limits; the necessary approval depends on the size of the Group's existing credit exposure, the borrower's credit quality, the collateral provided, the term, and the existing and planned structure of the portfolio. In this way the principle of dual control is always observed. Legal and contract back office staff conduct the contract implementation and follow up independently of the front office staff directly involved in the market.

Every credit approval is based on a detailed credit analysis which outlines and assesses all information pertaining to the decision, the details of which are documented clearly and straightforwardly in a decision proposal. Use is made of a further tool that IKB has developed itself – known as the Portfolio Adviser – to support decision processes regarding our portfolio at the level of individual transactions and at the engagement level. This tool calculates risk factors on the basis of the client's credit quality, transaction-specific features such as term and collateral and portfolio-related indicators. This enables us to contribute to portfolio management even at the acquisition stage. At the same time, the Bank strongly emphasises the mobility of loans – defined as their eligibility for placement with third parties. This reflects the importance of synthetic securitisation for the portfolio management process.

Existing credit exposures are treated similarly to new credit approvals; the associated processes and approval procedures are applied every twelve months and decisions are reviewed. In addition, individual sub-portfolios (including major individual exposures) are subject to annual discussion, analysis and strategy review during annual meetings held by Risk Management with the respective divisions.

No new investments in portfolio investments have been made since the beginning of the crisis. Existing investments are closely supervised by the Credit Risk Management and Controlling department.

Rating process and procedures. Assessing the credit quality of clients and investments is a key element of the entire credit process. Partners and investments are required to meet the Bank's credit quality and collateral standards.

IKB employs a computerised rating system for assessing credit quality specifically designed for the relevant customer sector or specific type of financing as appropriate. The relevant model-specific risk parameters are grouped in each procedure and each customer is assigned a rating class within an 11-level internal scale ranging from 1.0 (best rating) to 6.0 in increments of 0.5. This rating scale is based on the probability of default, on the basis of a statistical analysis of historical default rates and expected economic trends.

Corporate finance. In the Corporate Clients division, IKB uses its concept of rating medium-sized enterprises – known as IKB Mittelstandsrating – which simulates the borrower's business model using business ratios and statistic methods. The specific qualitative characteristics of the individual client and sector are then examined using an expert system.

Project and special financing. A special rating procedure takes into account the particular features of project and special finance. In such financing arrangements the rating methods place emphasis on the extent and sustainability of available cash flow to meet the interest and principal payments arising during the lifetime of the project under various possible scenarios and project simulations. The results are complemented by qualitative criteria on sponsors, operators, sales and procurement markets and the specifications of the transactions concerned. A special rating procedure developed on the basis of the "IKB Mittelstandsrating" concept is used for acquisition finance.

Real Estate Finance. The real estate ratings used as part of the commercial real estate finance business assess credit quality using a variety of specific property data and investor information. This not only includes detailed information on each property's location and condition, but also details about the tenant structure and quality, an assessment of the individual investors' assets, liquidity, and credit quality and the likelihood that cash flows generated from the property can cover interest and principal payments due.

Country risk. Country rating is determined using economic data and indicators on the country's economic performance and its liquidity situation in conjunction with a qualitative assessment of the country's political and social situation. We obtain our information from international databases, country reports and other external sources.

Quantification of credit risk. To quantify credit risk in traditional lending business we use a proprietary model that, taking into account statistical variances, calculates a distribution of possible credit losses. This model takes into account individual aspects of each loan or investment (amount, collateralisation, term, sector, group affiliation, rating) as well as a large number of other variables, for example default probability, likely collateral realisation quotas, sector/asset correlations based on the Bank's experience or on external reference sources.

Using validation and benchmarking techniques the internal rating system as well as the approval, supervision and management processes used in the lending business are regularly tested.

Portfolio monitoring and management. For existing business the emphasis is placed on monitoring the loan portfolio as a whole.

IKB's Economics department is responsible for the timely monitoring of sectors and market changes. Its comprehensive sector know-how, is an important element of management of risk concentration within overall risk management. The objective is to identify and contain sector risks in lending business as early as possible.

Regular portfolio monitoring by the Limit Committee (comprising representatives of Risk Management, the Economics department, Credit Risk Management and Controlling, and the business divisions) is the starting point for determining concentration limits, which are oriented on the target figures set by our business strategy, as well as by risk policy guidelines. Volume and risk limits are set under consideration of identified sector-specific risks and business cycle expectations. Additional limits for individual loans or loans to corporate groups are defined to prevent concentration risk.

Country risk limits are set for all countries to limit the total exposure in any one country. The limits are stipulated by the Limit Committee and apply to all transactions in the country concerned. Utilisation of these limits is monitored and reported regularly.

Credit risk structure. The Bank's internal reporting of credit volumes at 31 March 2008 compared to 31 March 2007 showed the following:

	31 Mar 2008 in € million	31 Mar 2007 in € million	Change in € million
Loans to banks	259	194	65
Loans to customers	26 065	24 933	1 132
Portfolio investments, corporate and government bonds	4 509	4 956	–447
Contingent liabilities, CDSs and guarantees	3 006	4 017	–1 011
Net lending	**33 839**	**34 100**	**–261**
Risik provisions[1)]	1 169	1 032	137
Gross lending	**35 009**	**35 132**	**–123**

Rounding differences may occur
[1)] excluding risk provisions made for embedded credit derivatives of € 821 million

Analysis by size. An analysis of core business and portfolio investments by size of investment is presented below:

Analysis of loans by volume of transaction

	31 Mar 2008			31 Mar 2007	
Analysis by size[1)]	Lending volume* in € million		Number	Lending volume* in € million	
Under € 5 million	3 547	10%	4 093	4 517	13%
Over € 5 million and less than € 10 million	2 750	8%	379	2 819	8%
Over € 10 million and less than € 20 million	4 388	13%	318	4 681	13%
Over € 20 million and less than € 50 million	4 270	12%	148	4 776	14%
Over € 50 million	2 446	7%	29	2 713	8%
Core segments	**17 401**	**50%**	**4 967**	**19 505**	**56%**
Risk transferred to third parties[2)]	9 022	26%		7 015	20%
Core business total	**26 423**	**75%**		**26 520**	**75%**
Under € 50 million	1 925	5%		2 309	7%
Over € 50 million and less than € 100 million	873	2%		1 084	3%
Over € 100 million	1 562	4%		1 925	5%
Segment Portfolio Investments	**4 360**	**12%**		**5 319**	**15%**
Internal business	**4 226**	**12%**		**3 293**	**9%**
AG Total	**35 009**	**100%**		**35 132**	**100%**

1) Borrower groups in accordance with KWG, section 19
2) Hermes guarantees, indemnifications, risks transferred
* Rounding differences may occur

Transferred risks in the amount of € 9.0 billion include loans for which the default risk has been accepted by banks or public authorities as well as synthetic placing of lending risks.

The average size of engagements in the category € 50 million and above is € 84.3 million.

Internal business amounting to € 4,058 million represent loans and contingent liabilities to affiliated companies included in the IKB Group's IFRS consolidated financial statements.

Collateral, risk placing and securitisation. For the traditional, long-term lending business, the IKB continues to place a high priority on classic forms of security such as property mortgage charges, assignments, and comfort letters. Independent of the need to make immediate decisions, the value of security is regularly reviewed and updated.

Collateral (in € million)	31 Mar 2008 Loan volume*		31 Mar 2007 Loan volume*	
Property liens and charges	7 326	21%	9 053	26%
Ownership assignment rights	503	1%	512	1%
Other collateral[1)]	5 739	16%	6 044	17%
Without collateral	3 832	11%	3 896	11%
Core segments	**17 400**	**50%**	**19 505**	**56%**
Risk transferred to third parties[2)]	9 022	26%	7 015	20%
Core business total	**26 423**	**75%**	**26 520**	**75%**
Segment Portfolio Investments	4 360	12%	5 319	15%
Internal business	4 226	12%	3 293	9%
AG Total	**35 009**	**100%**	**35 132**	**100%**

[1)] e.g. assignment of receivables, participtation rights, ownership statement, subordination clause, fixed and floating charges, mortgage over shares
[2)] Hermes guarantees, indemnifications, risks transferred
* Rounding differences may occur

This form of risk mitigation is supported by portfolio orientated placement of risks from individual exposures to third parties, by syndicating loans to other banks, or by placing individual risks by consortium arrangements. Lending exposures are generally placed in the capital market synthetically; which means that whilst these remain in the IKB balance sheet, the counterparty risk exposure has been neutralised. We have used securitisation to place a total of € 22 billion using synthetic securitisation to date. The total volume of loans and advances placed through securitisation totalled € 7 billion at the reporting date. The IKB has purchased securitisation products with a nominal value of € 15.3 million which include participation in the first losses in the underlying engagements.

Geographical analysis of lending. In the following table the Bank's lending analysed by geographical region is presented (31 March 2008):

Regions (in € million)	31 Mar 2008 Loan volume*		31 Mar 2007 Loan volume*	
Germany	11 934	34%	14 556	41%
Western Germany	9 855	28%	11 849	34%
Eastern Germany	2 079	6%	2 707	8%
Foreign	5 466	16%	4 949	14%
West European	4 732	14%	4 390	12%
North America	203	1%	152	0%
Other	531	2%	407	1%
Core segments	**17 400**	**50%**	**19 505**	**56%**
Risk transferred to third parties[1)]	9 022	26%	7 015	20%
Core business total	**26 423**	**75%**	**26 520**	**75%**
Segment Portfolio Investments	4 360	12%	5 319	15%
Internal business	4 226	12%	3 293	9%
AG Total	**35 009**	**100%**	**35 132**	**100%**

[1)] Hermes guarantees, indemnifications, risks transferred
* Rounding differences may occur

Foreign lending amounted to € 5.5 billion of the total at 31 March 2008. 94% of this amount was lent in countries with the highest country risk classes (1/1.5). In addition € 1.0 of risks transferred to third parties (for example Hermes Insurance) related to foreign business.

An analysis of lending obligations by country at 31 March 2008 is presented below:

Country credit ratings[1)] Loan portfolio in € million	31 Mar 2008 Total	1–1.5	2–2.5	3–3.5	4–4.5	5–6
Foreign	5 466	5 126	230	55	51	4
West European	4 732	4 732	0	0	0	0
North America	203	203	0	0	0	0
Other	531	191	230	55	51	4

1) Excluding risks transferred to third parties; higher rating categories reflect higher risk

€ 3.6 million of the lending obligation drawn down under the country risk class 5.0 to 6.0 relates to Iran.

The figures presented exclude amounts covered by export credit guarantees; other adjustments for collateral are not made.

Country risk is considered in the Bank’s rating system and in the calculation of allowances for significant receivables. Separate provisions on the basis of obligations by country are not made.

Structure by sector. In calculating risk by industry sector the IKB evaluates approximately 370 sectors as part of the rating process. This is based on econometric models, which reflects national and international macroeconomic conditions as well as interrated industry trends. Industry specialists working in the economics department are involved in this process.

Sectors (in € million)	31 Mar 2008 Loan volume*		31 Mar 2007 Loan volume*	
Industry sector	12 349	35%	13 768	39%
Energy and energy supply	1 022	3%	922	3%
Mechanical engineering	859	2%	897	3%
Retail	760	2%	827	2%
Transport support services	687	2%	755	2%
Services	679	2%	767	2%
Other (under € 0.7 billion)	8 342	24%	9 601	27%
Real Estate	3 133	9%	3 275	9%
Financial sector	837	2%	1 216	3%
Public sector/Banks	1 082	3%	1 246	4%
Core segments	**17 400**	**50%**	**19 505**	**56%**
Risk transferred to third parties[1)]	9 022	26%	7 015	20%
Core business total	**26 423**	**75%**	**26 520**	**75%**
Segment Portfolio Investments	4 360	12%	5 319	15%
Internal business	4 226	12%	3 293	9%
AG Total	**35 009**	**100%**	**35 132**	**100%**

1) Hermes guarantees, indemnifications, risks transferred
* Rounding differences may occur

The Bank's high level of diversity is maintained, no single industry sector represents more than 3% of the total lending portfolio. The real estate sector is split into office properties (3%), mixed use properties (2%), retail property (2%), and other property (2%).

Credit rating structure in core lending business. Total lending business (excluding internal transactions), structured securities and non-performing loans is analysed by rating structure in the table below:

Credit rating structure – Core segments[1)] in € million	31 Mar 2008 Loan volume*		31 Mar 2007 Loan volume*	
1–1,5	4 008	16%	4 552	18%
2–2,5	6 012	24%	6 974	28%
3–3,5	4 230	17%	4 038	16%
Sub-total I	**14 250**	**57%**	**15 564**	**63%**
4–4,5	1 208	5%	1 357	5%
5 and above	647	3%	902	4%
Sub-total II	**16 105**	**64%**	**17 823**	**72%**
Risk transferred to third parties[2)]	9 022	36%	7 015	28%
AG Total	**25 128**	**100%**	**24 838**	**100%**

1) Excluding Structured Securities (€ 143 million at 31 March 2008), Non Performers (Impaired) and internal business/ lower credit ratings reflect lower risk levels
2) Hermes guarantees, indemnifications, risks transferred
* Rounding differences may occur

The proportion of total volume of transferred risk has again increased to 36% (31 March 2007: 28%). The proportion of not transferred business in the respective rating categories is consistent with the previous year.

Identification and specific handling of exposures in danger of default. All exposures subject to credit risk are monitored on a permanent basis. Specialist management units are responsible for managing exposures in danger of default. By implementing acceptable solutions at an early stage, this special management facility aims to preserve the company's ability to continue trading, or – should these efforts fail – substantially reduce the financial fallout.

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

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

Non Performing Loans – Core segments	31 Mar 2008 Lending volume in € million	31 Mar 2007 Lending volume in € million	Change	
			in € million	in %
Germany	**1 072**	**1 461**	**–390**	**–27**
Western Germany	558	778	–220	–28
Eastern Germany	514	683	–169	–25
Foreign	**80**	**82**	**–2**	**–2**
Impaired (Non Performer) Loans	**1 152**	**1 543**	**–391**	**–25**
Structured Securities (impaired financial assets)	**111**	**15**	**96**	**641**
Non Performing Loans – Total	**1 263**	**1 558**	**–295**	**–19**
As a percentage of core segments lending volume	**4.8 %**	**5.9 %**		

Non-performing loans in Germany have fallen both in the "old" federal states (former West Germany/Federal Republic) and the new states (former East Germany/German Democratic Republic). Non-performing loans in foreign lending are little changed compared to the previous year. In addition to the Non Performing Loans as traditionally defined, an additional € 111 million of structured securities in the loan portfolio connected to the external placing of the Bank's own financing transactions is under close scrutiny due to impairments resulting from the current uncertainties prevailing in capital markets.

Risk provisioning. Provisions for risks in the lending business is made in the form of write-downs. Provisions for contingent liabilities are made by recording accruals when the contingent liability threatens to materialise. Provisions are also recorded for long term value impairments of CDSs and for embedded derivatives in CLNs.

In determining the amounts of write-downs and provisions required the IKB takes into account both expected future cash flow and the potential discounted value which can be derived from the collateral available. The Credit Risk Management and Controlling department is responsible for determining the amounts of write-downs, and for evaluating each case individually, assessing the workout strategy and estimating the future expected cash flow receipts.

In addition receivables from financial institutions and customers, as well as contingent receivables are analysed for potential credit risks. To the extent considered necessary, general allowances for risk are made. In the previous years the calculation of general risk provisions was based on past trends and weightings derived from the Bank's own past experience. The calculation method was changed in the current reporting period. From the current period the general provisions are calculated based on tax rules as detailed in the paper issued by the Ministry of Finance on 10 January 1994. The general provision amounted to € 113 million compared to € 42 million in the previous year.

Net loan loss provisions in the lending business amounted to € 1,348 million at 31 March 2008, significantly higher than at 31 March 2007 (€ 230 million). The increase was primarily due to provisions of € 1,060 million made in respect of credit derivatives, of which € 821 million were in respect of credit derivatives embedded in securities and € 239 million in respect of CDSs. In addition, in the previous year the reserve for general banking risks of € 175 million made in accordance with section 340 f HGB was released. Of the total loss provision of € 1,990 million (31.3.2007: € 1,032 million), € 860 million (€ 1,013 million) relates to the traditional lending business (individual loan loss write-downs, general loan loss provisions and provisions for the lending business) and € 1,130 million relates to CDSs and embedded credit derivates.

Write-downs cover 54% of Non Performing Loans, unchanged to March 2007.

Investments in structured credit products. The IKB AG's investments in structured securities at 31 March 2008 comprised the following:

- Investments made by IKB AG of a nominal € 4.9 billion, including € 164 million of Capital Notes issued by the special purpose vehicle Rhinebridge plc and € 168 million of commercial papers ("internal" transactions) ;

- Secured first loss pieces in the Havenrock entities of € 0.8 billion ("internal" transactions), fully transferred to the KfW.

Unlike traditional business, management before the crisis of the portfolio investments was conducted on the basis of the ratings issued by the rating agencies; with hindsight it is clear that this approach did not ensure that the significant risks and concentrations of risks were adequately managed. More information on the losses incurred on these transactions is detailed in the "Income" section.

The IKB AG's portfolio investments

Credit rating structure of IKB portfolio investments

	31 Mar 2008* Nominal amount in € billion	31 Mar 2007* Nominal amount in € billion
Aaa	1.3	1.8
Aa	1.6	2.4
A	0.9	0.7
Baa	0.3	0.4
Ba / B	0.2	0.0
Sub B	0.5	0.2
	4.9	**5.5**

Rounding differences may occur

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

Underlying asset structure of IKB portfolio investments

	31 Mar 2008		31 Mar 2007	
Underlying – Portfolios	Nominal in € billion	in %	Nominal in € billion	in %
Corporates	2.6	53	3.0	54
ABS	1.6	32	1.5	29
Thereof with sub-prime content	1.5	31	1.3	24
ABS/Corporates mixed	0.7	15	1.0	17
Thereof with sub-prime content	0.2	5	0.2	4
	4.9	**100**	**5.5**	**100**

Of the € 4.9 billion nominal investment in structured securities at 31 March 2008, a sub-portfolio of nominal € 2.2 billion (higher risk portfolio) remains subject to risk protection of up to € 1 billion provided by the KfW with support of the Banking Associations. Of this protection, € 0.9 billion remains available at 31 March 2008.

IKB portfolio investments underlying asset structure at 31 March 2008, analysed between higher risk and unshielded sub-portfolios

	31 Mar 2008					
	Nominal in € billion Total		Nominal in € billion Higher risk sub-portfolio*		Nominal in € billion Unshielded sub-portfolio*	
Corporates	2.6	53%	0.5	23%	2.1	78%
ABS[1)]	1.6	32%	1.3	61%	0.2	8%
Thereof with sub-prime content	1.5	31%	1.3	61%	0.2	7%
ABS/Corporates mixed	0.7	15%	0.4	17%	0.4	14%
Thereof with sub-prime content	0.2	5%	–	–	0.2	9%
	4.9	**100%**	**2.2**	**100%**	**2.7**	**100%**

[1)] e.g. Residential Mortgage Backed Securities (RMBS); Commercial Mortgage Backed Securities (CMBS); Small Business Loans (SBL)
* Rounding differences may occur

Of the corporate investments not covered by the rescue package totalling € 2.1 billion about 55% relate to corporations located in North America.

The following table shows the external rating structure of the corporate CDO investments, ABS investments and the investments with mixed underlying assets, analysed between higher risk investments and investments not covered under the terms of the rescue package.

Corporate CDO investments Rating structure[1)]	31 Mar 2008 Nominal in € billion Total	Nominal in € billion Higher risk sub-portfolio	Nominal in € billion Unshielded sub-portfolio
Aaa	0.7	0.1	0.6
Aa	1.3	0.2	1.1
A	0.5	0.2	0.3
Baa	0.1	–	0.1
Ba / B	–	–	–
Sub B	0.0	0.0	0.0
	2.6	**0.5**	**2.1**

1) Moody's ratings. Where two or more ratings are available, the less favourable rating is presented.

ABS investments Rating structure[1)]	31 Mar 2008 Nominal in € billion Total*	Nominal in € billion Higher risk sub-portfolio*	Nominal in € billion Unshielded sub-portfolio*
Aaa	0.3	0.2	0.1
Aa	0.1	0.1	–
A	0.2	0.2	–
Baa	0.2	0.2	0.0
Ba / B	0.2	0.2	–
Sub B	0.5	0.3	0.2
	1.6	**1.3**	**0.3**

1) Moody's ratings. Where two or more ratings are available, the less favourable rating is presented.
* Rounding differences may occur

ABS/ Corporates mixed Rating structure[1]	31 Mar 2008 Nominal in € billion Total	Nominal in € billion Higher risk sub-portfolio	Nominal in € billion Unshielded sub-portfolio
Aaa	0.4	0.2	0.2
Aa	0.1	–	0.1
A	0.2	0.1	0.1
Baa	–	–	–
Ba / B	–	–	–
Sub B	–	–	–
	0.7	**0.3**	**0.4**

[1] Moody's ratings. Where two or more ratings are available, the less favourable rating is presented.

Of the mixed underlying assets included in the unshielded sub-portfolio amounting to € 0.4 billion, 41% relate to North America. The external rating at 31 March 2008 was still Aaa to A.

Risk reporting and risk communication. All relevant information collected in the lending business is analysed, explained and presented by the Credit Risk Management and Controlling department to the Board of Managing Directors and to the segment management teams. In addition the Supervisory Board and the regulatory authorities receive a comprehensive quarterly risk report detailing the Bank's credit risks, this report being replaced from 31 December 2007 by a new report – the "Dash Board" report. The Dash Board includes the most important information on the Bank's overall risk position.

Liquidity and market price risk

Liquidity risk

The liquidity and refinancing risk is the risk that the IKB is unable to meet its payment obligations in a timely manner (liquidity risk) or to obtain refinancing in the market under reasonable conditions (refinancing risk).

Until the crisis in the asset backed commercial paper markets in late July 2007, the Bank's liquidity was secured by the use of short and long term financial instruments as well as the use of an appropriate volume of securities collateralisable with the European Central Bank. In this way the Bank regularly participated in the Central Bank's so-called tender facilities which provide the banking system with liquidity.

In estimating the requirements for the Rhineland Funding liquidity commitments, the Bank assumed that prolonged market shocks, including shocks resulting in a complete cessation of market activities, would continue for a maximum of a two week period. Liquid funds for such eventualities were retained, for example Pfandbriefe, whereby other assets capable of being liquidated were not taken into account.

Early in 2007, not least in view of the liquidity commitments granted to the Rhineland Funding Conduit, the Bank began to increase liquidity reserves. Accordingly the volume of securities capable of being used for refinancing with the ECB increased from 1 January 2007 from € 5.2 billion to € 7.2 billion by 31 July 2007. In June 2007, a third party had acceded to take over IKB commitments amounting to US-$ 2.5 billion.

Following the outbreak of the crisis, the Bank extensively revised and refined its liquidity planning and management system. As a result the Bank can generate detailed forecasts of the daily liquidity requirements in each of the following three months as well as a sufficiently reliable forecast for a 12-month period.

The Bank's liquidity requirements are covered through secured and unsecured borrowing on the money market (cash and term deposits), by participating in ECB repos, selling liquid securities investments and promissory note loans as well as accepting customer deposits on the basis of promissory note loans.

In January 2008 the KfW granted the IKB AG a secured refinancing facility of € 1.5 billion. In addition, in February and March 2008 the KfW provided the IKB with additional capital amounting to € 1.05 billion by means of loans with immediate debt waiver and compensation out of future profits, this new capital being treated in the financial statements as additional paid in capital. The IKB AG is in addition in negotiations with other banks for the provision of further liquidity. The IKB AG receives further funds from public assistance programmes initiated by the KfW and State regional assistance authorities which the IKB AG use to provide financing to its mid-cap customers.

These instruments are the basis for the Bank's refinancing until the ability to obtain mid- and long-term refinancing via the capital market is re-established, to which the completion of the Bank's approved capital increase will make a decisive contribution.

In addition the Bank plans to use a portion of its portfolio investments to generate liquidity in the financial year 2008/09. Around € 1.0 billion will be raised from the higher risk portion of the portfolio investments and associated compensation from the loss protection cover generated under the rescue package.

The Bank estimates, depending on new business generated, a liquidity requirement of between € 13 and € 16 billion spread over the next twelve months. The financing requirements necessary to achieve this are to some extent already complete or are under preparation.

Market price risk

Market price risk describes the risk of changes in value resulting from changes in market variables (risk factors). The risk factors relevant for the IKB include currency, interest rate and credit spreads, volatility (option prices), and share prices.

Risk of interest rate changes. Interest rate changes are associated with potential changes in the value of asset and liability positions resulting from shifts in the risk free interest rate curve. The IKB uses a number of instruments to manage and reduce the risk arising from changes in interest rates which are used in both the Bank's trading and asset books. Risks in the Bank's trading and asset books are managed and measured using similar methods. More information on interest rate positions and potential loss is reported in section 3 under "financial position".

The risk of changes in interest rates is particularly relevant to the Bank's investment portfolio, which amongst others represents the Bank's own invested equity.

Spread risks. Spread risks result from changes in the pricing of security and derivate default and liquidity premiums over risk free rates.

The spread risks are of particular significance for the portfolio investments. For these investments the IKB's risk assessments are based on historical spreads. Following the widening of spreads as a result of the financial crisis in 2007/08, the IKB has decided to model the market price risk of portfolio investments using appropriate scenario analysis.

Currency risks. Currency risks arise from changes in foreign currency exchanges rates measured in Euros. The IKB has significant foreign currency positions only in USD, GBP, JPY and CHF. Loans in foreign currencies, including the future income receipt streams, are almost completely hedged. Limits are in place in respect of the remaining open positions.

Quantification of market price risk. IKB employs various mathematical models to quantify interest rate, volatility, share price and currency exchange rate risk. These models use historical simulation in order to determine the risk exposure in the Bank's positions. To ensure that the characteristics of each product are properly taken into account, this historical simulation also incorporates a revaluation of structured instruments, using observed interest rate curves, volatility and exchange rate changes under consideration of correlation effects. For non-structured products, the market value effects are estimated on the basis of interest rate curves and the effects of exchange rate change using the sensitivity of the instruments. The exposure to currency risks in the total portfolio is insignificant. Currency risks are limited by means of restrictions with regard to the volume of open currency positions. The regular value at risk (VaR) historical simulations are based on 500 observation periods and therefore represent 2 year historical information. The value at risk statistics used in internal risk reporting are based on a confidence level of 99.8% and a holding period of ten days. For the risk bearing capacity purposes the value at risk is determined based on the target rating of the Bank with a confidence level of 99.96%.

In determining the currency and interest rate risk inherent in the Bank's loan refinancing the Bank uses the interest overhang analysis in the interest rate ladder, on the basis of which the risk is determined using historical simulations. The Bank's future net interest results on the basis of the balance sheet are analysed by matching expected future receipts and payments from the assets and liabilities in the refinancing portfolio.

Backtesting is regularly carried out in order to verify the accuracy of projections obtained using our models. The results are included in the monthly MaRisk reports submitted to the Board of Managing Directors. This backtesting has shown to date that our value at risk projections accurately forecast the daily profit fluctuations in proprietary trading, proprietary investment, and lending refinancing.

Limit system. Cornerstone of the Bank's management of market price risk is the daily reporting to the Board of Managing Directors backed by a differentiated limit system that is geared primarily towards a market value-oriented limitation of interest rate, options, equity and exchange rate risks, calculated using value at risk. Based on the risk capacity of the Bank, which is set by the Board of Managing Directors, limits are set for the treasury department which is mandated by the Board of Managing Directors with the management of market price risks. Based on this limit system, the Treasury implements its market strategy and investment and refinancing decisions.

IKB differentiates between the portfolios of proprietary trading, proprietary investment (proprietary investments and liquidity reserve) and refinancing of lending operations. The liquidity reserve represents assets which can be used at short notice to provide liquid funds in case of a liquidity bottleneck at the Central Bank or in the inter-bank markets. The refinancing of the Bank's assets and investments is performed by the lending refinancing portfolio department. The lending and alternative lending business of the Bank (for example portfolio investments, corporate bond and promissory loan notes are compared to the Bank's unsubordinated financing instruments. These portfolios are valued daily. Their risk content is measured using a value at risk (VaR) system based on present values, which forms the basis for limiting market risks. Here the risk content in proprietary trading and in the investment portfolio is determined under consideration of all relevant market price factors, whereas in the refinancing portfolio only interest rate risks are considered. The limit system combines performance and Value-at-Risk limits using a 99.8% confidence level and an assumed holding period of ten days. The limits laid down in the limit system are based on limits established by the risk bearing capacity of the Bank.

Risk reporting and risk communication. In addition to daily monitoring of and reporting on limits, Risk Controlling prepares a daily risk report for the responsible members of the Board of Managing Directors, Treasury and other units involved on the market values of positions and the cumulated and risk-free interest result from refinancing operations and on proprietary investments. This report also includes a statement of the present value exposure under stress scenarios, the utilisation of various market price risk limits, and comments on specific developments. The Chief Risk Officer reports to the full board each month on market developments, results and the risk situation arising from such positions.

Development of the market price risk profile. The IKB Group's consolidated interest rate driven market price risks were substantially reduced during 2007/08, as shown in the table below.

IKB Group interest, volatility, and foreign currency risks at 31 March 2008 in € million	Value at risk	
	31 Mar 2008	31 Mar 2007
Currency risks	–14	0
Interest rate risks*	–129	–235
Other	0	0
VaR Total	**–143**	**–235**

* Interest rate and volatility risks

The reduction in value at risk is primarily the result of entering into several interest rate hedging transactions from June 2007 onwards using Payer-Swaps, and from the sale of two notes included in the structured proprietary investment book. As a result the economic market risk position has remained stable since September 2007.

Despite various measures taken to reduce interest rate risk, a relatively high exposure to increases in the volatility of interest rates remains due to the optional elements (option issuer) positions entered into within the proprietary investment portfolio, which could only be reduced by one third during the year. This risk is included in the value at risk total presented above.

Operational risks

Operational risks reflect the risk of a loss being incurred due to a shortcoming or failure of internal processes, individuals and systems, or due to external events outside of the Bank's control.

The management of operational risk is coordinated and monitored by Operational Risk Management (ORM), which reports directly to the Chief Risk Officer. ORM is also responsible for analysing the loss potential throughout the Group, and for developing Group-wide operational risk management training concepts. Each business division, corporate centre and subsidiary is responsible for managing risk at an operational level, within their respective area of control.

In this context, the emphasis is not only on regular analysis and identification of deficiencies, and on approaches for optimising all business procedures and processes, but also on the development of the Bank's security organisation and on adapting the underlying processes. For this purpose, ORM arranges annual business impact analyses, the purpose of which is not only to reflect specific risk profiles of individual divisions or departments, but also to highlight potential risk areas.

Every quarter, together with management of the respective business units, a risk evaluation of the personnel, processes, infrastructure, legal risks and project operational risk fields is carried out. The results are included in the risk report.

All business units must report all losses that have occurred – as well as any "near misses" – to Operational Risk Management, which maintains a central loss database. All losses are examined to establish their causes and the impact on IKB's control principles. In this way, valuable recommendations for improvement are obtained and can subsequently be implemented.

Operational Risk Management is also responsible for business continuity planning throughout the IKB Group. This planning is kept up to date by means of regular business impact analyses. To guarantee transparency throughout the Group, all emergency plans are detailed in the Bank's intranet, and in printed form in the Business Continuity Planning manuals.

Regular drills conducted throughout all divisions and subsidiaries ensure the quality of these emergency plans.

Risk reporting and risk communication. The Board of Managing Directors is informed about operating risks, individual losses and the distribution of losses by business unit on a quarterly basis by the ORM department. In case of significant risks or significant losses occurring, an ad-hoc report is submitted to the Chief Risk Officer, and if appropriate, to the board member responsible for the business unit affected.

Legal risks

Also included as a form of operational risk is legal risk, in other words the risk of losses being incurred as a result of new statutory regulations and as a result of amendments to or interpretations of existing statutory provisions (such as supreme court judgements) that are detrimental to the Bank. The responsibility for limiting legal risks lies with IKB's Legal department, which in turn relies on the support of external legal advisors where necessary. All standard contracts are continuously monitored to determine whether adjustments are required on the basis of changes to the statutory provisions or to case law.

Over the last few months, a series of law suits have been filed against the IKB by investors. These claims relate in particular to the press release issued by the Bank on 20 July 2007. The investor plaintiffs base their claims for compensation mainly on the charge that IKB's press release as at 20 July 2007 was intentionally erroneous. It is IKB's view that these claims are unfounded. At that time, IKB did not identify any material risks in relation to the liquidity facility extended to Rhineland Funding Conduit, because it did not believe it possible that the entire asset backed commercial paper (ABCP) market would collapse, thus no longer facilitating refinancing in the long term. In its press release of 20 July 2007, IKB therefore concentrated on the risks at that time in its own balance sheet. The preliminary value of investor's claims totalled € 2.5 million at the end of June 2008. The individual claim amounts are in a range of between € 4 thousand and € 600 thousand.

The Düsseldorf County Court, on 11 June 2008, dismissed two claims in the first instance from shareholders who purchased shares on the basis of the press release of 20 July 2007.

In addition to the above claims, there are further shareholders as well as investors in other IKB securities which have approached the IKB with out of court damage loss claims.

The United States' securities Financial Guaranty Insurance Company (FGIC) and its British subsidiary filed claims, among others, against the IKB AG and its subsidiary IKB CAM on 10 March 2008 with the courts in New York. In the first instance the plaintiffs apply for release from contractual obligations in respect of Rhineland Funding towards another liquidity provider totalling USD 1.875 billion. In addition, claims for damages, the amount of which have not been stated, against the IKB have been made. The IKB holds the view that the accusations made in the court submission are unfounded. The risk cannot be excluded that the IKB AG may receive claims for damages as a result of its activities and business transactions or from other participants in the Rhineland Funding and/or Rhinebridge arrangements as a result of activities and transactions of IKB Credit Asset Management GmbH in connection with those transactions.

In addition, on 10 August 2007, Düsseldorf's Department of Public Prosecution also began investigating managers of the Bank on suspicion of dishonest dealings and violation of the German Joint Stock Corporations Act (Aktiengesetz). The Bank is the potentially aggrieved party. The Board of Managing Directors is supporting the Department of Public Prosecution in its work, and cooperating in all regards, in order to ensure that the matters concerned are resolved in full as soon as possible.

The German Federal Government has informed the European Commission of the details of the rescue package put together by the KfW, supported by the German Banking Associations already described above. The first two support packages were reported to the Commission as a precautionary measure by letter on 15 January 2008, the third was notified to the Commission on 14 March 2008.

On 27 February 2008, the European Commission, in accordance with European Union state support legislation, started an investigation to determine whether the measures represent state assistance and whether they are contrary to European regulations on state assistance.

In the opinion of the Federal Government the measures taken to date do not represent state aid or state aid requiring approval.

Should the European Commission determine that the measures constitute state assistance, it may approve the assistance, in particular when the assistance is in compliance with legislation providing for the rescue and restructuring of business in financial difficulty. The Commission will investigate whether the planned restructuring re-establishes the long term rentability of the Bank, whether the measures are limited to the minimum amount necessary to meet their objectives, and whether further measures are necessary to limit any resulting distortion of competition. Should the Commission determine that the rescue package represents government support which may not be approved under legislation the support received must be repaid.

The Board of Managing Directors are of the opinion, based on the process to date, that the measures do not represent government support or government support which may be approved.

A number of challenges to the resolutions passed at the Shareholder's meeting on 27 March 2008 have been received; amongst others these include challenges to the approved capital increase. The IKB had applied for release under the provisions of section 246a (1) AktG .

IT risks

IT risks focus on the measures required to develop our business continuity planning, as well as on the security of the Bank's IT systems and of its data inventory. Measures taken in this context have included the implementation of a uniform safety standard (ISO 17799 "Code of practice for information security management" and ISO 27001 "Information technology – Security techniques – Information security management systems – Requirements"); the roll-out of new technologies to avert external threats in order to enhance the Bank's network security and to comply with increasing requirements regarding the mobility and availability of IT systems. Further, this includes the continuous development of backup systems which allow the further reduction of operational risk exposure for the Bank's communications, IT and settlement systems. At the same time, the Bank's IT employees undergo continuous training so to ensure that these objectives and new challenges can be met. These arrangements are backed up by regular audits and simulation of emergency exercises. The IKB's IT information security system was certified by TÜV Rhineland during the past financial year.

Compliance risks

The IKB is subject to the specific legal regulation applicable to the financial sector. These include in particular legislation to prevent conflicts of interest, manipulation of markets, insider dealing and money laundering. The rules applicable to money laundering within the Group are set out in employee manuals ("The IKB Group's controls to prevent money laundering" and "Prevention of money laundering") as well as in specific manuals issued in the respective foreign branches and subsidiaries.

In addition the IKB AG has implemented a securities Code of Conduct which all employees are required to follow. This is in addition to and compliments the "Group rules on conflicts of interest". For branches and subsidiaries in London, Luxemburg and New York specific compliance rules are in place.

Together with the IKB's Code of Conduct, principles were laid down which reflect IKB's values and beliefs. The principles laid down in the IKB Code of Conduct represent the standards of conduct which apply to all members of staff throughout the IKB Group. These rules form a binding framework, guiding the Bank's employees in their day-to-day business.

The latest analysis of specific money laundering risks (including terrorist financing) was performed in March 2008. This analysis included all of the Group's subsidiaries and branches, in and outside Germany. The starting point for this risk analysis was the Group's structure, its organisation and sale structure, customer structure and product type, the type of transactions entered into and use of experts and external information sources. Based on this, customer, product and specific transaction risks were identified and categorised. From the risks identified, indicators were derived which are used as search criteria and variables in the supervision process. Overall it can be concluded that the IKB Group has a much lower risk exposure than financial institutions with transactions conducted via bank counter and institutions with current account payment transaction flows.

Currently a potential damage analysis is being prepared which will provide an analysis of the risk of fraud from internal or external sources. In addition, in the coming financial year an additional position will be created in the compliance department specifically to work on fraud prevention.

Personnel risks

The individual central departments and market facing departments – in cooperation with Human Resources – are responsible for managing personnel risks. Besides making sure that adequate personnel cover is available to fulfil operational and strategic requirements, this also includes ensuring that staff have the skills and experience that they need to perform their duties and fulfil their responsibilities. To maintain the high level of staff qualification, IKB employs an extensive, continuous system of further education and training to ensure the level of employees' qualifications is maintained at a high level. The risk of a sustained disruption of operations caused by absence of employees, or staff leaving the company, is contained by IKB through clearly-defined substitution regulations and guidelines to preserve functional availability. These are reviewed on a regular basis, and amended if necessary.

Since the begin of the crisis, the IKB AG has recorded an increase in the number of personnel leaving the Bank in all business units; as a result of the current situation it has not in all cases been possible to replace these employees with qualified new recruits. The deficiencies arising from this situation are currently being compensated by the use of internal transfers and by the intensive deployment of external consultants.

Strategic risks and reputation risk

Strategic risks are defined as potential threats to the Bank's long-term profitability. These can be triggered not only by changes in the legal or social environment but also by forces originating in the market or in the competitive environment of IKB's customers, or those of its refinancing partners.

Since there is no regularity to strategic risks, they are difficult to quantify as special risks in an integrated system. They are therefore specially monitored by the Board of Managing Directors and the Corporate Development department, and are subject to constant analysis. This includes regular checking of business strategies within the framework of the strategic planning process, and of the resulting strategic initiatives and investments.

Reputation risks are the risks of losses, falling revenues, rising costs or loss in value due to deterioration in the Bank's public reputation and particularly in its reputation amongst clients, shareholders, rating agencies, and employees. Risks to reputation frequently arise from other risk types, reinforcing the original risk through the related publicity.

The IKB will take every measure necessary to win back the reputation lost as a result of the crisis as soon as possible.

Business risk

The Bank understands business risk as the risk of unexpected negative deviations from target levels of income (comprising commissions and interest) and expenses as a result of changing market conditions, changes in the competitive situation or customer behaviour, as well as changes in the legal framework in which the Bank operates.

Each business division, corporate centre and subsidiary is responsible for managing general business risk – defined as the threat of deteriorating profitability within the framework defined by the business strategies agreed upon with the Board of Managing Directors – on an operative level, within their respective area of control. The Results Controlling unit, part of the Financial Controlling team, monitors earnings and cost developments during the course of a financial year, via on-going target/actual comparison, and reports its results to the Board of Managing Directors and to the divisions on a monthly basis.

General business risk is quantified for risk capacity purposes by way of statistical analysis, using empirical volatility data for earnings and costs. The model employed calculates the extent by which actual net commission income and net interest income, and costs, have deviated historically from the corresponding targets. The economic capital tied up as a result is taken into account for the regular analysis of the Bank's risk-bearing capacity.

Risk reporting and risk communication. Deviances from planning and targets are reported monthly to the Board of Managing Directors and to the heads of the respective central and operative units to enable promt remedial action to be taken. In this way all business segments and central departments have the information required on a timely basis.

Core content of the risk situation

Much uncertainty remains regarding the future development of securitised credit risks. Accordingly the Bank cannot exclude the possibility that the continuing financial crisis results in further losses on structured securities and accordingly to further losses being reported in the profit and loss account.

With this in view, the risk bearing capacity of the Bank is only guaranteed under consideration of the approved capital increase and the receipt of at least € 1.25 billion from this measure.

IKB's survival will depend on whether the Bank can regain expanded access to the capital market in the 2008/09 financial year, also for unsecured, longer-term refinancing. For this to happen, the following factors are particularly important:

- The approved capital increase is registered, promptly implemented, and results in additional capital of at least € 1.25 billion;
- The proposed measures for liquidity procurement using secured money-market refinancing are implemented, especially new, short term, and the prolongation of existing, refinancing;
- The sale of a significant portion of the portfolio investments at adequate prices is undertaken;
- No legal restrictions are applied in respect of the above measures and in respect of the rescue package, in particular EU proceedings;
- No significant risks arise from the legal dispute with a credit insurer.

The Board of Managing Directors anticipates that in the medium term the proposed measures for capital and liquidity procurement will be implemented as expected, and that the Bank will again be able to achieve extensive access to the capital market, also for unsecured, longer-term refinancing. The Board of Managing Directors also believes that the state aid enquiry will be resolved in IKB's favour in the coming months, and that the lawsuit brought by the US bond insurer FGIC is unfounded.

5. Events after 31 March 2008 (Supplemantary report)

Since 31 March 2008 the following events have occurred:

Collateralisation and sale of portfolio investments

The IKB commenced the process of selling securities from the higher risk investments sub-portfolio in June 2008. By 2 July 2008, the date of issue of these financial statements, securities with a nominal € 450 million were sold at or slightly above their 31 March 2008 book value.

Further, in May 2008 an agreement was made between the IKB and the KfW whereby certain securities can be settled. This affects securities which are to all intents and purposes in permanent default and which are recorded in the financial statements with no book value. First loss positions based on securitised IKB corporate and real estate loan transactions have been transferred out of the rescue package risk cover, as these transactions relate to the IKB's core business.

Personnel changes

Mr Jörg Asmussen resigned from the Supervisory Board on 27 May 2008.

Changes in the Group

After the balance sheet date, IKB Credit Asset Management GmbH has been transformed into a limited partnership, and, in a second step involving the withdrawal of the limited partner, effectively merged with effect from 1 April 2008 with the IKB AG.

Sale process

In May 2008, IKB held management discussions with nine bidders which are to be expanded through discussions with experts.

Following this the KfW received a number of concrete proposals. The KfW has reduced the number of bidders to three, with whom further negotiations since June 2008 and more intensive Due Diligence procedures are being carried out.

6. Outlook

Future economic framework

The Board of Managing Directors expects that the economic environment for the Bank's core business will be more difficult in 2008 and 2009. For Germany, the Bank's most important market, the following general economic climate is expected:

- Germany recorded GDP growth in 2007 of 2.5%. The drivers of this growth were the country's strong exporters who, thanks to their excellent product offerings, were able to profit from the generally positive world economic climate. Global growth has slowed since then, so that leading experts expect GDP growth in Germany of around 2% in 2008. In view of the continuing turbulence on capital markets, these estimates however must be regarded as uncertain.

- In 2009 the effect of the economic difficulties resulting from the real estate crisis in the USA will spread more powerfully through the world economy than is the case to date. Germany can only expect GDP growth of around 1.5%.

- To a lesser extent the national economy will benefit from private consumption, after several years of restraint. The increased employment and improvements in household incomes should ensure a benefit to the economy in 2008 and 2009. On the other hand, higher energy and foodstuff prices over a sustained period could fuel inflation and again hold back private consumption.

- It is likely that export growth will not be as strong as in recent years as a result of a cooling in the global economy. Leading economic researchers expect increases of 6 to 7%, after almost 8% in 2007. The levels of capacity utilisation and order backlogs reported by IKB customers, who are overwhelmingly strong export orientated medium-sized companies, will therefore remain at a high level for some time to come.

- The investment in new capacity, which is the most important of the general economic indicators as determinant for the Bank's lending business, should grow in 2008 and 2009 by 4 to 5% – after 8% growth in 2007. It is to be expected that the Bank's domestic lending business will continue to profit from this growth.

For the export markets which are particular relevant for the IKB, leading economic research experts expect the following:

- In Europe (EU 27) GDP growth of 2.9% in 2007 will slow to around 2% in 2008 and 2009.

- For the USA a rapid slowdown of growth to 1% in 2008 after 2.2% in 2007 is expected.

- The Central and Eastern European countries remain buoyant, and should achieve GDP growth rates in 2008 and 2009 of between 4% and 5%.

Opportunities in future developments

The IKB will continue to further extend its role as a leading specialist German Bank for long term financing of medium-sized companies, real estate investors, project partners and institutional investors.

This is based on the Bank's specialist approach, which combines competence and a high level of trust that the Bank's customers have in its expertise. The majority of customers have a relationship with the Bank going back ten years or more. As a result – especially because of the crisis – customers have stood by the Bank. Despite the crisis disbursements in domestic mid-cap business (Corporate Clients segment) over the whole year 2007/08 (1 April 2007 to 31 March 2008) were € 4.6 billion as in the previous year (2007/08: € 4.6 billion), although IKB has cut back on new commitments in recent months.

The Bank's future business model will concentrate more on the three core business segments Corporate Clients (domestic corporate customers, leasing and private equity), Structured Financing (acquisitions, project and export financing) and Real Estate Customers. The objective is to ensure that these core business segments achieve further market penetration (increased new customer business and more business with existing customers), introduce new products and achieve more business with existing products through cross selling within the Group as well as with additional business with cooperation partners.

The provision of innovative financial solutions for the Bank's customers will remain an integral part of the business model. Assets under Management will be increased by securitisation as will important management contributions, for example by means of more targeted use of equity and the generation of liquidity and liquidity reserves.

In the *Corporate Clients* segment, Germany will remain the core market. The intensity of our sales effort will be increased. This will also involve offering long-term investment credits to businesses already with an annual turnover of € 7.5 million and more. The reliable partnership between IKB and its long-standing corporate clients will remain the basis for this effort. The Equipment Leasing unit proposes to improve its market position not only in Germany, but also in Central and Eastern Europe. In so doing, the Bank is responding to the fact that many German and West European companies have now opened branches in these countries where they are financing parts of their production capacities on a leasing basis.

In the *Real Estate Clients* segment, the volume of new business is set to grow organically over the next three years, generally in business with shorter maturity terms, so that credit volumes will develop on a more stable basis. The Bank's European real estate activities established in the 2006/07 financial year will not only include syndicated financing arrangements but also be expanded so that the Bank acts as arranger in real estate lending transactions.

In Structured Financing the IKB will build on its success as European mid-cap financing house. This applies to the mid-cap-LBO area as well as to selected project financing fields. The LBO market, however, has also shrunk considerably over the last few months in the mid-cap segment as a result of the crisis on the financial markets. The Bank assumes that the *Structured Finance* segment will continue to earn around 70% of its income in European sub-markets in the coming two years.

The Bank will continue its securitisation activities in future. The securitisation of the Bank's own lending remains an integral part of the Bank's business as European mid-cap finance house. The placing of a Mobility Transaction (Securitisation of a mid-cap loan portfolio) in March 2008 gives cause for optimism that the securitisation markets are easing and that the market is ready again to accept the placing of new transactions as long as the risks are transparent and the transactions are appropriately priced.

Developments in *Portfolio Investments* will be very much dependent on the state of the markets. Recently there has been a renewal of liquidity and turnover in structured securities, even for those with sub-prime content. Following the first successful sales the IKB plans further disposals of its higher risk portfolio – possibly in smaller packets. Should the financial crisis continue over an extended period and should markets deteriorate, further losses in the Portfolio Investments segment cannot be ruled out.

Balance sheet

As a result of the rescue package put together by the KfW and the Banking Associations the IKB's balance sheet has been stabilised. Once the capital increase has been registered and completed, the Bank's solvency ratios will be improved on a long term basis. In addition, further measures will be taken to ease the burden on the Bank's risk taking capacity. These include further reductions in market price risk and the reduction of risk-carrying assets in the lending business.

Liquidity situation

The refinancing of the IKB's assets will remain difficult and primarily will be achieved by collateralised borrowing. Collateralised borrowing and the lending of securities or loan assets with the Central Bank have become important sources of refinancing for all banks, and this applies also to the IKB. After completion of the planned capital increase, the Board of Managing Directors expects to again be able to take up refinancing transactions, including unsecured borrowing – in the form of bonds – on national and international capital markets. A pre-requisite for this is that the international capital markets return to normal. In addition the IKB will refinance a portion of its lending business – as in the past – by refinancing transactions with the state support banks.

Income

Once restructuring is complete, the Bank can be expected to have a substantially different earnings structure and lower earnings level, since the income from portfolio investments up until the 2006/07 financial year will decline considerably. The 2008/09 financial year will still be substantially affected by the knock-on effects of the crisis, especially the restriction in new business since August 2007 and the substantial increase in refinancing costs. The medium-term objective is to achieve a reasonable return from operating business on the capital deployed.

However, this will depend on the financial market crisis not impacting on the real economy and hence the business sector.

The continued development of the Bank is dependent on the Bank's ability to refinance itself adequately. A prerequisite for this is – aside from the completion of the approved capital increase – that the capital markets and trust in the Banks in general return to normal.

As a result of open interest positions from previous years the Bank has unrealised losses of € 0.9 billion as difference between market and book values. These result in a lower net interest income or increase the financial result on sale of the affected securities or derivates where these are sold before maturity.

The need to service the agreements on compensation out of future profits entered into in return for the provision of € 1,050 million of regulatory core capital by KfW Bankengruppe, and value recovery rights of the hybrid investors is likely to result in the Group and IKB AG not showing any, or only minimal profit, for several years to come.

7. Remuneration report

This Remuneration Report relates to the remuneration of the members of the Board of Managing Directors and Supervisory Board in and for the 2007/08 financial year and describes the Bank's remuneration systems in and for this financial year. It takes into account the regulations of the German Commercial Code and the principles of the German Corporate Governance Code.

The remuneration system of the Board of Managing Directors

The composition of the Board of Managing Directors changed significantly during the financial year 2007/08. The following were members of the Board of Managing Directors during the period to which this Remuneration Report relates:

- Dr Günther Bräunig (Chairman and member of the Board of Managing Directors from 29 July 2007)
- Frank Braunsfeld (until 15 October 2007)
- Dr Volker Doberanzke (until 07 August 2007)
- Dr Dieter Glüder (from 29 July 2007)
- Dr Reinhard Grzesik (from 15 October 2007)
- Dr Markus Guthoff (until 15 October 2007)
- Claus Momburg,
- Stefan Ortseifen (until 29 July 2007)

The total remuneration of the members of the Board of Managing Directors consists of a fixed annual basic remuneration, a performance-based variable remuneration as well as non-performance related additional benefits and pension commitments. There are no stock option plans or similar schemes. A member of the Board of Managing Directors receives, in addition to his fixed annual salary, an additional gross payment of € 10,000 in lieu of any agreed pension provisions. The structure of the remuneration system for the Board of Managing Directors is subject to regular discussion and review by the Supervisory Board, based on proposals by the Executive Committee of the Supervisory Board.

Given the current situation facing the Bank and also due to the fact that a new major shareholder could have a key influence on the remuneration of the Board, no work is currently being undertaken to develop a new structure. The remuneration of the Board of Managing Directors is determined on an individual basis by the Executive Committee.

The criteria used in determining remuneration levels are, in particular, the tasks of the respective member of the Board of Managing Directors, his personal performance, the performance of the Board of Managing Directors as a whole, as well as the particular situation in which the Bank finds itself since the onset of the crisis. The appropriateness of the respective total remuneration is also reviewed regularly by the Executive Committee of the Supervisory Board. Any remuneration from other offices or positions held within the Group is taken into account for this purpose.

Non-performance-related remuneration components. The non-performance-related basic annual remuneration is paid monthly in form of a salary. In addition, the Board members receive additional benefits in kind which mainly consist of insurance premiums and the use of a company car. The remuneration of Stefan Ortseifen, until leaving the Board, included the rental value of a property provided by the Bank for his use, the amount being calculated as the difference between a typical local rent in that location and rent paid by him. Additional benefits are part of overall remuneration and are taxed on the individual Board member. The actual amount of these benefits varies according to the individual circumstances of each Board member. Loans and advances were not granted to the Board members in the year under review.

Performance-based remuneration components. In accordance with the recommendations of the German Corporate Governance Code, the monetary components of the total remuneration comprise fixed and variable components. Except for a minimum target bonus, the variable remuneration component is risk-based, as it does not constitute guaranteed remuneration. The minimum target bonus is in some cases 30%, in one case 60% of the total. As a rule it is not possible to change the agreed performance targets retroactively.

The variable remuneration for active board members is dependent on the achievement of the written objectives as agreed with the respective board member at the beginning of the year. The bonuses earned are then determined according to the extent to which the targets have been reached. The maximum bonus payable amounts to 200% of the target bonus, the minimum bonus is 30% (in one case 60%). In addition, in determining variable remuneration the Executive Committee of the Supervisory Board may take other factors into account at its own discretion, and accordingly award a higher or lower bonus within the limits fixed. The Supervisory Board has not agreed targets with the Board of Managing Directors for 2007/08. The variable remuneration for 2007/08 for the Board members Dr Günther Bräunig, Dr Dieter Glüder, Herr Dr Reinhard Grzesik und Claus Momburg were fixed in the meeting of the Executive Committee of the Supervisory Board on 17 April 2008 for those members in office at that time. The variable remuneration of Claus Momburg for the financial year 2007/08 was deducted in full in repayment of his 2006/07 bonus.

In the event of a change of control Dr Reinhard Grzesik receives a minimum bonus of 150%. A change of control is deemed to have occurred in the event that a third party, either alone or through the voting rights attributable to that third party in accordance with Section 22 of the German Securities Trading Act (Wertpapierhandelsgesetz – WpHG), acquires a share of voting rights that, at an ordinary General Meeting of the Company, would have led to that third party holding a share of voting rights in the amount of at least half of the share capital present at the meeting and entitled to vote.

Change of Control. The Board members serving at 31 March 2008 have no clauses in their contracts providing for additional bonuses should a change of control occur. To the extent that such clauses were originally agreed, the serving members have agreed to the cancellation of such clauses.

Remuneration from third parties. No member of the Board of Managing Directors received payments or corresponding commitments from a third party during the past financial year in relation to his activity as member of the Board of Managing Directors except payments by subsidiaries of IKB or by Movesta Lease and Finance GmbH.

Details of the remuneration paid to the members of the Board of Managing Directors for the financial year 2007/08 are shown in the following table:

	Annual remuneration (€ thousand)			
	Fixed remuneration	Variable remuneration	Benefits in kind*	Total
Dr Günther Bräunig (from 29 Jul 2007)	371	550	15	936
Frank Braunsfeld (until 15 Oct 2007)	162	–	21	183
Dr Volker Doberanzke (until 07 Aug 2007)	132	57	23	212
Dr Dieter Glüder (from 29 Jul 2007)	277	450	14	741
Dr Reinhard Grzesik (from 15 Oct 2007)	278	450	8	736
Dr Markus Guthoff (until 15 Oct 2007)	216	87	22	325
Claus Momburg	404	450	50	904
Stefan Ortseifen (until 29 Jul 2007)	183	–	44	227
Total	**2 023**	**2 044**	**197**	**4 264**

* Including remuneration of € 66 thousand received for directorship functions carried out at subsidiaries. (Dr Volker Doberanzke € 10 thousand, Claus Momburg € 26 thousand, and Stefan Ortseifen € 30 thousand)

For the financial year 2006/07, the annual remuneration of the entire Board of Managing Directors amounted to € 6,837 thousand of which € 2,141 thousand related to fixed remuneration components and € 4,318 thousand to variable components and € 378 thousand to benefits in kind.

Remuneration on leaving office. Additional non-performance related payments were agreed with Dr Volker Doberanzke and Dr Markus Guthoff on leaving office amounting to € 248 thousand (Dr Volker Doberanzke € 163 thousand and Dr Markus Guthoff € 85 thousand) as well as pro-rata minimum bonus payments of € 97 thousand (Dr Volker Doberanzke € 64 thousand and Dr Markus Guthoff € 33 thousand) for the Financial Year 2007/08. Further payments, such as redundancy or transition payments, were not made.

Repayment of bonuses paid in previous year. The Executive Committee of the Supervisory Board resolved in its meeting on 16 February 2008 to demand repayment of performance related bonuses for the Financial Year 2006/07 which were paid in July 2007:

Board Member	Amount (€ thousand)
Frank Braunsfeld	25
Dr Volker Doberanzke	583
Dr Markus Guthoff	600
Claus Momburg	558
Joachim Neupel	451
Stefan Ortseifen	805
Total	**3 022**

Pension provisions. Board members appointed before 27 July 2007, the beginning of the crisis, are entitled to pension rights upon reaching the standard retirement age limit (currently 63 years), permanent disability, early retirement or on the non-renewal of the individual's service contract. In the case of the latter, the member of the Board of Managing Directors receives a reduced pension payment, as a so-called transition payment, until his 63rd birthday. This payment is made provided that early retirement or the non-renewal of a contract has not been caused due to his negligence (gross negligence or intentional damage) or by the rejection of equal or more favourable terms offered in relation to extending the contract. However, no transition payments are made to the Board members who have left the board following the crisis; this is contractually agreed with Dr Volker Doberanzke and Herrn Dr Markus Guthoff. Claus Momburg has entered into an agreement to cancel the terms of his contract relating to transition payments, on condition that a court judgement determines that his behaviour in respect of the crisis included gross negligence or intentional damage. None of the other current members of the Board of Managing Directors have agreements providing for transition payments on leaving office.

The annual pension entitlement amounts to between 50 and 75% (Frank Braunsfeld 30 and 60%) of the final basis annual remuneration and is dependent on the member's term of office on the Board of Managing Directors. The transition payment, which amounts to between 5 and 75% (Frank Braunsfeld 5 and 60%) of the final basic annual remuneration, depends on the age of the member of the Board of Managing Directors and on his term of office on the Board. Pension claims and earnings otherwise acquired will be offset to a certain extent against the pension payments made by the Company. Current pensions will be adjusted annually in accordance with the performance of the German consumer price index.

After the death of an active or former member of the Board of Managing Directors, a reduced pension is paid out as a provision for dependants. Widows receive up to 60% of the pension for the rest of their lives. The widow's benefit is discontinued upon remarriage. Dependant children receive 15% of the pension until their 18th year, and (up to maximum of 25 years old) for the term of their education including national or civil service (25% if there is no widow's annuity). If the aggregate of the widow's benefit and orphan's allowance exceeds the pension payment, the orphan's allowance is reduced by the excess amount.

The Bank has recorded provisions for its future pension commitments to the Board of Managing Directors. Annual amounts of pension entitlements on retirement are as follows:

Annual pension entitlement (€ thousand)	Annual pension on retirement as at 31 Mar 2008	Addition to pension provisions as at 31 Mar 2008
Frank Braunsfeld (until 15 Oct 2007)	96	–*
Dr Volker Doberanzke (until 7 Aug 2007)	230	975
Dr Markus Guthoff (until 15 Oct 2007)	262	392
Claus Momburg	308**	119
Stefan Ortseifen (until 29 Jul 2007)	407	575

* Releases of pension provisions were made
** Assumes the Board member will remain in office until his 63rd birthday

The Bank has entered into have separate pension arrangements with members of the Board of Managing Directors appointed since the begin of the crisis. The Board members appointed in Financial Year 2007/08, Dr Günther Bräunig, Dr Dieter Glüder and Dr Reinhard Grzesik, have no pension arrangements with the IKB, but provisions are made in case of permanent incapacity to continue in office due to illness. Dr Günther Bräunig and Herr Dr Dieter Glüder have pension arrangements with the KfW which existed prior to their appointments to the IKB Board for which the IKB pays recompenses KfW for pension provision additions required amounting to € 94 thousand for Dr Günther Bräunig and € 89 thousand for Dr Dieter Glüder.

Former members of the Board of Managing Directors. Total remuneration paid to former members of the Board of Managing Directors and to their surviving dependants amounted to € 3,882 thousand € 2006/07: € 5,622 thousand, including disbursements, personal and benefits in kind. In addition in the Financial Year 2007/08 a former member of the Board of Managing Directors was paid a redundancy payment of € 800 thousand, a further payment of the same amount is payable in the next financial year. These amounts were accrued in 2006/07. Provisions totalling € 37,094 thousand were recognised for pension obligations to former members of the Board of Managing Directors and their surviving dependents (2006/07: € 29,680 thousand).

The remuneration system of the Supervisory Board

The remuneration of the Supervisory Board is governed by Article 11 of the IKB's Memorandum and Articles of Association. In line with legal requirements and in accordance with the provisions of the German Corporate Governance Code, this remuneration takes into account the responsibility and the scope of activities of the Supervisory Board members, as well as the economic situation and the performance of the IKB Group. The members of the Supervisory Board receive a fixed remuneration component as well as two variable, performance based remuneration components. The short-term component is based on the dividend, whilst the long-term component depends on the three-year average for Group net income per share but is only paid if a dividend of at least 4% of the share capital is paid out. The members of the Supervisory Board receive a fixed remuneration in the amount of € 20,000.00 for each financial year, in addition to the reimbursement of their expenses, which shall also include value-added tax incurred on their remuneration. In addition, the Supervisory Board members receive a variable remuneration for each financial year amounting to € 200 for each € 0.01 by which the dividend distributed to shareholders exceeds € 0.30 per share for the past financial year. Furthermore the Supervisory Board members receive another variable remuneration of € 90 for each € 0.01 by which the three-year average of net income per share for the year exceeds € 0.30.

The Chairman of the Supervisory Board receives twice the amount of a normal member of the Supervisory Board, while each deputy shall receive one and a half times as much as a normal member. The remuneration is further increased for each membership in a Supervisory Board committee by 25% of the remuneration of a Supervisory Board member, and additionally for each chairmanship in a committee by 25% of the remuneration of a Supervisory Board member. The additional remuneration for committee work may not exceed the amount of the remuneration for a Supervisory Board member. For members of the Supervisory Board who have not been Board or committee members for the full financial year, remuneration is paid on a pro-rata basis for each commenced month of their activities.

The remuneration of the Supervisory Board depends on other key performance indicators than those applicable to the remuneration of the Board of Managing Directors, to exclude an unintended harmonisation of the remuneration interests of both corporate bodies. The fixed annual remuneration of € 20,000 is intended in particular to take account of the Supervisory Board's independence, necessary for the Board to perform its supervisory function. The remuneration system is aimed at ensuring a minimum remuneration independent of the Bank's success. The aim of the dividend-based remuneration component is to align the Supervisory Board's remuneration with shareholders' interests. By linking another part of the variable remuneration to the three-year average of the net income for the year, the Supervisory Board's remuneration also contains a component which is based on the Company's long-term success.

The remuneration of the Supervisory Board. No variable remuneration will be paid to the members of the Supervisory Board for the 2007/08 Financial Year assuming that, in light of the Company's situation, no dividend will be paid.

During the year under review, the members of the Supervisory Board did not receive any further remuneration or benefits for services rendered, in particular advisory and agency services, over and above their fixed remuneration.

Details of the remuneration paid to the members of the Supervisory Board for the financial year 2007/08 are shown in the following table:

€ thousand	Total (fixed component only; no variable remuneration since no dividend will be paid)
Werner Oerter (from 27 March 2008)	5
Dr Ulrich Hartmann (until 27 March 2008)	58
Detlef Leinberger	45
Dr Alexander v. Tippelskirch (until 27 March 2008)	40
Dieter Pfundt (from 27 March 2008)	3
Dieter Ammer	20
Jörg Asmussen	20
Dr Jens Baganz	20
Dr Jürgen Behrend (until 27 March 2008)	20
Wolfgang Bouché	26
Hermann Franzen	21
Ulrich Grillo (from 27 March 2008)	2
Dr-Ing. Mathias Kammüller (until 27 March 2008)	20
Jürgen Metzger	20
Roland Oetker	21
Dr Eberhard Reuther	20
Randolf Rodenstock	20
Rita Röbel	20
Dr Michael Rogowski	20
Jochen Schametat	20
Dr Carola Steingräber	20
Dr Alfred Tacke (from 27 March 2008)	3
Dr Martin Viessmann	20
Ulrich Wernecke	20
Andreas Wittmann	20
Sub-total	**524**
Total travel expenses for the Supervisory Board	37
Total	**561**

8. Other Financial Information

Disclosures required under section 289 (4) of the German Commercial Code (Handelsgesetzbuch – “HGB”)

The Company’s share capital amounted to € 247,794,332.16 as at 31 March 2008 and comprised 96,794,661 notional no-par value bearer shares (bearer unit shares). On 7 January 2008 the Company issued € 54.3 million of convertible bonds with obligatory conversion to the KfW Bankengruppe, under the exclusion of pre-emptive rights. The convertible bonds were convertible into shares, subject to a maximum of 10% of the IKB’s share capital. The terms of the convertible bonds provided for early conversion under certain conditions. Following the fulfilment of these conditions, the convertible bonds were converted into shares with a nominal value of € 22,514,332.16 and issued to the KfW on 28 February 2008. Following conversion, the IKB’s share capital totalled € 247,794,332.16, which is the total at year end (31 March 2008).

All shares entitle the holder to the same rights. Each share grants the holder one vote and determines the shareholders’ participation in profits.

On 27 March 2008 the IKB’s shareholders approved in the General Meeting a capital increase to raise additional funding. The IKB’s share capital will be increased by an amount of up to € 1,486,765,992.96 to to an amount of up to € 1,734,560,325.12, under a share issue offered for subscription to existing shareholders. KfW has promised BaFin that as many new shares in IKB AG will be subscribed or as part of the capital increase such that at least € 1.25 billion (before costs) will flow to IKB AG as a result of the increase. This commitment is subject to the BaFin offering the purchaser pre-emptive restructuring rights in accordance with Securities and Takeover legislation. Despite the fact that certain legal challenges have been made, the Board of Managing Directors, under consideration of all circumstances – including the ongoing sale process – expect that the capital increase will be completed in August 2008, and that in addition to other shareholders, that the KfW and/or the purchaser of the KfW’s shares will subscribe to the capital increase. Assuming that the capital increase can be completed before the date of the 2007/08 Shareholders’ meeting and the shares can be registered at the commercial register by that date, the Company’s registered capital will be increased effective for the Shareholders’ meeting.

Pursuant to a resolution adopted by the General Meeting of 9 September 2004, the Board of Managing Directors was authorised, subject to approval by the Supervisory Board, to issue convertible bonds and/or bonds with warrants with an aggregate nominal value of up to € 300,000,000 million and to grant the holders of such bonds conversion or option rights relating to shares in the Company accounting for up to € 22,528,000 of the share capital in accordance with the stipulated conditions until 8 September 2009. This power – and the associated conditional capital – have been utilised as described above. Following the use of this authorisation, authorised amounts of € 245,700.00 and the associated conditional capital of € 13,667.84 remain.

Under a resolution approved by shareholders in the General Meeting on 27 March 2008, the Company is empowered, until 26 September 2009, to purchase and sell its own shares for trading purposes. At the end of any one day the Company's holding of its own shares may not exceed 5% of the Company's share capital. Taken together with the Company's ownership of its own shares purchased for other reasons, or attributable to the Company under sections 71 (a) et seq. of the of the German Joint Stock Corporations Act (Aktiengesetz) the Company's total holding of its own shares may not exceed 10% of the Company's share capital.

The Federal Republic of Germany holds an 80% stake in the KfW Bankengruppe, based in Frankfurt am Main. At 31 March 2008 the KfW holds directly and indirectly (through its wholly-owned subsidiary KfW-Beteiligungsholding GmbH, Frankfurt am Main) 45.48% of the voting rights in the IKB. The Stiftung zur Förderung der Forschung für die gewerbliche Wirtschaft (Industrial Research Foundation), Cologne, also holds an 10.75% interest in the Company at 31 March 2008. The remaining capital is held by institutional and private shareholders.

The members of the Board of Managing Directors are appointed and dismissed by the Supervisory Board in accordance with section 84 of the German Stock Corporation Act (Aktiengesetz – "AktG") and Article 6 of the Memorandum and Articles of Association. The Board of Managing Directors is composed of at least two members, with the number of members being determined by the Supervisory Board. The appointment is made for a maximum term of office of five years. This term of office may be renewed or extended for a maximum of five years in each case. The Supervisory Board Board may revoke the appointment of a member of the Board of Managing Directors on serious grounds. In accordance with Section 179 (1) of the AktG and Article 17 of the Memorandum Articles of Association may only be amended by means of a resolution adopted by shareholders in general meeting. Any resolution to amend the Memorandum and Articles of Association must be supported by two thirds of the share capital represented at the meeting, with the exception of cases where the German Joint Stock Corporations Act prescribes a larger majority. Any changes to the Memorandum and Articles of Associations that only affect the wording thereof may also be adopted by the Supervisory Board.

The arrangements in place with the members of the Board of Managing Directors relating to a potential change of control are set out in the remuneration report. Employment contracts of employees do not contain any provisions relating to a change of control.

Report of the Board of Managing Directors in accordance with sections 289 (4) of the German Commercial Code (HGB)

The Board of Managing Directors has made the disclosures required under section 289 (4) of the German Commercial Code to which it comments as follows:

- The composition of share capital is based on section 5 of Articles of Association. The Company has only issued ordinary shares. No preference shares vesting special rights for individual shareholders have been issued.

- IKB, in the KfW Bankengruppe and Stiftung Industrieforschung, has a group of shareholders that is committed to medium-sized businesses and that supports the focus on long-term corporate finance. The result of the sale process under which the KfW and the Stiftung Industrieforschung propose to sell their shares in the IKB, may result in changes occurring during the course of the forthcoming year.

- Members of the Board of Managing Directors are appointed and dismissed in accordance with the statutory regulations and pursuant to the conditions of our Memorandum and Articles of Association. In accordance with the Internal Rules of Procedure for the Supervisory Board, the Supervisory Board elects the Chairman of the Board of Managing Directors from the members of the Board of Managing Directors. Simplifications of the procedures to make changes to the Memorandum and Articles of Association are taken advantage of to the extent permitted by law.

Disclosures required under section 312 of the German Stock Corporations Act (AktG)

IKB has prepared a subordinate status report in accordance with section 312 of the AktG. This report is not published. The final declaration of the Board of Managing Directors in the subordinate status report reads as follows: “Our Company received appropriate consideration for each legal transaction set out in the report on transactions with related parties based on the circumstances known to us at the time of undertaking the transactions or measures issues and has not been placed at a disadvantage by such measures taken or omissions.”

IKB Deutsche Industriebank AG
The Board of Managing Directors

Düsseldorf, 2 July 2008

Financial Statements of IKB Deutsche Industriebank AG

Balance Sheet of IKB Deutsche Industriebank AG

Assets	in €*	in € thousand*	31 Mar 2008 in €	31 Mar 2007 in € thousand
1. Cash reserve				
a) Cash on hand			35 152.34	30
b) Balances with central banks			308 393 079.23	28 253
of which: with Deutsche Bundesbank	308 300 362.30	(28 090)		
c) Balances in postal giro accounts			78 433.93	102
			308 506 655.50	**28 385**
2. Loans and advances to banks				
a) Payable on demand			1 603 476 674.06	590 632
b) Other loans and advances			6 673 541 622.73	11 983 287
			8 277 018 296.79	**12 573 919**
3. Loans and advances to customers			**26 064 685 383.58**	**24 933 791**
of which: Loans to local authorities	2 256 520 366.75	(1 531 686)		
4. Debt securities and other fixed-income securities				
a) Bonds and notes				
aa) Public-sector issuers			*1 236 004 342.99*	*866 251*
ab) Other issuers			*10 876 332 363.88*	*13 562 175*
			12 112 336 706.87	14 428 426
of which: Securities eligible as collateral with Deutsche Bundesbank	6 618 081 211.07	(6 026 288)		
of which: Public-sector issuers	918 353 546.97			
of which: Other issuers	5 699 727 664.10			
b) Own bonds issued			190 863 102.47	45 094
Nominal amount	200 883 785.20	(44 645)		
			12 303 199 809.34	**14 473 520**
5. Equities and other non-fixed income securities			**181 848 985.06**	**2 300**
6. Equity investments			**12 881 926.27**	**12 886**
of which: Interests in banks	262 885.64	(263)		
7. Interests in affiliated companies			**977 812 662.48**	**1 020 663**
of which: Interests in banks	192 519 520.00	(–)		
of which: Interests in financial services providers	40 000 000.00	(8 000)		
8. Trust assets			**1 287 992.92**	**1 804**
of which: Trustee loans	1 126 701.04	(1 160)		
9. Intangible assets			**11 898 010.05**	**15 889**
10. Tangible fixed assets			**30 383 422.31**	**32 157**
11. Other assets			**1 712 789 488.80**	**1 069 523**
12. Prepaid expenses			**94 101 835.63**	**110 664**
Total assets			**49 976 414 478.73**	**54 275 501**

* Previous year’s figures shown in brackets

as at 31 March 2008

Shareholders' Equity and Liabilities	in €*	in € thousand*	31 Mar 2008 in €	31 Mar 2007 in € thousand
1. Liabilities to banks				
a) Payable on demand			134 315 964.60	2 509 983
b) With agreed term or period of notice			18 761 159 403.41	13 723 863
			18 895 475 368.01	**16 233 846**
2. Liabilities to customers				
a) Other liabilities				
aa) Payable on demand			*256 911 648.77*	*567 208*
ab) With agreed term or period of notice			*6 606 822 001.95*	*4 126 627*
			6 863 733 650.72	**4 693 835**
3. Securitised liabilities				
a) Bonds issued			**18 418 648 283.63**	**27 822 135**
4. Trust liabilities			**1 287 992.92**	**1 804**
of which: Trustee loans	1 126 701.04	(1 160)		
5. Other liabilities			**491 271 645.00**	**495 063**
6. Deferred income			**166 148 311.62**	**170 448**
7. Provisions				
a) Provisions for pensions and similar obligations			154 760 874.43	141 686
b) Tax provisions			93 677 658.40	127 738
c) Other provisions			1 273 599 073.76	178 033
			1 522 037 606.59	**447 457**
8. Subordinated liabilities			**1 790 222 792.95**	**1 915 140**
9. Profit-participation certificates			**301 164 683.24**	**608 565**
of which: Due within two years	49 280 843.20	(81 807)		
10. Fund for general banking risks			**189 620 816.45**	**189 620**
11. Shareholders' equity				
a) Subscribed capital			247 794 332.16	225 280
Conditional capital	13 667.84	(22 528)		
b) Silent partnership contributions			210 866 036.00	400 000
c) Capital reserve			1 649 201 194.97	567 416
d) Retained earnings				
da) Legal reserves			*2 398 573.84*	*2 399*
db) Other retained earnings			*502 493 175.59*	*502 493*
			504 891 749.43	504 892
e) Net profit			–1 275 949 984.96	0
			1 336 803 327.60	**1 697 588**
Total shareholders' equity and liabilities			**49 976 414 478.73**	**54 275 501**
1. Contingent liabilities				
a) Contingent liabilities from discounted forwarded bills			120 788.78	351
b) Liabilities from guarantees and indemnity agreements			5 362 964 191.52	8 958 393
			5 363 084 980.30	**8 958 744**
2. Other commitments				
a) Irrevocable loan commitments			**4 100 834 384.16**	**12 685 729**

* Previous years' figures shown in brackets

Profit and Loss Account of IKB Deutsche Industriebank AG

Expenses	in €*	in € thousand*	2007/2008 in €	2006/2007 in € thousand
1. Interest expenses			**5 472 020 550.47**	**4 476 398**
2. Commission expenses			**25 772 331.30**	**29 917**
3. Net expenditure on financial operations			**4 056 091.85**	**10 138**
4. General administrative expenses				
a) Personnel expenses				
aa) Wages and salaries			*118 109 919.41*	*115 063*
ab) Compulsory social security contributions and expenses for pensions and other employee benefits			*36 802 050.06*	*30 831*
of which: Pension expenses	*22 120 614.33*	*(17 079)*		
			154 911 969.47	145 894
b) Other administrative expenses			158 465 955.79	105 688
			313 377 925.26	**251 582**
5. Amortisation/depreciation and write-downs of intangible and tangible fixed assets			**7 888 708.86**	**7 309**
6. Other operating expenses			**29 361 477.67**	**29 721**
7. Amortisation/depreciation and write-downs of receivables and specific securities, as well as additions to loan loss provisions			**1 492 778 884.85**	**304 002**
8. Amortisation/depreciaton and write-downs of investments, interests in affiliated companies and long-term investment securities			**1 295 839 552.61**	**2 084**
9. Transfers to the fund for general banking risks (§ 340g of the HGB)			**0.00**	**109 620**
10. Refund on taxes on income (previous year: taxes on income)			**–22 670 762.67**	**22 965**
11. Other taxes not reported under Other operating expenses			**1 726 691.92**	**1 018**
Total expenses			**8 620 151 452.12**	**5 244 754**
1. Annual net loss			**–1 760 677 641.96**	**0**
2. Withdrawals from profit-participation certificates			**295 593 693.00**	**–**
3. Withdrawals from silent partnership contributions			**189 133 964.00**	**–**
Net profit			**–1 275 949 984.96**	**0**

* Previous year's figures shown in brackets

for the period from 1 April 2007 to 31 March 2008

Income	2007/2008 in €	2006/2007 in € thousand
1. Interest income from		
a) Lending and money market transactions	5 069 267 671.17	4 299 047
b) Fixed-income securities and debt register claims	638 908 977.84	459 637
	5 708 176 649.01	**4 758 684**
2. Current income from		
a) Equities and other non-fixed income securities	6 344 402.71	1 448
b) Investments	623 297.91	6 570
c) Interests in affiliated companies	0.00	20 999
	6 967 700.62	**29 017**
3. Income from profit-pooling, profit transfer and partial profit transfer agreements	**50 856 135.05**	**69 916**
4. Commission income	**116 015 343.45**	**194 040**
5. Amortisation/depreciaton and write-downs of investments, interests in affiliated companies and long-term investment securities	**14 223 238.93**	**180 201**
6. Other operating income	**20 719 132.98**	**12 896**
7. Extraordinary income	**942 515 610.12**	**–**
8. Annual net loss	**1 760 677 641.96**	**–**
Total income	**8 620 151 452.12**	**5 244 754**

Notes

Notes to the Single-Entity Financial Statements

The Single-Entity Financial Statements of IKB Deutsche Industriebank AG for the year 2007/08 are prepared in accordance with the provisions of the German Commercial Code (Handelsgesetzbuch – "HGB"), in conjunction with the German Accounting Directive for Banks (Verordnung über die Rechnungslegung der Kreditinstitute und Finanzdienstleistungsinstitute – "RechKredV") as well as with the relevant provisions of the German Public Limited Companies Act (Aktiengesetz – "AktG").

Accounting policies

Receivables

Loans and advances to banks and customers are disclosed at their nominal value, less specific and general loan loss provisions (risk provisioning). Differences between repayment amounts and nominal values are included in deferred income and reversed on schedule.

We have formed general loan loss provisions to cover expected loan losses that have been incurred but not identified as such at the balance sheet date. General loan loss provisions are based on proprietary historical analyses of the loan portfolios, and from the current period are based on tax rules as detailed in the paper issued by the Ministry of Finance on 10 January 1994. The change in the calculation method resulted in an increase in the general loss provision of approximately € 71 million.

Securities / Credit derivatives

Securities as defined in the German Accounting Directive for Banks (Verordnung über die Rechnungslegung der Kreditinstitute – "RechKredV") are disclosed under the heading "Debt securities and other fixed-income securities", as well as "Equities and other non-fixed income securities"; to the extent that they form part of current assets, they are valued at the lower of cost or market, i.e. at their costs of purchase or the lower market price. Pursuant to section 280 (1) of the HGB, write-downs made in prior years against securities are reversed, where appropriate, to their current market value to a maximum amount of their historical costs of purchase. Long-term investment securities primarily comprise issues from international industrial companies and securitised securities, in particular credit-linked notes, which we purchased with the intention of holding them to final maturity. Long-term investment securities are valued at the lower of cost or market value in accordance with section 340e (1) and section 253 (2) sentence 3 HGB whereby the securities are written down to market value when a long-term impairment of value has occurred. A long-term impairment of value is not assumed in the case of securities with market values lower than their book value where that lower market value is a result of the major widening of spreads or lack of market liquidity resulting from current market conditions despite no noticeable deterioration of the underlying credit quality of the security, provided it is intended to hold the security until maturity. In such cases no impairment write-downs are recorded. The difference between the cost of purchase and the repayment amount is amortised over the maturity period.

Securitised securities, in particular collateralised debt obligations (CDO) and credit-linked notes (CLN) are accounted for in accordance with the accounting provisions of the German Commercial Code (HGB) concerning structured products, the provisions of which have evolved during the financial year.

At 31 March 2007, the components of CDOs and CLNs were accounted for separately in accordance with the provisions of the Accounting Practice Statement "Accounting for Structured Products" (IDW Rechnungslegungshinweis "Zur Bilanzierung strukturierter Produkte"), issued by the German Institute of Certified Public Accountants ("IDW"), because the risk of repayment is affected by additional risks as well as the credit worthiness of the borrower.

At 31 March 2008, in accordance with the provisions of the a draft IDW statement "On single or separate accounting for structured financial instruments in the HGB balance sheet", the components were only accounted for separately when the basis instrument is connected to a derivative that is subject to additional risks as well as the credit worthiness of the borrower (embedded derivative). An embedded credit derivative is defined in the position paper of the IDW "Accounting and valuation issues in connection with the subprime crisis" as being present when the credit risk of a security of the reference portfolio is transferred to the issuer by means of a credit default swap.

The presentation of guarantees and indemnity agreements in the previous year were determined under the separation criteria in BFA 1.003. Under these rules, only trading and non-trading items are separated. As a result of the changed IDW criteria, the prior year figure was € 0.6 billion higher.

To the extent that CDS transactions are included in reference portfolios, the embedded derivative in structured securities are included in contingent liabilities in a note to the balance sheet. Where a long-term impairment of these securities is recognised – i.e. when a provision for future losses is made for the risk that the derivative may result in loss, the contingent liability is reduced by the same amount as the accrual is made. Reference portfolios containing exclusively loans or securities are accounted for as a single asset in the normal way.

Market values are derived from stock exchange quotations to the extent that these are available for the respective securities. In light of the subprime crisis, we have amended the valuation methods used for securities and embedded derivatives and in doing so based our approach on the principles set out in the position paper published by the Institute of Public Auditors in Germany (IDW) on accounting issues related to the subprime crisis dated 10 December 2007. Accordingly, the following procedures were followed in determining fair market values:

Valuation of asset backed securities (ABS): The present values of contractually agreed cash flows using spreads for securities with a comparable risk profile are calculated.

Valuation of CDOs, in particular securities indexed to ABS with sub-prime content: The present values of estimated cash flows are calculated. For these purposes, cash flow estimates are made for the underlying reference portfolios taking into account expected default rates, the expected amounts of losses in the case of default and the possibility of early loan repayments. These estimates were based on empirical statistical data and published data estimates issued by market participants. The current poor market conditions were adequately reflected under this approach. The expected cash flow from repayment instalments was assumed to be attributable to the highest respective CDO tranche. In a subsequent step, the cash flows for the individual CDOs were consolidated to calculate total cash flows. In this case simplified assumptions were made regarding the respective tranche grades in the CDOs ("waterfall principle"). In determining the present values of the resulting total cash flows additional allowances were made for the low liquidity of these securities.

Valuing other CDOs primarily indexed to securities with corporate risks: These CDOs were valued using valuation methods commonly used in the industry for such instruments. For this purpose CDOs indexed to other CDOs ("CDO2"), were initially converted to simple CDOs. Special features were considered in determining the lower and higher loss participation levels in the simple CDOs. The most significant valuation variables – CDS spreads and correlation of the underlying corporate risks – were available from market data or could be calculated from market data. Amendments were made to reflect the specific characteristics of the portfolio structure where necessary. Again, allowances were made for the low level of market liquidity for these securities.

Individual securities holdings, together with allocated interest rate hedges (interest rate swaps) form a valuation unit (micro hedge). In these cases, as a result of the interest rate hedging relationship, it is permitted to waive write-downs on securities if these are based on changes in market interest rates; if the issuer's creditworthiness is impaired on a long-term basis, risk provisions are made.

The assumptions and estimates made in the process of valuing the portfolio of illiquid structured securities require subjective judgements to be made by management and inherently contain the risk that estimations may be inaccurate. Despite the fact that the estimates are based on available information, on historical experience and other factors, the actual results may differ significantly from the estimates made. These uncertainties may have significant effects on the reported net assets, financial position and results of operations.

Gains and losses from the sale of long-term investment securities (€ 9.7 million and € 2.1 million) which were reported in the previous year under “Other operating income” and “Other operating expenses” are now reported under “Income from the reversal of depreciation and write-downs on investments, interests in affiliates, and long-term investment securities” and “Depreciation and write-downs on investments, interests in affiliates, and long-term investment securities” respectively. The previous years’ figures in the profit and loss account have been amended to reflect this change.

In accordance with a Board of Managing Directors’ resolution, a total of € 1.0 billion of repurchased, tradable IKB bonds are not to be re-sold on the market, but rather held for redemption. The relevant organisational measures, in particular a partial reduction of the global assignment, have been implemented. The set-off against bonds recorded within securitised liabilities at their repayment amount resulted in a gain of € 14.6 million.

Participations and interests in affiliated companies / Tangible fixed assets / Intangible assets

Interests in affiliated companies and enterprises with a participatory interest are carried at the lower of their amortised cost or their recoverable amount. Valuation is in accordance with section 340e (1) and section 253 (2) sentence 3 of the HGB. In accordance with these provisions, a write-down to market value is made only when an impairment of value is regarded as long term.

Gains and losses from the sale of investments in affiliates reported in the previous year (€ 170.5 million) under “Other operating income” are now reported under “Income from the reversal of depreciation and write-downs on investments, interests in affiliates, and long-term investment securities”. The previous years’ figures in the profit and loss account have been amended to reflect this change.

Tangible fixed assets are recorded at their cost of purchase or historical cost, less scheduled depreciation. In the case of sustained impairment, the assets are subject to unscheduled write-downs. Low-value assets are written off in full during their year of purchase. Following the German business tax reforms, from 1 January 2008 small value assets with a cost of up to € 150 will be written off in full in the year of purchase. Small value assets with a cost of between € 150 and € 1,000 will be depreciated over a period of five years in accordance with section 6 (2a) German Income Tax Law. For this purpose small value assets will be aggregated and depreciated over five years on a pool basis, irrespective of whether a disposal occurs within the five year period.

Securities repurchase agreements

For securities repurchase agreements (repos), the assets transferred remain in our balance sheet, a liability is recorded to the counterparty in accordance with section 340b (4) of the HGB. Where the IKB acts as lender, the assets received are not recorded in the Bank's balance sheet and a receivable is recorded at the value of the asset transferred as security.

Liabilities

Liabilities are carried at their repayment amount. Any difference between the repayment amount and the amount received is carried as prepaid expenses, and recorded in the income statement over the period to maturity.

Provisions

Provisions for pensions and similar obligations are recorded as a liability in accordance with actuarial principles, based on Prof. Dr Heubeck's mortality tables and a 6% rate of interest, and using the pro-rata value of pension entitlements for active employees and the net present value of current pensions for pensioners.

We record provisions for taxes and uncertain liabilities in the amount in which these are likely to be incurred. We have recorded provisions for anniversary long service bonus awards – to the extent needed – consistent with provisions calculated under current tax legislation, discounted at 5.5%.

The pension obligations (pension plans 79 and 94, deferred compensation and early retirement obligations) were spun off at the end of the prior financial year by means of an external Contractual Trust Agreement (CTA). The corresponding assets and obligations continue to be carried on a gross basis consistent with German commercial and tax law. In November 2007 the Deferred Compensation arrangement which covers all employees was spun-off to a new CTA. The CTA is reported in the balance sheet in the same way as the earlier CTA. The assets available to meet the liabilities are reported under "Equities and fixed income securities".

Contingent liabilities

Contingent liabilities are recorded at their nominal amount, less any accruals recorded in the financial statements for the respective liabilities.

Derivative financial instruments

Derivative financial instruments (swaps, futures/forwards, options) are pending items and are not subject to compulsory disclosures. They are allocated to the banking or trading book when they are concluded, in corresponding to the purpose for which they are entered into. Derivative financial transactions allocated to the trading book are valued at their current market values in line with the principle of imparity and realisation. Derivative financial transactions used to hedge and manage interest rate and market risks for the banking book and other financial transactions recognised on the balance sheet are subject to uniform control and evaluation of risks arising from changes in interest rates. Changes to the market value of these transactions are thus not subject to monitoring on an individual basis.

Currency translation

On- and off-balance sheet transactions denominated in foreign currency are translated in accordance with the principles of section 340h of the HGB. Fixed assets denominated in foreign currency have been translated at their historical exchange rates at the time of their acquisition.

All other assets, liabilities and other outstanding spot transactions denominated in foreign currency are valued at the reference rate of the European Central Bank (ECB) on the balance sheet date. Premiums and discounts to the spot rate arising on foreign exchange forward agreements concluded to hedge interest-bearing items on the balance sheet are offset against the net interest income on a pro-rata basis. Hedged income or expenses are translated at the contracted forward rate.

In the income statement, only expenses from currency translation according to section 340h (2) sentence 2 of the HGB are taken into account. Unrealised gains are, in accordance with section 340h (2) sentence 2 of the HGB only recognised to the extent that equivalent losses are neutralised in the income statement.

Risk transfer and rescue package

KfW Bankengruppe, with partial assistance from three German Banking Associations, has undertaken various measures to rescue the IKB from existential threats that it was exposed to as a consequence of the subprime crisis.

Late in July 2007, KfW acceded to the IKB's liquidity line provided to Conduits Rhineland Funding Capital Corporation (RFCC), Delaware, releasing the IKB from this commitment. This has led to a significant reduction of the amounts reported under irrevocable loan commitments compared to the previous year.

The KfW Bankengruppe, with support from the bank pool, provided IKB with € 1 billion risk cover for a sub-portfolio of particularly high risk structured securities with a nominal value of € 3.3 billion (as at 30 September 2007) by means of two agreements, a CDS and finance guarantee agreement. Under agreement with KfW, the KfW makes payment when default occurs or on sale, if earlier, such sales are subject to the KfW's prior agreement.

Due to the close relationship between the loss cover provided through these two instruments, the IKB's receivable under these arrangements is valued in the balance sheet on a combined basis using methods appropriate to a CDO, whereby first losses of up to € 1.0 billion are covered by KfW. The valuation takes account of the premium paid by the IKB, the values determined by the IKB for the respective financial instruments, assumptions regarding the correlation of the default risk of these financial instruments and market data regarding historical losses on comparable financial instruments.

To the extent that losses on the securities concerned are recorded, the receivable under these protection arrangements is recorded in the balance sheet within "Other assets" and the effect on the income statement recorded in the position "Extraordinary income". Amounts of compensation already received have been recorded as income within the position "Extraordinary income".

In addition, under an agreement between KfW Bankengruppe and IKB, the KfW Bankengruppe participated in the IKB's liquidity commitments to Havenrock I Ltd. and Havenrock II Ltd. As at the balance sheet date, these liquidity commitments were drawn down in full. The KfW's participation covers the IKB's liquidity commitment risk in full, accordingly it was not necessary to record risk provisions for these loans.

Notes to the Balance Sheet

Maturities of selected balance sheet items by residual terms

in € million		up to three months	more than three months until one year	more than one year to five years	more than five years
Loans and advances to banks*)					
	31 Mar 2008	4 537	1 507	59	571
	31 Mar 2007	8 057	3 454	111	361
Loans and advances to customers					
	31 Mar 2008	2 630	3 123	10 905	9 407
	31 Mar 2007	2 931	3 145	10 871	7 987
Liabilities to banks*)					
	31 Mar 2008	7 577	2 843	4 161	4 180
	31 Mar 2007	2 820	3 203	4 317	3 384
Liabilities to customers*)					
	31 Mar 2008	1 134	1 484	1 184	2 805
	31 Mar 2007	819	101	1 008	2 199

*) Excluding loans and advances or liabilities payable on demand

Of the debt securities and other fixed-income securities, € 1,189 million (2006/07: € 856 million) will mature in the next financial year. Of the debt securities included in securitised liabilities, € 8.1 billion (2006/07: € 9.0 billion) will mature in the next financial year.

Fixed assets

in € million	Purchase or production costs	Additions	Disposals	Depreciation cumulative	Depreciation financial year	Net book value 31 Mar 2008	Net book value 31 Mar 2007
Tangible fixed assets	90.8	3.3	0.6	63.1	4.7	30.4	32.2
Intangible assets	19.0	0.4	1.1	6.4	3.3	11.9	15.9
Equity investments	12.9	–	0.0	0.0	–	12.9	12.9
Interests in affiliated companies	1 079.8	614.7	58.6	658.1	598.9	977.8	1 020.7
Equities and fixed income securities	8 248.6	532.4	1 285.3	594.6	590.4	6 901.1	8 229.3

Fixed assets include debt securities and other fixed-income securities, plus equities of € 6.9 billion (2006/07: € 8.2 billion). These are issues from international industrial companies (corporate bonds and credit-linked notes), CDO’s and ABS, and were acquired with the intention of holding them until maturity. As an exception from the general rule, there is currently an intention to dispose of part of the securities portfolio.

Write-downs amounting to € 590 million were made in the year. At the reporting date there were € 687 million (2006/07: € 232 million) in unrealised losses on these securities holdings. These securities have marked current market values below their book values as a result of wider spreads applying as a consequence of the current financial market crisis and as a result of changes in interest rates and interest rate volatility. In our opinion, the current market values (€ 5,594 million) are only temporarily lower than the book values (€ 6,281 million), and accordingly we have not recorded write-downs. For long-term investments that have been designated as available for sale, write-downs to their market value have been recorded where this is lower than book value to the extent that the deficit has not reduced since the balance sheet date.

There are no investments in affiliates and participations with a book value above the respective market value.

On 31 March 2008, the book value of the land and buildings used by the Bank amounted to € 17.5 million (2006/07: € 17.5 million).

Operating and office equipment is included under the fixed assets, and totals € 10.0 million (2006/07: € 12.9 million).

Listed and unlisted tradable securities

The negotiable securities contained in the following balance sheet items listed below are analysed between listed and unlisted securities as follows:

	Total		Listed		Unlisted	
in € million	31 Mar 2008	31 Mar 2007	31 Mar 2008	31 Mar 2007	31 Mar 2008	31 Mar 2007
Debt securities and other fixed-income securities	12 240.0	14 129.2	10 955.0	12 850.2	1 285.0	1 279.0
Equities and other non-fixed income securities	181.8	2.3	0.0	2.0	181.8	0.3
Interests in affiliated companies	192.5	58.6	0.0	0.0	192.5	58.6

Loans, advances, and liabilities to affiliated companies and participations

	Affiliated companies		Equity investments	
in € million	31 Mar 2008	31 Mar 2007	31 Mar 2008	31 Mar 2007
Loans and advances to banks	6 567.4	8 069.4	8.6	2.9
Loans and advances to customers	1 771.5	1 397.8	127.7	243.2
Liabilities to banks	2 589.5	2 683.2	7 911.8	5 885.6
Liabilities to customers	77.3	373.4	0.4	6.4
Subordinated liabilities	475.1	475.1	0.0	0.0

In addition, there were on 31 March 2008 other assets amounting to € 39.8 million due from affiliates and € 918 million from other participations. There were no other liabilities or other liabilities due to affiliates or participations.

Trustee business

in € million	31 Mar 2008	31 Mar 2007
Loans and advances to customers	1.1	1.2
Equity investments	0.2	0.6
Trust assets	**1.3**	**1.8**
Liabilities to customers	1.3	1.8
Trust liabilities	**1.3**	**1.8**

Subordinated assets

Subordinated assets are included in the following balance sheet asset items:

in € million	31 Mar 2008	31 Mar 2007
Loans and advances to banks	150.3	100.0
Loans and advances to customers	710.5	380.4
Debt securities and other fixed-income securities	0.0	119.1

Securities repurchase agreements

We have expanded our securities repurchase business during 2007/08. We have transferred securities under repo-business with a nominal value of € 2.1 billion. Based on the collateral transferred we have liabilities to financial institutions and customers amounting to € 1.7 billion. In addition, we have received securities under reverse-repo agreements with a nominal amount of € 0.9 billion which can be resold or used as collateral. The loans receivable from financial institutions resulting from such transactions total € 0.8 billion. In respect of these securities the Bank has repayment obligations of the same amount on terms which are typical in the industry. These securities are used as further collateral in repo transactions.

Security deposits totalling € 51 million have been provided to protect against the market volatility of the securities provided as collateral and deposits totalling € 45 million have been received as protection against the market volatility of securities received as collateral.

Foreign currency assets and liabilities

The recognised foreign currency balances, translated into Euros, are shown in the following overview. The differences between assets and liabilities are mostly covered by currency hedging transactions.

in € million	31 Mar 2008	31 Mar 2007
Assets	10 472.5	10 456.3
Liabilities	6 508.0	6 327.8

Other assets and other liabilities

The largest single item in other assets constitutes the receivable derived from the KfW rescue package, and amounts to € 918 million. A further € 485 million is in respect of proportionate interest from interest rate swaps and cross-currency-swaps (2006/07: € 381 million). The remaining amount includes € 98 million (2006/07: € 333 million) of mature securities not yet redeemed, € 97 million from the valuation of derivative instruments, € 42 million (2006/07: € 60 million) of tax refund claims and € 18 million (2006/07: € 16 million) option premiums recorded as prepayments. The remaining amount primarily contains receivables due to the bank from profit-transfer agreements.

Other liabilities include € 22 million of interest, being pro rata interest payable on subordinated liabilities and to silent partners (2006/07: € 45 million) and € 1 million of profit-participation certificates distribution remaining for the financial year 2006/07 (prior year: € 35 million). No interest is payable on the largest portion of profit participation certificates for 2007/08 as a result of the losses incurred and of the net loss transferred to reserves. At € 421 million (2006/07: € 314 million) pro rata interest on interest rate swaps accounted for the largest single item included in "Other liabilities", € 24 million (2006/07: € 33 million) relates to premiums on options written.

Deferred income and prepaid expenses

Prepaid expenses include € 73 million (2006/07: € 82 million) of discounts from liabilities carried at their nominal value deferred pursuant to section 250 (3) and section 340e (2) sentence 3.

Deferred income includes primarily € 92 million (2006/07: € 95 million) deferred interest income from structured products and € 43 million (2006/07: € 35 million) of discounts from receivables carried at their nominal value deferred pursuant to section 250 (2) and section 340e (2) sentence 2 of the HGB.

Subordinated liabilities

Subordinated liabilities are eligible as equity within the meaning of the German Banking Act (Kreditwesengesetz – "KWG") represent € 1,645 million of the Bank's liable capital and € 141 million of the Bank's Tier III capital. There is no early repayment commitment. In the event of insolvency proceedings or liquidation, they may not be redeemed until all unsubordinated creditors have been satisfied. No provision is made for a participation in operating losses; interest is due and paid irrespective of the Bank's operating results.

Subordinated liabilities amounted to € 1.8 billion (2006/07: € 1.9 billion). The related interest expenses totalled € 96.7 million (2006/07: € 85.3 million).

Individual items which exceed 10% of the total amount were as follows:

Year of issue	Book value in € million	Issuing currency	Coupon in %	Maturity
2004/2005	400.0	EUR	4.927	29 July 2033
2003/2004	310.0	EUR	4.500	9 July 2013

Profit-participation certificates

Profit-participation certificates totalling € 301.2 million (2006/07: € 608.6 million) are reported in the balance sheet after allocation of their loss participation for the period. Of these, € 247.9 million (2006/07: € 523.6 million) meet the requirements set out in section 10 (5) of the KWG and thus qualify for inclusion in the Bank's liable capital. The profit-participation certificates had an original nominal value of € 596.8 million (2006/07: € 608.6 million). Certificates with a book value of € 81.8 million matured during the year. In accordance with their terms and conditions of issue the profit-participation certificates can participate in losses up to the full amount invested. Interest is paid on these certificates only to the extent that the Bank reports a positive net income or carries profits to reserves. The rights of profit-participation certificate holders to repayment of capital invested is subordinated to the rights of other creditors.

The amount of loss participation and of any potential future reinstatement of capital repayment rights is determined based on various calculations governed by the differing terms and conditions of the respective certificates. The loss participation is principally determined based on the proportionate share of the reported loss for the period and the loss transferred to reserves in relation to the total equity reported in the balance sheet including the profit-participation certificates and the book value of all financial instruments participating in the Bank's net loss. The conditions of issue expressly state that, under specific conditions, a recovery of the repayment values of instruments which have suffered apportionment of losses is possible during their issue period. In the case of one issue, recovery is possible after a four year period.

The repayment values of the remaining profit-participation certificates have been reduced by € 295.6 million during the year based on the terms of their loss participation.

Profit-participation certificates can be broken down as follows:

Year of issue	Original nominal value in € million	Issuing currency	Coupon in %	Maturity
1997/1998	102.3	DM	7.05	31 Mar 2009
1999/2000	20.0	EUR	7.23	31 Mar 2010
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

For the financial year 2007/08, interest on profit-participation certificates in the amount of € 2.3 million (2006/07: € 37.3 million) was recognised in interest expenses. Had the Bank not reported a loss for the period and not transferred a loss to reserves, interest of € 34.7 million would have been payable.

The Board of Managing Directors was authorised at the Annual General Meeting on 30 August 2002 to issue profit-participation certificates until 30 August 2007, with a total nominal value of up to € 300 million. Issues of € 70 million were carried out in the period, the remaining facility of € 230 million had been utilised in past periods.

The conversion rights attached to profit-participation certificates for conversion of up to 8,800,000 bearer shares of IKB Deutsche Industriebank AG with an interest in the Company's share capital of up to € 22,528,000.00 expired unused on 30 August 2007.

Changes capitalisation

1. Treasury shares

The General Meetings held on 31 August 2006 and 27 March 2008 authorised the Bank to acquire its own shares for the purpose of securities trading. The authorisation dated 31 August 2006 expired on 31 January 2008.

During the financial year 2007/08, a total of 648,505 treasury shares were purchased. The average purchase price was € 20.58 per share, and the same quantity was sold at an average price of € 17.21 per share. The net loss from these transactions totals € 2.2 million and has been recognised in the net result from financial operations. The largest number of treasury shares held on any one day represented 0.14% of the Company's share capital. Our affiliated companies did not sell or purchase IKB shares. No treasury shares were held by the Bank on the balance sheet date.

No shares were issued to employees during the year.

2. Shareholders' equity

Subscribed share capital amounted to € 247,794,332.16 on the balance sheet date and comprises 96,794,661 notional no-par value bearer shares ("bearer unit shares"). There is conditional capital totalling € 22.5 million for the purpose of granting conversion or option rights in connection with convertible bonds or bonds with warrants to be issued until 8 September 2009 with an aggregate nominal value of € 300 million. On the basis of this conditional capital, the IKB issued € 54.3 million of convertible bonds with obligatory conversion to the KfW Bankengruppe on 7 January 2008, under the exclusion of pre-emptive rights. The convertible bonds were convertible into shares, subject to a maximum of 10% of the IKB's share capital. The terms of the convertible bonds provided for early conversion under certain conditions. Following the fulfilment of these conditions, the convertible bonds were converted into shares with a nominal value of € 22,514,332.16 and issued to the KfW Bankengruppe on 28 February 2008. Following conversion, the IKB's share capital amounted to € 247,794,332.16 (previously: € 225,280,000), comprising 96,794,661 (previously: 88,000,000) notional no-par value bearer shares.

In connection with the IKB's financial restructuring, the shareholders in the General Meeting approved a capital increase raising additional capital on 27 March 2008. The capital increase is an important step towards restoring a solid foundation for the Bank's future.

The IKB's share capital will be increased by an amount of up to € 1,486,765,992.96 from € 247,794,332.16 to an amount of up to € 1,734,560,325.12 by the issue of up to 580,767,966 new, notional no-par value bearer shares (each with a nominal value of € 2.56) in return for additional capital. The new shares are entitled to participate in profits from the beginning of the financial year in which they are registered. The new shares will be offered for subscription to existing shareholders at a ratio of 1:6. The KfW Bankengruppe has made a commitment to the BaFin such that it is committed to subscribing for a sufficient number of IKB shares so that the IKB will receive at least € 1.25 billion before issue costs.

Pursuant to a resolution adopted by the General Meeting of 9 September 2004, the Board of Managing Directors was authorised, subject to approval by the Supervisory Board, to issue convertible bonds and/or bonds with warrants with an aggregate nominal value of up to € 300 million and to grant the holders of such bonds conversion or option rights relating to shares in the Company accounting for up to € 22,528,000 of the share capital in accordance with the stipulated conditions up until 8 September 2009. Use has been made of this authorisation and of the related conditional capital as described above. Following the use of this authorisation, authorised amounts of € 245,700.00 and the associated conditional capital of € 13,667.84 remain.

In addition, conditional capital amounting to € 22,528,000 for the purposes of issuing conversion or options rights of profit-participation certificates with conversion or options rights to be issued until 30 August 2007.

3. Capital reserve

On 19 February 2008 and on 19 March 2008 the KfW provided the IKB with additional capital amounting to € 600 million and € 450 million respectively. This is additional paid in capital in the sense of section 272 (2) (4) HGB, effected by means of a loan with immediate debt waiver and compensation out of future profits. These transactions were made without affecting reported income. Compensation measures from both measures total € 1.050 billion (plus expenses and interest) and compensation payments out of future profits will always precede profit-participation certificates and the IKB's silent participations. Rights to repayment arise only to the extent that as a result of the compensation payments the IKB does not incur a loss in its financial statements under German GAAP (HGB) and the regulatory capital on a single entity basis remains above 9%. Interest payments are due only in years in which, and to the extent that, such interest payments or partial settlement of interest payments does not result in the IKB reporting a loss in its financial statements under German GAAP (HGB).

Further additions to the capital reserve totalling € 31.8 million were made as a result of the obligatory conversion of the € 54.3 million convertible debt on 7 January 2008 described above.

As a result of these additions to capital reserve, the reserve increased from € 567.4 million to € 1,649.2 million in the 2007/08 financial year.

4. Hybrid capital instruments

The IKB's hybrid tier 1 capital amounted to € 210.8 million as at 31 March 2008 after allocation of losses (2006/07: € 400 million). This capital complies with the requirements of section 10 (4) of the KWG and is therefore attributed to our tier 1 capital for regulatory purposes. The € 400 million nominal value remains unchanged.

Hybrid capital includes issues in the form of capital contributions made by silent partners. In the case of silent participations – basically issued as perpetuals – only the issuer is allowed to terminate the contract. Such termination cannot take place earlier than 2013 and 2014 for the respective participations, and only when the repayment value has recovered to the original amount invested.

Moreover, in the case of insolvency, hybrid capital instruments are subordinated to all subordinated liabilities and profit-participation certificate issues.

The loss participation is principally determined based on the proportionate relationship between the silent partnerships and total equity reported in the balance sheet, including the profit-participation certificates. The repayment amount of the silent partnerships was reduced by € 189.2 million as a result of the loss participation. The conditions of issue expressly state that, under specific conditions, a recovery of the repayment values of instruments which have suffered apportionment of losses is possible.

The interest expenses for hybrid capital issues amounted to € 9.6 million (2006/07: € 28.4 million). As a result of the loss carry forward, only € 9.6 million fixed interest is paid on the silent partnerships 2007/08. Had the IKB not reported a net retained loss for 2007/08 interest amounting to € 29.7 million would have been payable for the year.

5. Changes in capitalisation

in € million	1 Apr 2007	Loss participation	Appropriations	Disbursement of annual net profit	31 Mar 2008
a) Subscribed capital					
Share capital	225.3	0.0	22.5 [2]		247.8
b) Silent partnership contributions	400.0	–189.2 [1]	0.0		210.8
c) Capital reserve	567.4	0.0	1 081.8 [3]	0.0	1 649.2
d) Retained earnings					
da) Legal reserves	2.4	0.0	0.0	0.0	2.4
db) Other retained earnings	502.5	0.0	0.0	0.0	502.5
	504.9	0.0	0.0	0.0	504.9
e) Net loss	0.0	0.0	0.0	–1 275.9	–1 275.9
	1 697.6	**–189.2**	**1 104.3**	**–1 275.9**	**1 336.8**
Unappropriated					
Authorised capital	76.8	–76.8 [4]	0.0	0.0	0.0
Conditional capital	22.5	–22.5 [5]	0.0	0.0	0.0

[1] Loss participation from silent partnership contributions for the financial year 2007/08
[2] Convertible bond converted to share capital through conversion rights
[3] With € 1,050 million debt waiver with debtor warrant from KfW
With € 31.8 million mandatory conversion of the convertible subscribed by KfW
[4] The Bank held limited (unappropriated) authorised capital amounting to € 76.8 million until 30 August 2007
The authorised capital expired due to to the time limit, without utilisation
[5] Resulting from the mandatory conversion of the convertible bond subscribed by KfW

The regulatory capital in accordance with the German Banking Act (KWG) totalled € 2.5 billion (2006/07: € 3.3 billion).

Significant voting rights

As of 31 March 2008, the Bank had been notified in accordance with section 21 WpHG of the following significant voting rights:

Date	Entities subject to disclosure requirement	Location	Threshold value	Direct	Indirect	Total
26 Mar 2008	Federal Republic of Germany, represented by the German Federal Ministry of Finance	Berlin	>25%		45.48%	45.48%
26 Mar 2008	Kreditanstalt für Wiederaufbau	Frankfurt/Main	>25%	1.55%	43.93%	45.48%
26 Mar 2008	KfW Beteiligungsholding GmbH	Frankfurt/Main	>25%	43.93%		43.93%
28 Feb 2008	Sal Oppenheim jr. & Cie. S.C.A	Luxembourg	<5%		4.55%	4.55%
28 Feb 2008	Sal Oppenheim jr. & Cie. KGaA	Cologne	<5%		4.55%	4.55%
28 Feb 2008	Sal Oppenheim jr. & Cie. Beteiligungen S.A.	Luxembourg	<5%	4.55%		4.55%
17 Aug 2007	UBS AG	Zurich	<3%	1.32%	1.60%	2.92%
13 Aug 2007	Sal Oppenheim jr. & Cie. S.C.A	Luxembourg	>5%		5% + 1 share	5% + 1 share
13 Aug 2007	Sal Oppenheim jr. & Cie. KGaA Köln	Cologne	>5%		5% + 1 share	5% + 1 share
13 Aug 2007	Sal Oppenheim jr. & Cie. Beteiligungen S.A.	Luxembourg	>5%	5% + 1 share		5% + 1 share
10 Aug 2007	UBS AG	Zurich	>3%	2.05%	1.65%	3.70%
25 Jul 2007	Sal Oppenheim jr. & Cie. S.C.A	Luxembourg	>3%		3.23%	3.23%
25 Jul 2007	Sal Oppenheim jr. & Cie. KGaA	Cologne	>3%		3.23%	3.23%
25 Jul 2007	Sal Oppenheim jr. & Cie. Beteiligungen S.A.	Luxembourg	>3%	3.17%		3.17%
02 Jul 2007	Sal Oppenheim jr. & Cie. S.C.A	Luxembourg	=3%		3.00%	3.00%
02 Jul 2007	Sal Oppenheim jr. & Cie. KGaA	Cologne	=3%		3.00%	3.00%
02 Jul 2007	Sal Oppenheim jr. & Cie. Beteiligungen S.A.	Luxembourg	=3%	3.00%		3.00%
26 Sep 1995	Stiftung zur Förderung der Forschung für die gewerbliche Wirtschaft	Cologne	Initial disclosure *)	11.26%		11.26%

*) According to section 41 (3) WpHG

Contingent liabilities and other commitments

Contingent liabilities in € million	31 Mar 2008	31 Mar 2007
Guarantees, warranties, other	5 209.6	8 789.1
Assumptions of liability	153.5	169.6
Total	**5 363.1**	**8 958.7**

Other commitments in € million	31 Mar 2008	31 Mar 2007
Loan commitments for up to one year	1 884.2	10 139.5
Loan commitments for more than one year	2 216.6	2 546.2
Total	**4 100.8**	**12 685.7**

At the balance sheet date, contingent liabilities included credit default swaps (where IKB has assumed the position of protection seller), guarantees, and warranties. As seller of protection we have assumed the risk of counterparty default for certain credit portfolios, given the occurrence of pre-defined credit events.

In addition, derivative components of structured products (CDS) amounting to € 3.1 billion (2006/07: € 4.9 billion), which were previously reported under the item "Debt securities and other fixed-income securities," were included in the item "Liabilities from guarantees and indemnity agreements" without resulting in a change of the overall risk position of the Bank. For these, provisions of € 0.8 billion were made in connection with the valuation of embedded CDS transactions.

Other commitments at the previous year end comprised liquidity facilities in the form of loan commitments to special purpose entities (primarily to the RFCC conduit) for a total amount equivalent to € 8.1 billion which could be drawn upon by these entities in the case of short-term liquidity bottlenecks, or should default events (as defined in the relevant agreements) occur. As part of the KfW rescue package these commitments are fully absorbed by the KfW.

Notes to the Income Statement

Geographical analysis of sources of income (information as defined in section 34 (2) of the RechKredV)

The aggregate of interest income, current income on equities and other non-fixed income securities, on equity investments and interests in affiliated companies, commission income and other operating income is broken down by geographic region below:

in € million	2007/08	2006/07
Federal Republic of Germany	4 040.4	2 984.4
Europe excluding Germany	1 862.3	2 080.2
Total	**5 902.7**	**5 064.6**

We allocate income to geographic regions according to the respective location of our offices.

Administration and intermediation services rendered to third parties

We provide management services for lending and custodial accounts, in particular for guarantees. The income from these services is included under commission income.

Other operating income

Other operating income primarily includes overheads charged to Group companies of € 9.7 million (2006/07: € 6.0 million), rental income of 2.5 million (2006/07: € 2.4 million) and from releases of accruals amounting to € 3.1 million (2006/07: € 0.6 million). Profits from the disposal of investment securities totalled € 14.2 million in the current year (2006/07: € 180.2 million). These items, which were reported within “Other operating income” in the prior year, have been reclassified in the current year to “Income from the reversal of depreciation and write-downs on investments, interests in affiliates, and long term investment securities”

Other operating expenses

The other operating expenses include € 16.5 million of accruals made for legal costs, most of which are in connection with the IKB's crisis. Other operating expenses also include € 5.6 million of costs for properties used by third parties (2006/07: € 8.9 million), employee overhead expenses of € 1.6 million (2006/07: € 2.0 million). Losses from the disposal and impairment of investment securities and investments totalled € 696.9 million in the current year (2006/07: € 2.1 million). These items, which were reported within "Other operating expenses" in the prior year, have been reclassified in the current year to "Depreciation and write-downs on investments, interests in affiliates, and long term investment securities".

Extraordinary income

In this position the positive income effects from the rescue package are recorded to the extent that they affect the income statement. This includes amounts already received (€ 54.5 million), amounts requested from the KfW (€ 38.3 million), and the current market value of expected payments under the guarantees received (€ 880.2 million), less the premium payable (€ 30.5 million).

Income from the reversal of depreciation and write-downs on investments, interests in affiliates, and long term investment securities

In the prior year the gains on sale of investment securities and participations reported in this position were reported within "Other operating income". Total gains amounted to € 14.2 million (2006/07: € 180.2 million).

Depreciation and write-downs on investments, interests in affiliates, and long term investment securities

In the prior year the losses on sale or on impairment of investment securities and participations reported in this position were reported within "Other operating expenses". Total losses amounted to € 696.9 million (2006/07: € 2.1 million).

Income from income taxes

Income from income taxes of € 22.7 million are reported for the financial year (2006/07: an expense of € 23.0 million). The income in the current period results from the fact that no current taxes are payable due to the current year losses incurred, and accruals made for taxes in the past could be reversed. Income taxes arising on foreign operations were not significant and to some extent losses could be carried back so that taxes paid in prior years could be reclaimed.

Taxes on income relate exclusively to the ordinary activities of the Bank.

Other Disclosures

Shareholdings in accordance with section 285, sentence 1, no. 11 of the HGB	Letter of comfort	Equity interest in %	Equity in € thousand	Results in € thousand
1. Foreign banks				
IKB International S.A., Luxemburg	x	100	192 165 [5]	–553 487 [3] [5]
2. German companies				
AIVG Allgemeine Verwaltungsgesellschaft mbH, Düsseldorf	x	100	4 896 [5]	336 [5]
IKB Autoleasing GmbH, Hamburg	x	100	14 000	– [1] [3]
IKB Beteiligungen GmbH, Düsseldorf	x	100	573 172 [5]	– [1] [5]
IKB Credit Asset Management GmbH, Düsseldorf	x [6]	100	40 000 [5]	– [1] [5]
IKB Data GmbH, Düsseldorf	x	100	20 000 [5]	– [1] [5]
IKB Dritte Equity Suporta GmbH, Düsseldorf		100	3 018 [5]	–7 [3] [5]
IKB Equity Capital Fund I GmbH & Co. KG, Düsseldorf	x	99,75	74 911 [5]	–30 941 [3] [5]
IKB Equity Finance GmbH, Düsseldorf		100	182 [5]	158 [3] [5]
IKB Erste Equity Suporta GmbH, Düsseldorf		100	12 067 [5]	6 050 [3] [5]
IKB Grundstücks GmbH, Düsseldorf	x	100	103	14
IKB Grundstücks GmbH & Co. Objekt Degerloch KG, Düsseldorf	x	100	6 675	12
IKB Grundstücks GmbH & Co. Objekt Hamburg KG, Düsseldorf	x	100	13 315	–620
IKB Grundstücks GmbH & Co. Objekt Holzhausen KG, Düsseldorf	x	100	10 014 [5]	280 [5]
IKB Grundstücks GmbH & Co. Objekt Uerdinger Straße KG, Düsseldorf	x	100	8 675	208
IKB Immobilien Management GmbH, Düsseldorf	x	75	1 788	268
IKB Leasing Berlin GmbH, Erkner	x	100	8 000	– [1] [3]
IKB Leasing GmbH, Hamburg	x	100	45 000	– [1] [3]
IKB Private Equity GmbH, Düsseldorf	x	100	90 000 [5]	– [1] [3] [5]
IKB Projektentwicklung GmbH & Co. KG, Düsseldorf	x	100	33 826 [5]	2 822 [5]
IKB Projektentwicklungsverwaltungsgesellschaft mbH, Düsseldorf	x	100	27 [5]	2 [5]
IMAS Grundstücks-Vermietungsgesellschaft mbH, Düsseldorf	x	100	2 232 [5]	–49 [5]
ISTOS Beteiligungsverwaltungs- und Grundstücks-vermietungsgesellschaft mbH, Düsseldorf	x	100	42 [5]	7 [5]
ISTOS Erste Beteiligungsverwaltungs- und Grundstücks-vermietungsgesellschaft mbH & Co. KG, Düsseldorf	x	100	46 [5]	–8 [5]
ISTOS Zweite Beteiligungsverwaltungs- und Grundstücks-vermietungsgesellschaft mbH & Co. KG, Düsseldorf	x	100	308 [5]	–467 [5]
ISTOS Dritte Beteiligungsverwaltungs- und Grundstücks-vermietungsgesellschaft mbH & Co. KG, Düsseldorf	x	100	189 [5]	–2 060 [5]
Linde Leasing GmbH, Wiesbaden		30	22 106 [5]	1 788 [3] [5]
Movesta Lease and Finance GmbH, Düsseldorf		50	12 902	2 567 [3]

Shareholdings in accordance with § 285, sentence 1, no. 11 of the HGB (continued)	Letter of comfort	Equity interest in %	Equity in € thousand	Results in € thousand
3. Foreign companies				
IKB Capital Corporation, New York		100	33 034 [5]	–1 336 [5]
IKB Finance B. V., Amsterdam	x	100	10 699 [5]	1 024 [5]
IKB Funding LLC I, Wilmington	x [2]	100	75 042 [4] [5]	–54 [5]
IKB Funding LLC II, Wilmington	x [2]	100	400 170 [4] [5]	118 [5]
IKB Leasing Austria GmbH, Salzburg	x	100	512	–764 [3]
IKB Leasing CR s. r. o., Prag	x	100	4 070	–244 [3]
IKB Leasing France S. A. R. L., Marne	x	100	1 203	–2 134 [3]
IKB Leasing Hungária Kft, Budapest	x	100	1 584	–246 [3]
IKB Leasing Polska Sp. z. o. o., Posen	x	100	5 797	915 [3]
IKB Leasing SR, s. r. o., Bratislava	x	100	2 019	–764 [3]
IKB Leasing srl, Bukarest	x	100	954	0 [3]
IKB Lux Beteiligungen S. à.r.l., Luxemburg	x	100	59 266 [5]	–369 613 [5]
IKB Pénzüdyi Lizing Hungária Rt, Budapest	x	100	1 447	190 [3]
Still Location S. A. R. L., Marne	x	100	9 766	–3 229 [3]
ZAO IKB Leasing, Moskau	x	100	1 567	–323 [3]

1) There is a profit and loss transfer agreement
2) Subordinated letter of comfort
3) Indirect shareholding
4) Including silent partnership contributions/preferred shares
5) Uncertified values
6) Until 31 March 2008

The full list of shareholdings will be submitted to the German Electronic Federal Gazette (elektronischer Bundesanzeiger) and made available on the website of the company register. It may be obtained from IKB free of charge.

Disclosure of auditors' fees pursuant to section 285 sentence 1 no. 17 of the HGB

The following auditors' fees were paid to the respective domestic auditor:

in € million	2007/08	2006/07
Auditing fees	2.0	1.7
Other audit or valuation services [*]	7.7	0.5
Tax advisory services	0.0	0.4
Other services	0.5	0.2
Total	**10.2**	**2.8**

*) Amount in 2007/2008 includes special audit as well as audit of IFRS Consolidated Interim Management Report as of 30 September 2007.

In addition, in 2007/08 audit fees of € 1.3 million were paid to the prior auditor. In addition, fees totalling € 320,000 were paid in 2007/08 to the prior auditor for audit and valuation services and € 82,000 for tax consultancy services and € 75,000 for other services.

Other financial commitments

The Bank has a pro rata additional funding obligation for the investment in Liquiditäts-Konsortialbank GmbH, Frankfurt/Main, Germany, in accordance with section 26 GmbHG. IKB is also contingently liable pro rata for the fulfilment of the additional funding obligations of other shareholders belonging to the Association of German Banks (Bundesverband deutscher Banken e.V.). In addition, pursuant to section 5 (10) of the Statutes for the Joint Fund for Securing Customer Deposits (*Statut für den Einlagensicherungsfonds*), the Bank has committed itself to indemnify the Association of German Banks from any losses arising due to measures in favour of banks in which it owns a majority interest.

Letters of comfort

In accordance with section 285 no. 11 of the HGB, IKB ensures, excluding political risk, that subsidiaries carried in the list of investments of IKB Deutsche Industriebank AG and marked as being covered by the letter of comfort will be able to meet their contractual liabilities.

The IKB Leasing GmbH, Hamburg, has issued letters of comfort to the Commerzbank Rt., Budapest with IKB Leasing Hungaria Kft., Budapest, and IKB Penzüdyi Lizing Hungaria Rt, Budapest, as beneficiaries. IKB Leasing GmbH, Hamburg, has further issued a letter of comfort to Bankhaus Carl Spängler & Co., Salzburg, with IKB Leasing Austria GmbH, Salzburg, as beneficiary.

Security provided for own liabilities

Security is in particular provided to loans from the KfW Bankengruppe and other financial institutions. The availability of loans from these financial institutions is dependent on the provision of collateral. Security of € 6,574.5 million has been provided for global and individual refinancing arrangements with financial institutions totalling € 7,192.1 million.

Fixed-income securities totalling € 6.6 billion (prior year: € 6.1 billion) have been pledged with Deutsche Bundesbank as collateral for the European Central Bank's repurchase agreement process (collateral pool). In addition, for the first time loan receivables of were deposited at the Bundesbank (€ 1.6 billion). Credit facilities of € 3.1 billion (2006/07: € 0.8 billion) were utilised at the balance sheet date.

Furthermore, we have transferred loan receivables to the KfW as security amounting to € 1.9 billion at the balance sheet date in connection with a credit line provided by the KfW. The credit line can be drawn down in various tranches in euros or US dollars up to an amount of € 1.5 billion.

We have made cash collateral deposits of € 294.7 million (2006/07: € 290.0 million) with various institutions in connection with credit derivative transactions.

Cash collateral deposits to various institutions of € 582.6 million (2006/07: € 217.6 million) have been made for interest rate derivatives.

As collateral for payment obligations for security transactions, securities with a nominal value of € 3.5 million (2006/07: € 3.5 million) and € 7.0 million (2006/07: € 7.0 million) have been deposited with Clearstream Banking AG, Frankfurt, and Clearstream Banking S.A., Luxemburg, respectively. In connection with trading on the EUREX Deutschland exchange, securities with a nominal value of € 20.0 million (2006/07: € 20.0 million) have been pledged with BHF-Bank AG, Frankfurt/Main and Berlin, and with Citigroup, London, to cover margin obligations.

Securities with a value of USD 390 million have been pledged to the KfW, Frankfurt/Main, as additional cover supporting joint business concepts, unchanged to prior year. These had a present value of € 246.6 million at 31 March 2008.

In connection with repurchase securities transactions (repos) we have transferred securities with a nominal value of € 2.1 billion. Cash security deposits totalling € 51 million have been provided to protect against the market volatility of the securities provided as collateral.

Assets of € 181.7 million separated in connection with the CTA are restricted assets, restricted only for the purpose of fulfilling pension commitments, deferred compensation, early retirement and employee time account obligations to employees or for the purposes of generating income to cover such obligations. In addition, these assets provide insurance to cover such obligations in case of the Bank's insolvency.

Forward transactions / market value of derivatives / interest rate risks

IKB engages in forward transactions (swaps, forward rate agreements, and futures); these are predominantly used to manage and hedge interest rate risks, primarily in the loan refinancing portfolio and the investment portfolio. Only to a limited extent do we engage in trading derivative instruments. The Bank's interest rate risk exposure is restricted by a limit system adopted by the Board of Managing Directors, and is constantly monitored by our Risk Management unit. In addition, counterparty limits apply to the volume of forward and derivative transactions.

Within the loan refinancing portfolio, interest rate risk exposures are managed on loans, and on the corresponding refinancing arrangements. Derivatives are used to neutralise or reduce maturity mismatches, and interest rate or currency risks. The derivatives used for this purpose are primarily interest rate derivatives and contribute on an overall basis a negative market value of € 75 million. The negative market values correspond to positive market values on loans and fixed interest securities. In addition, the loan refinancing portfolio contains credit derivatives, with negative values of € 1.48 billion, mostly due to the widening of spreads. This amount comprises € –1.16 billion for embedded credit derivatives in structured securities (for example Credit Linked Notes) and € –240 million for Credit Default Swaps. Against these provisions of € 1.1 billion (€ 0.8 billion for embedded derivatives and € 0.3 billion for CDS) have been made.

The investment portfolio serves as investment of the Bank's own funds. Part of this portfolio includes structured securities which comprise more than 75% of the Bank's interest rate risk. The reduction of the risk during the financial year is not only a result of the sale of such structured securities but also a result of the use of derivatives for hedging purposes. In addition, the Investment Portfolio is used to secure the Bank's liquidity. Accordingly, it includes mostly variable interest-bearing securities capable of being used as security with the ECB, and which can be used in tendering processes. In this connection, derivatives are used to improve the portfolio's overall interest income. In total the € 300 million of the market value of derivatives is associated with the investment portfolio, most of which results from interest rate swaps.

Market value of derivatives

Derivatives transactions	Nominal	Market value		
in € million	31 March 2008	Positive 31 March 2008	Negative 31 March 2008	Total
Bond option	21.2	1.0	–33.2	–32.2
Cap/floor	28.6	0.0	0.0	0.0
Cross currency swap	2 864.1	100.2	–200.1	–99.9
Currency forwards transactions	23.2	0.9	–0.2	0.7
Forward interest rate swap	217.6	0.5	0.0	0.5
Forward bond	145.0	0.0	–4.4	–4.4
Currency swap	4 268.8	191.0	–0.7	190.3
Interest rate swap	28 538.3	260.0	–763.7	–503.7
Credit derivative*	4 339.7	77.6	–1 479.5	–1 401.9
of which CDS	1 086.3	77.6	–317.0	–239.3
of which imbedded derivative	3 253.4	0.0	–1 162.5	–1 162.5
Swaption	800.0	3.4	–3.4	0.0
Unclassified	0.0	0.9	–14.1	–13.2
Total	**41 246.5**	**635.4**	**–2 499.3**	**–1 863.9**

* Provisions amounting to € 1,060 billion have been set up for credit derivatives and are included in the provisions for possible loan losses.

The derivatives are valued on the basis of stock exchange prices ruling on the balance sheet date. For derivatives which are not traded on exchanges, the market values are determined based on financial models, taking account of market parameters (interest rates, interest rate volatility measures, exchange rates). The credit derivatives are primarily credit default swaps on individual securities or on portfolios as a whole. The valuation of portfolio credit default swaps is similar to that used for credit-linked notes described above). The market values reported include, in common with normal practice, accrued interest.

Remuneration and loans to members of executive bodies

A detailed description of the remuneration for the members of the Board of Managing Directors and of the Supervisory Board (together with the corresponding remuneration principles) is included in the Remuneration Report, which is included in the Management Report.

Remuneration for members of the Board of Managing Directors

The total remuneration for Board members amounted to € 4,264 thousand (2006/07: € 6,837 thousand). Of this, € 2,023 thousand (2006/07: € 2,141 thousand) represented fixed compensation, € 2,044 thousand (2006/07: € 4,318 thousand) variable compensation, and benefits in kind € 197 thousand (2006/07: € 378 thousand).

Former and retired Board members

The total remuneration for former and retired Board members and their surviving dependents amounted to € 3,882 thousand (prior year: € 5,622 thousand) in form of cash payments or additions to provisions. In addition, in 2007/08 a payment of € 800 thousand was made to a former member of the Board, a further payment of the same amount will be paid in the coming year. These amounts were accrued in 2006/07. A total amount of € 37,094 thousand (2006/07: € 29,680 thousand) was provided for pension obligations to former members of the Board of Managing Directors and their surviving dependents.

We refer to the explanations made in the remuneration report in respect of claims made for repayment of variable compensation paid to the Board for 2006/07.

Remuneration for members of the Supervisory Board

For the financial year 2007/08, the remuneration of the entire Supervisory Board amounted to € 561 thousand (2006/07: 693 thousand). Of this, € 37 thousand (2006/07: € 183 thousand) related to travel costs.

Remuneration of the Advisory Board

The members of the Advisory Board received € 361 thousand (2006/07: € 403 thousand), including VAT.

Loans extended to members of executive bodies and of the Advisory Board

No loans were extended to members of the Board of Managing Directors. The total amount of loans made to members of the Supervisory Board and the Advisory Board amounted to € 1.0 million (2006/07: € 1.4 million).

Average number of employees for the financial year

(based on full-time employees)

	2007/08	2006/07
Male	763	715
Female	467	441
Total	**1 230**	**1 156**

Corporate Governance

The Bank has issued the Declaration of Compliance as stipulated in section 161 of the AktG, and made it available to shareholders at all times.

Executive bodies

The following list of members of the Supervisory Board and Board of Managing Directors shows:
a) their membership in other statutory supervisory boards; and
b) similar offices held in comparable governing bodies of German and foreign companies.

Supervisory Board

Chairman

Dr h.c. Ulrich Hartmann, Düsseldorf
Chairman of the Supervisory Board of
E.ON AG
(until 27 March 2008)

a) E.ON AG (Chairman)
Deutsche Bank AG (until 29 May 2008)
Deutsche Lufthansa AG
Hochtief AG (until 26 July 2007)
Münchener Rückversicherungs-Gesellschaft AG

b) Henkel KGaA

Werner Oerter, Frankfurt (Main)
Senior Vice President of
KfW Bankengruppe
(Member from 27 March 2008 and
Chairman from 29 March 2008)

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

Deputy Chairman

Detlef Leinberger, Frankfurt (Main)
Member of the Managing Board of
KfW Bankengruppe

b) Europäischer Investitionsfonds (Luxemburg) (EIF)
(until May 2008)

Dieter Pfundt, Frankfurt (Main)
General Partner of
Sal. Oppenheim jr. & Cie. KGaA
(Member from 27 March 2008 and
Deputy Chairman from 29 March 2008)

a) Börse Düsseldorf AG

b) Bank Sal. Oppenheim jr. & Cie (Österreich) AG (Deputy Chairman)
Bank Sal. Oppenheim jr. & Cie (Schweiz) AG
Financière Atlas S.A.
Kommanditgesellschaft Allgemeine Leasing GmbH & Co.
MB Advisory Group, LLC
Sal. Oppenheim (Hong Kong) Limited
Sal. Oppenheim jr. & Cie. Corporate Finance (Schweiz) AG (President)
SOAR European Equity Fund plc

Dr Alexander v. Tippelskirch, Düsseldorf
Deputy Chairman of the Supervisory Board of
IKB Deutsche Industriebank AG
(until 27 March 2008)

a) Alba AG (Chairman)
GELITA AG (Chairman until end of July 2007)
P-D INTERGLAS TECHNOLOGIES AG (Deputy Chairman)

b) Hako-Holding GmbH & Co. (until December 2007)
Hako-Werke Beteiligungsgesellschaft mbH (until December 2007)
Krono-Holding AG (Schweiz)
Meyra GmbH & Co. KG
nobilia-Werke J. Stickling GmbH & Co.
Schmolz + Bickenbach AG (Schweiz)
Schmolz + Bickenbach KG
Hans Martin Wälzholz-Junius Familienstiftung
Eckart Wälzholz-Junius Familienstiftung
Dietrich Wälzholz Familienstiftung

Members

Dieter Ammer, Hamburg
Provisional Chairman of the Management Board of
Conergy AG

a) Beiersdorf AG (Chairman until 30 April 2008)
Conergy AG (Chairman until 15 November 2007)
Tchibo GmbH (Chairman until 15 June 2007)
GEA AG
Heraeus Holding GmbH
tesa AG (until 24 April 2008)

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

a) Euler Hermes Kreditversicherungs-AG (until 27 May 2008)
Postbank AG (until 27 May 2008)

b) German Financial Services Supervisory Authority
(Deputy Chairman)

Dr Jens Baganz, Düsseldorf
State secretary in the Ministry for the
Economy, Small and Medium-Sized Enterprises and Energy
in the State of North-Rhine Westphalia

a) Messe Düsseldorf GmbH

b) NRW.Invest GmbH (Chairman)
NRW.International GmbH (Chairman)
Entwicklungsgesellschaft Zollverein mbH
Forschungszentrum Jülich GmbH
NRW.BANK
NRW Japan, K.K.
ZENIT GmbH

Dr Jürgen Behrend, Lippstadt
Managing Director and General Partner of
Hella KGaA Hueck & Co.
(until 27 March 2008)

a) Leoni AG (until 2 May 2007)

Wolfgang Bouché, Düsseldorf
Employee representative

Hermann Franzen, Düsseldorf
General Partner of
Porzellanhaus Franzen KG

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

Dipl.-Kfm. Ulrich Grillo, Duisburg
Chairman of the Board of Managing Directors of
Grillo-Werke Aktiengesellschaft
(from 27 March 2008)

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

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

Dr-Ing. Mathias Kammüller, Ditzingen
Chairman of the Management of
TRUMPF Werkzeugmaschinen GmbH + Co. KG
(until 27 March 2008)

a) Carl Zeiss AG

b) Bürkert GmbH & Co. (until 31 December 2007)
Freudenberg & Co. KG
Viessmann Werke GmbH + Co. KG

Jürgen Metzger, Hamburg
Employee representative

Roland Oetker, Düsseldorf
Managing Partner of
ROI Verwaltungsgesellschaft mbH

a) Mulligan BioCapital AG
(Chairman until 28 November 2007)
Deutsche Post AG
Volkswagen AG

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

Dr-Ing. E.h. Eberhard Reuther, Hamburg
Chairman of the Supervisory Board of
Körber Aktiengesellschaft

a) Körber AG (Chairman)

Randolf Rodenstock, München
Managing Partner of
Optische Werke G. Rodenstock GmbH & Co.KG

a) E.ON Energie AG
Rodenstock GmbH

Rita Röbel, Leipzig
Employee representative

Dr Michael Rogowski, Heidenheim
Chairman of the Supervisory Board of
Voith AG

a) Voith AG (Chairman)
Carl Zeiss AG
HDI Haftpflichtverband der Deutschen
Industrie V.a.G.
Klöckner & Co. AG
Talanx AG

b) Freudenberg & Co. KG (Deputy Chairman)
European Aeronautic Defence and Space
Company EADS N.V. (until October 2007)
Würth Gruppe (Honorary Member)

Jochen Schametat, Düsseldorf
Employee representative

Dr Carola Steingräber, Berlin
Employee representative

Dr Alfred Tacke, Essen
Member of the Board of
Evonik Industries AG
(from 27 March 2008)

a) Evonik New Energies GmbH (Chairman)
Deutsche Steinkohle AG
RAG Aktiengesellschaft

Dr Martin Viessmann, Allendorf (Eder)
Managing Director of
Viessmann Werke GmbH & Co. KG

a) Messe Frankfurt GmbH
Schott Glas AG
Sto AG (until 30 June 2007)

Ulrich Wernecke, Düsseldorf
Employee representative

Andreas Wittmann, München
Employee representative

Board of Managing Directors

Dr Günther Bräunig (Chairman)
(from 29 July 2007)

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

Frank Braunsfeld
(until 15 October 2007)

b) IKB Capital Corporation (until 15 October 2007)
IKB Credit Asset Management GmbH
(until 15 October 2007)
IKB Immobilien Management GmbH
(until 15 October 2007)

Dr Volker Doberanzke
(until 7 August 2007)

b) IKB Data GmbH (Chairman until 7 August 2007)
IKB Autoleasing GmbH (until 7 August 2007)
IKB Capital Corporation (until 7 August 2007)
IKB Credit Asset Management GmbH (until 7 August 2007)
IKB International S.A. (until 7 August 2007)
IKB Leasing Berlin GmbH (until 7 August 2007)
IKB Leasing GmbH (until 7 August 2007)
IKB Private Equity GmbH (until 7 August 2007)

Dr Dieter Glüder
(from 29 July 2007)

b) IKB Credit Asset Management GmbH
(Chairman until 10 June 2008)
IKB International S.A. (Chairman)
IKB Autoleasing GmbH (until 21 May 2008)
IKB Capital Corporation
IKB Leasing Berlin GmbH (until 21 May 2008)
IKB Leasing GmbH (until 21 May 2008)

Dr Reinhard Grzesik
(from 15 October 2007)

b) IKB Immobilien Management GmbH (Chairman)
IKB Data GmbH
IKB Private Equity GmbH
(from 8 February until 15 May 2008)
Movesta Lease and Finance GmbH (until 21 May 2008)

Dr Markus Guthoff
(until 15 October 2007)

a) Carl Zeiss Meditec AG

b) IKB Capital Corporation
(Chairman until 15 October 2007)
IKB Immobilien Management GmbH (Chairman from
1 September 2007 until 15 October 2007)
IKB Credit Asset Management GmbH
(Deputy Chairman until 27 September 2007)
IKB Data GmbH
(from 5 October 2007 until 15 October 2007)
IKB International S. A.
(from 1 April 2007 until 15 October 2007)
IKB Private Equity GmbH (until 15 October 2007)
Movesta Lease and Finance GmbH
(until 15 October 2007)
Poppe & Potthoff GmbH

Dr Andreas Leimbach
(from 1 April 2008)

b) IKB Autoleasing GmbH (Chairman from 21 May 2008)
IKB Leasing Berlin GmbH (Chairman from 21 May 2008)
IKB Leasing GmbH (Chairman from 21 May 2008)
IKB Private Equity GmbH (Chairman from 15 May 2008)
Movesta Lease and Finance GmbH
(from 21 May 2008)

Claus Momburg

b) IKB Autoleasing GmbH
IKB Leasing Berlin GmbH
IKB Leasing GmbH
IKB Private Equity GmbH
IKB Credit Asset Management GmbH
(Deputy Chairman until 10 June 2008)
IKB International S.A. (Deputy Chairman)
Movesta Lease and Finance GmbH (Deputy Chairman)
Argantis GmbH

Stefan Ortseifen
(until 29 July 2007)

a) Coface Holding AG (until 30 July 2007)

*b) IKB Credit Asset Management GmbH
(Chairman until 29 July 2007)
IKB International S.A. (Chairman until 21 May 2007 and Deputy Chairman from 22 May 2007 until 29 July 2007)
IKB Autoleasing GmbH
(Deputy Chairman until 29 July 2007)
IKB Capital Corporation
(Vice Chairman until 29 July 2007)
IKB Leasing Berlin GmbH
(Deputy Chairman until 29 July 2007)
IKB Leasing GmbH (Deputy Chairman until 29 July 2007)
IKB Private Equity GmbH
(Deputy Chairman until 29 July 2007)
DEG – Deutsche Investitions- und Entwicklungsgesellschaft mbH (Deputy Chairman until 29 July 2007)
Kreditanstalt für Wiederaufbau (until 30 July 2007)*

Offices held by employees

As at 31 March 2008, the following employees were represented in statutory supervisory boards of large corporations:

Rolf Brodbeck
Spiele Max AG

Roland Eschmann
Oechsler AG

Stefan Haneberg
MASA Aktiengesellschaft

Frank Kraemer
ae Group AG

Düsseldorf, 2 July 2008
IKB Deutsche Industriebank AG
Düsseldorf
The Board of Managing Directors

Dr Günther Bräunig

Dr Dieter Glüder

Dr Reinhard Grzesik

Dr Andreas Leimbach

Claus Momburg

The following auditor's report (Bestätigungsvermerk) has been issued in accordance with § (Article) 322 German Commercial Code (Handelsgesetzbuch) in German language on the German version of the annual financial statements, comprising the balance sheet, the income statement and the notes to the financial statements, and of the management report of the IKB Deutsche Industriebank AG, Düsseldorf, for the business year from April 1, 2007, to March 31, 2008.

Auditor's Report

We have audited the annual financial statements, comprising the balance sheet, the income statement and the notes to the financial statements, together with the bookkeeping system, and the management report of the IKB Deutsche Industriebank Aktiengesellschaft, Düsseldorf, for the business year from April 1, 2007, to March 31, 2008. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law are the responsibility of the Company's Board of Managing Directors. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

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

Our audit has not led to any reservations.

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

According to our duties, we refer to the fact that the Company's ability to continue as a going concern is threatened by risks which are described in the section "Overall view of the risk situation" of the management report. In this section it is stated that the Company's ability to continue as a going concern depends on its ability to regain extended access to the capital market in the business year 2008/09 also for unsecured longer-term refinancing. For this purpose, it is particularly necessary that

- the approved capital increase is entered in the Commercial Register, carried out on a timely basis and results in a capital inflow of at least € 1.25 bn,

- the measures planned to generate liquidity, especially entering into new and extending existing secured money market refinancing as necessary on a short term basis are implemented,

- a significant portion of portfolio investments is disposed of at sufficient prices,

- no legal action is taken against the measures set out above, or against the entire risk shield, particularly action taken by the EU, and

- no significant risks arise out of the legal dispute with a credit insurer.

Düsseldorf, July 4, 2008

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

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

Responsibility statement according to section 264 (2) no. 3 and section 289 (1) no. 5 of the German Commercial Code (HGB)

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

Düsseldorf, 2 July 2008
IKB Deutsche Industriebank AG
Düsseldorf
The Board of Managing Directors

Dr Günther Bräunig

Dr Dieter Glüder

Dr Reinhard Grzesik

Dr Andreas Leimbach

Claus Momburg