Restated Annual Report 2006/2007

This report subsitutes the Annual Report 2006/07,
disclosed for the first time at 28 June 2007

IKB
Deutsche Industriebank

Key figures – IKB Group

Balance Sheet Figures	31 March 2007 in € million	Change vs. previous year in %
Total assets	63 538	19.3
Loans and advances to customers	29 685	6.0
Liabilities to banks	13 913	–1.1
Securitised liabilities	39 556	28.6
Total equity	1 191	–7.9

Income Statement Figures	2006/07 in € million	Change vs. previous year in %
Net interest income	677.9	11.0
Provision for possible loan losses	259.0	–18.7
Net interest income (after provision for possible loan losses)	418.9	43.5
Net commission income	52.0	71.1
Net income from financial instruments at fair value	–40.9	–
Administrative expenses	316.2	17.5
Operating result	114.5	–33.0
Net income for the year	37.9	–65.2
Total dividends	0.0	–100.0

Selected Ratios	31 March 2007	31 March 2006
Return on equity	9.4%	13.8%
Cost/income ratio	45.8%	41.9%
Number of employees	1 838	1 703

Rating of IKB as at 15 February 2008	Long-Term	Short-Term	Outlook
Moody's	A3	P-2	„negative"
Fitch IBCA	A+	F1	„stable"

Key indicators of the IKB Share	2006/07	2005/06
Earnings per share	€ 0.43	€ 1.24
Dividend per share	€ 0.0	€ 0.85
Dividend yield*	0.0%	2.8%
Highest share price in the financial year	€ 33.55	€ 31.19
Lowest share price in the financial year	€ 25.38	€ 20.15
Share price*	€ 29.85	€ 30.36
Number of shares*	88.0 million	88.0 million
Market capitalisation*	€ 2.63 billion	€ 2.67 billion

* as at the end of the financial year

IKB Shareholders*	
KfW Banking Group	38%
Stiftung Industrieforschung	12%
Institutional and private shareholders	50%

* as at the end of the financial year

Officially quoted at the Stock Exchanges in Frankfurt, Düsseldorf, Hamburg, Berlin-Bremen, Hanover, Stuttgart, Munich and the electronic trading platform Xetra

Letter to Shareholders

Ladies and gentlemen, dear shareholders,

This is the restated annual report containing the newly audited financial statements of the IKB Group for the 2006/07 financial year. The reporting period (1 April 2006 to 31 March 2007) ended before the onset in July 2007 of the crisis that was to threaten the very existence of the Bank. However, we felt it necessary also to carry out a revaluation of this financial year too taking into account the current state of knowledge. This is a key element of the aim that we as the Board of Managing Directors have set ourselves, namely to carry out a fundamental and transparent analysis of events.

Key positions in the Board of Managing Directors were changed after the crisis. On 30 July 2007, Dr. Glüder and I commenced our work as the newly appointed directors of IKB. Dr. Grzesik was appointed as CFO of IKB with effect from 15 October 2007.

To overcome the crisis we have set ourselves three main objectives:

- to create transparency;
- to stabilise the Bank; and
- to realign the Bank's business.

On 1 August 2007, the Board of Managing Directors of IKB, in agreement with the German Financial Services Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht - BaFin) and the Supervisory Board commissioned the accounting firm PricewaterhouseCoopers (PwC) to carry out a special audit. This special audit provided for an extensive clarification of facts together with numerous recommendations on how to analyse the crisis and restructure the Bank's operations, which we received mid-October 2007. The outcome was fundamental changes in the risk management of the Bank's portfolio investments, further personnel measures at Board level and amendments to IKB's consolidated financial statements and financial statements for the financial year 2006/07.

Crisis threatening IKB's existence and rescue package

The crisis stemmed from IKB's considerable investments in the 2006/07 financial year in structured securities portfolios that also included risks arising from US real estate loans. IKB had also committed to liquidity facilities of over € 8 billion

for the Rhineland Funding conduit, which was carried outside the balance sheet at the time. From today's perspective, in conjunction with further risks arising from the conduit, this exceeded the Bank's risk-bearing capacity by far.

This was manifested on 27 July 2007, where the growing uncertainty on the Asset Backed Commercial Paper market posed the real risk for IKB that the liquidity facilities extended would be drawn upon. As a result, the Bank's creditworthiness was compromised to such an extent that insolvency could not be ruled out. In order to circumvent a situation whereby the Bank would be required to close, KfW Banking Group (KfW) together with the BaFin, the Bundesbank, the Federal Finance Ministry and three associations of the German Banking Industry (the Association of German Banks-BdB, the Federal Association of German Credit Unions-BVR, and the German Savings Bank Association-DSGV) put together an extensive rescue package (risk shield) that was extended further in November 2007.

A pool of banks, comprising KfW and the three banking associations, provided the risk shield to IKB, to cover all key risk exposures relating to Rhineland Funding as well as hedging risks incurred through IKB's on-balance portfolio investments. In February 2008 – following a significant deterioration in market conditions – this cover turned out to be insufficient. Using newly-developed valuation models for IKB's on-balanced sheet portfolio investments, additional mark-to-market losses of approx. € 950 million appeared likely.

As a consequence, a further package was agreed upon, which comprises a € 1.25 billion capital increase guaranteed by KfW plus the immediate strengthening of IKB's regulatory tier 1 capital. The disposal of major parts of IKB's portfolio investments is planned as a further component of the restructuring package.

Shareholders and investors hit hard

We know that the crisis affecting IKB has hit our shareholders and all other IKB investors hard. During the crisis, our share has lost more than three quarters of its value, there has been no dividend, and IKB's junior issues have also recorded significant losses in value. It should be borne in mind, however, that by taking on billions in charges through the rescue package, the members of the banking pool have facilitated the continued existence of IKB.

We are also aware that in the course of the crisis, the capital market expected more up-to-date and extensive information vis-à-vis IKB's business development on a quarterly basis. We therefore had to reach the tough decision of postponing the interim figures. Ultimately, we gave the highest priority to the fundamental analysis in particular of the consolidation of the individual entities of Rhineland Funding and the revaluation of the portfolio investments.

Major impact on financial figures

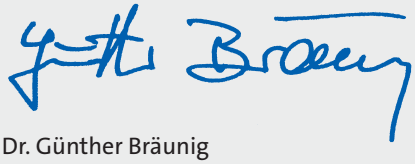
The retrospective changes recommended by PwC in the accounting as at 31 March 2007 produced a consolidated operating result of € 115 million for the financial year 2006/07, which is € 148 million lower than the figure of € 263 million reported originally.

Dealing with the crisis on the financial market, as well as necessary restructuring measures, will have a major detrimental effect on the result for the current financial year. The Board of Managing Directors expects the Group to record a net loss for the 2007/08 financial year (according to IFRS) of approx. € 550 million, despite a positive effect from the fair-value accounting of liabilities amounting to approx. € 770 million. It must be noted, however, that this estimate of results is still subject to significant uncertainty.

Looking to the future

As far as public perception over the last few months is concerned, the losses incurred from the portfolio investments completely overshadowed the image of the Bank's core business. It is therefore particularly important for us to stress that IKB can continue to build on a stable and successful core business.

Over the past weeks and months we have experienced remarkable support and great loyalty from our customers, but also from our employees, who are highly committed to the future of our company despite the crisis situation. This is a great boost to the Bank in its efforts to successfully realign its business with a focus on the Corporate Clients, Real Estate Clients and Structured Finance segments. Our market presence has always been built on expertise, customer focus and trust, and it is to these values that we remain highly committed. This applies just as much, if not more so, to the period following the sale of KfW's stake in IKB. We are committed to the sale in the interest of the company and our shareholders. Together with KfW, we are pursuing our goal that IKB, even with a new major shareholder, should continue as a bank serving the medium-sized sector and as a specialist bank.



Dr. Günther Bräunig
Chairman of the Board of Managing Directors
IKB Deutsche Industriebank AG

Supervisory Board

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Prof. Dr. jur. Dr.-Ing. E. h.
Dieter Spethmann, Düsseldorf
Attorney

Chairman
Dr. h.c. Ulrich Hartmann, Düsseldorf
Chairman of the Supervisory Board of
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Deputy Chairman
Detlef Leinberger, Frankfurt am Main
Member of the Management Board of
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Deputy Chairman
Dr. Alexander v. Tippelskirch, Düsseldorf
Deputy Chairman of the Supervisory Board of
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Dieter Ammer, Hamburg
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Jörg Asmussen, Berlin
Ministerial Director in the
German Federal Ministry of Finance

Dr. Jens Baganz, Düsseldorf
State Secretary in the
Ministry for Economic Affairs and Energy in the
State of North-Rhine-Westfalia

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Managing Director and General Partner of
Hella KGaA Hueck & Co.

Wolfgang Bouché, Düsseldorf *

Hermann Franzen, Düsseldorf
General Partner of
Porzellanhaus Franzen KG

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Chairman of the Management Board of
TRUMPF Werkzeugmaschinen GmbH + Co. KG

Jürgen Metzger, Hamburg *

Roland Oetker, Düsseldorf
Attorney
Managing Partner of
ROI Verwaltungsgesellschaft mbH

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Chairman of the Supervisory Board of
Körber Aktiengesellschaft

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

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Chairman of the Supervisory Board of
Voith AG

Jochen Schametat, Düsseldorf *

Dr. Carola Steingräber, Berlin *

Dr. Martin Viessmann, Allendorf (Eder)
Chairman of the Management Board of
Viessmann Werke GmbH & Co. KG

Ulrich Wernecke, Düsseldorf *

Andreas Wittmann, München *

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Executive Committee

Chairman
Dr. h.c. Ulrich Hartmann

Detlef Leinberger

Dr. Alexander v. Tippelskirch

Finance and Audit Committee

Chairman
Detlef Leinberger

Wolfgang Bouché

Dr. h.c. Ulrich Hartmann

Dr. Alexander v. Tippelskirch

* employee representative

Advisory Board

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President of the
Federation of German Industries
(Bundesverband der Deutschen Industrie e.V.)

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Chairman of the Board of Managing Directors of
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Chairman of the Supervisory Board of
Basler AG

Prof. Dipl.-Kfm. Thomas Bauer, Schrobenhausen
Chairman of the Board of Managing Directors of
BAUER Aktiengesellschaft

Dr. h.c. Josef Beutelmann, Wuppertal
Chairman of the Boards of Managing Directors of
Barmenia Versicherungs-Gesellschaften

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Bierbaum Unternehmensgruppe GmbH & Co. KG

Dipl.-Kfm. Martin Dreier, Dortmund
Managing Partner of
Dreier-Werk GmbH Dach und Wand
+ Dreier Immobilien

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General and Managing Partner of
Peter Kölln KGaA

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Chairman of the Board of Managing Directors of
Fiege Holding Stiftung & Co. KG

Hans-Michael Gallenkamp, Osnabrück
Managing Director of
Felix Schoeller Holding GmbH & Co. KG

Dr. Jürgen Großmann, Hamburg
(until 14 August 2007)
Chairman of the Board of Managing Directors of
RWE AG

Wolfgang Gutberlet, Fulda
Chairman of the Board of Managing Directors of
tegut... Gutberlet Stiftung & Co.

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(until 10 October 2007)
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Franz Haniel & Cie. GmbH

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General Partner of
Harting KGaA

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(until 5 December 2007)
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Managing Director of the
German Engineering Industry Association
(Verband Deutscher Maschinen- und
Anlagenbau – VDMA)

Dr. Stephan J. Holthoff-Pförtner, Essen
Attorney and Notary

Martin Kannegiesser, Vlotho
Managing Partner of
Herbert Kannegiesser GmbH & Co.

Dr. Michael Kaschke, Oberkochen
Member of the Board of Managing Directors of
Carl Zeiss AG

Dipl.-Wirtsch.-Ing. Arndt G. Kirchhoff, Attendorn
Managing Partner of
KIRCHHOFF AUTOMOTIVE GmbH & Co. KG
c/o KIRCHHOFF Automotive Deutschland GmbH

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Chairman of the Advisory Board of
Döhler GmbH

Prof. Dr.-Ing. Eckart Kottkamp, Bad Oldesloe
Chairman of the Supervisory Board of
Hako Werke GmbH

Nicolette Kressl (from 11 February 2008)
Parlamentary State Secretary at the
German Federal Minstry of Finance

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Chairman of the personally liable partners
Sal. Oppenheim jr. & Cie. KGaA

Andreas Langenscheidt, München
Managing Partner of
Langenscheidt KG

Dr.-Ing. Wolfhard Leichnitz, Bonn
Chairman of the Board of Managing Directors of
IVG Immobilien AG

Axel Oberwelland, Berlin
General Partner and
Chairman of the Management Board of
August Storck KG

Dipl.-Kfm. Jürgen Preiss-Daimler, Wilsdruff
Managing Partner of
P-D Gruppe

Olivier Schatz, Paris
Co-Head of Corporate and
Investment Banking of
NATIXIS

Hartmut Schauerte, Berlin
Parliamentary State Secretary at the
German Federal Ministry of Economics
and Technology

Dr. Ingeborg von Schubert, Bielefeld
Chairman of the Advisory Board of
Gundlach Holding GmbH & Co. KG

Reinhold Schulte, Dortmund
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SIGNAL IDUNA Gruppe

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Member of the Board of Managing Directors of
ALBA AG

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Hugo Kern und Liebers GmbH & Co. KG

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Chairman of the Managment Board of
Evonik Steag GmbH

Dipl.-Kfm. Rainer Thiele, Halle/Saale
Managing Partner of
KATHI Rainer Thiele GmbH

Torsten Toeller, Krefeld
Chairman of the Managment Board of
Fressnapf Tiernahrungs GmbH

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Managing Director of the
Federation of German Chambers of
Industry and Commerce

Dr. Ludolf v. Wartenberg, Berlin
Member of the Executive Committee of the
Federation of German Industries
(Bundesverband der Deutschen Industrie e.V.)

Clemens Freiherr von Weichs, Paris
Président du Directoire
Euler Hermes

Board of Managing Directors

Dr. Günther Bräunig
(Chairman of the Board of Managing Directors
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)

Claus Momburg

Joachim Neupel (until 31 December 2006)

Stefan Ortseifen (until 29 July 2007)

Frank Schönherr (until 30 November 2006)

Restated Group Management Report

1. Report on Material Events after the Reporting Date

On 27 July 2007 IKB found itself exposed to a crisis that threatened its very existence, sparked off by the developments on the US sub-prime mortgage market. It took a comprehensive rescue package put together by the KfW Banking Group and three German banking associations (BdB, BVR, DSGV) to secure the Bank's continued existence.

We have listed key events since the outbreak of the crisis in the following table:

Overview of the crisis and key events

27 July 2007	Because of the threat that IKB's liquidity facilities for the Rhineland Funding conduit would be drawn upon, other banks duly froze their credit facilities made available to IKB
28/29 July 2007	IKB together with KfW, three associations of the German banking industry and BaFin put together a comprehensive risk shield
29 July 2007	Supervisory Board meeting: risk shield discussed, Stefan Ortseifen was unanimously removed from office and Dr. Bräunig and Dr. Glüder were appointed to the Board of Managing Directors
1 August 2007	PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft (PwC) was commissioned to carry out comprehensive agreed upon procedures
2 August 2007	The Annual General Meeting for the 2006/07 financial year originally scheduled for 30 August 2007 was postponed
7 August 2007	Supervisory Board meeting: resignation of Dr Doberanzke from office; proposal that no dividend be paid for the 2006/07 financial year
3 September 2007	Forecast for the full year amended with significant losses expected for the 2007/08 financial year
15 October 2007	PwC submits report of the agreed upon procedures Supervisory Board meeting: unanimous approval of the resignation of Dr Guthoff, removal of Frank Braunsfeld from and appointment of Dr. Grzesik to the Board of Managing Directors Resolution by the Board of Managing Directors to amend and restate IKB's 2006/07 consolidated financial statements
29 November 2007	Postponement of the publication of the interim report for the first half of the 2007/08 financial year, which was originally scheduled for 30 November 2007
30 November 2007	Extension of the risk shield announced
7 January 2008	Resolution of the Board of Managing Directors, with approval by the Supervisory Board, to issue a mandatory convertible bond to be subscribed to (and subsequently converted) by KfW; Resolution of the Board of Managing Directors to amend the single-entity financial statements of IKB for the 2006/07 financial year
9 January 2008	Further risks from the Rhineland Funding conduit assumed by KfW and additional banks (as announced on 30 November)
13 February 2008	Further package of measures required as a result of the revaluation of on-balance sheet portfolio investments
16 February 2008	Supervisory Board meeting: restated financial statements of 31 March 2007 reviewed and confirmed

Given the impact this crisis has had on the Bank's existence, we will outline below the business activities that triggered the crisis together with the rescue operation provided by the banking pool and further developments, bringing us up to the present situation. This will be followed directly by a preview of the Bank's future developments.

Portfolio investments as an element of the business strategy

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). This type of security can also be linked to a portfolio of credit derivatives or be backed by a portfolio of ABS tranches (CDOs of ABS). Credit derivatives also exposed IKB to comparable risks. These financial instruments are compiled under the term portfolio investments. The aim behind these investments was to improve the Bank's risk/reward structure. Portfolio investments generated a clear increase in income in the past.

The investments were focused in particular on highly diversified loan-based portfolios, such as company loans, credit card receivables, a wide variety of mortgage loan receivables, and also car loans. The regional focus was on the USA. IKB took these investments on its own balance sheet.

The volume of on-balance sheet portfolio investments made directly by the Bank amounted to € 6.8 billion as at 31 March 2007. At this time, 73% of the portfolio comprised triple-A and double-A rated investments. The investment grade share was 98%. US investments accounted for roughly two thirds of the portfolio's underlying, with Europe making up the other third. A detailed illustration of the on-balance sheet portfolio investments can be found in the Risk Report.

Advising and financing the Rhineland Funding and Rhinebridge special purpose vehicles

IKB also initiated the launch in 2002 of the Rhineland Funding conduit (Rhineland Funding), comprising Rhineland Funding Capital Corporation LLC, Delaware, ("RFCC") plus various purchasing entities with registered offices in Jersey and Delaware that have been established since then. IKB acted as advisor for RFCC and the purchasing entities. The legally independent special purpose vehicles invested in similar financial instruments, in terms of both the underlying credit portfolios and the ratings. They were financed on a continuous basis by the issue of commercial paper. IKB and other banks also extended considerable liquidity facilities. In December 2006, IKB AG transferred the advisory services to the newly-established group subsidiary IKB Credit Asset Management GmbH (IKB CAM).

As at 31 March 2007, the investment portfolio of all Rhineland Funding purchasing entities amounted to € 12.7 billion, of which € 11.4 billion was consolidated in the restated consolidated financial statements as at 31 March 2007. The share of investment grade investments was 99.8%. A detailed illustration of Rhineland Funding can be found in the Risk Report.

The securities in the Rhineland Funding purchasing entities had and still have medium to long-term maturities. Refinancing was carried out centrally via RFCC by taking up short-term funding in the form of so-called asset-backed commercial paper (ABCP) with the best short-term rating. The ABCP had short maturities of just a few months in each case and could therefore be regularly replaced with new issues. To this extent, there was a form of maturity arbitrage within the conduit between medium to long-term assets and short-term refinancing with the corresponding margin benefits regarding the funding costs. Interest rate risks were generally neutralised through interest rate hedges.

To cover the risk of follow-on financing for the ABCP investor in particular, banks had provided Rhineland Funding with liquidity facilities, to cover any market disruptions. The ABCP market was seldom subject to disruptions in the past, and when these occurred, they were only short-term in nature. The last significant market disruption, which dates back to 11 September 2001, lasted only a few days.

IKB itself had provided Rhineland Funding with liquidity facilities in the amount of € 8.1 billion as at 31 July 2007. Negotiations on the placement of parts of IKB's liquidity facilities were about to be concluded in July 2007.

Prior to this, comparable liquidity facilities were made available by additional banks in the course of the sharp growth of Rhineland Funding; these comprised in particular USD 4 billion in August 2006, with a further USD 2.5 billion to follow in June 2007. The special purpose vehicles Havenrock I and II were set up in connection with the provision of these liquidity facilities. These companies secured 25% on the liquidity risks for these liquidity providers together with their entire credit risk arising in the event that the liquidity facilities are drawn upon. IKB in turn, provided the Havenrock companies with a liquidity facility to cover their entire liquidity risk (25% of USD 6.5 billion). On the other hand, IKB assumed the credit risk of the Havenrock companies in a range between 0.06% and 25.00% (25% of USD 6.5 billion).

In late June 2007, a further special purpose vehicle, Rhinebridge, took over a portfolio from the IKB balance sheet that had been built up to the required size and refinanced it on the capital market by issuing capital notes and commercial paper. The London branch of IKB CAM acted as portfolio manager for Rhinebridge. As at the end of June 2007, Rhinebridge had an asset volume of USD 2.4 billion.

Unlike Rhineland Funding, this special purpose vehicle, rather than relying solely on commercial paper, was also capitalised/refinanced over the longer term using capital notes in the amount of USD 280 million. IKB's own share in these notes was € 149 million. In addition, commercial paper was issued in the amount of USD 2.2 billion. With effect from 21 July 2007, Rhinebridge also had access to liquidity facilities worth USD 0.2 billion from two banks. As at 30 June 2007, 82% of the assets were rated AAA, 14% AA and 4% A.

Factors that triggered the crisis

The crisis was triggered by stagnating and falling real estate prices in the USA, especially due to the rise in interest rates. Doubts were also growing about credit issuing practices on the US mortgage market for sub-prime borrowers, with a dramatic rise expected in payment problems and far higher final losses than previously expected.

By the middle of July 2007 the credit rating agencies had begun to place the ratings of credit portfolios that contained sub-prime risks on credit watch. Within a short space of time, a huge crisis of confidence hit the capital market among investors in the asset backed commercial paper market. Owing to the high sub-prime share in its portfolios, there was an increasing risk that Rhineland Funding would no longer be able to guarantee its refinancing in the long term. The capital and banking market therefore predicted that IKB's liquidity facilities would be drawing upon substantially, thus exposing it to considerable sub-prime credit risks. Consequently, the other banks questioned the creditworthiness of IKB and terminated their credit facilities.

Stabilisation of Rhineland Funding and the special purpose vehicle Rhinebridge

Following this crisis weekend, IKB together with KfW drew up a blueprint to stabilise Rhineland Funding's weakened refinancing base to such an extent and until such time as the special purpose vehicle would not become insolvent owing to, amongst other things, the default of commercial paper (CP). This would have had immeasurable consequences within the short timeframe involved – going as far as forced liquidation. Initially, IKB and KfW stabilised Rhineland Funding through the purchase of CPs, thus preparing and successfully implementing the orderly process of refinancing through available liquidity facilities. The latter scenario was aimed for, as soon as it was evident to all parties involved from the joint assessment that the CP market was expected to dry up for quite some time.

For the same reasons, IKB adopted a similar approach to Rhinebridge, which had been launched on the capital market only shortly before the crisis erupted. IKB in its own interests was able to stabilise this special purpose vehicle through the purchase of capital notes and CPs to such an extent that it could independently reduce its portfolio in an orderly and careful manner, thus avoiding the forced sale of the portfolio with the attendant high losses.

Risk shield and additional package of measures

To avoid a moratorium of IKB, a rescue package (risk shield) was put together during the weekend of 27 to 29 July 2007 by KfW Banking Group (KfW) together with the BaFin, the Bundesbank, the Federal Finance Ministry and three associations of the German banking industry (BdB, BVR and DSGV).

In this context, KfW assumed IKB's financial obligations under the liquidity facilities of € 8.1 billion granted to Rhineland Funding with effect from 30 July 2007.

Additionally, with effect from 30 July 2007 and again on 9 January 2008, IKB's risk exposure to Havenrock I and II was largely covered. The shield also includes the issue of a € 54.3 million convertible bond on 7 January 2008 which, subject to the exclusion of the subscription right, was subscribed in full by KfW Banking Group. This amount secured the residual credit risk exposure of IKB from Havenrock I and II.

Out of this overall on-balance sheet portfolio, a nominal amount of € 3.3 billion was held in securities with sub-prime risks (including Rhinebridge capital notes), in securities subject to expected strong market price fluctuation, and in securities that were extremely vulnerable to default (so-called first loss pieces in particular). The banking pool has committed to assume the first loss pieces for this portfolio, up to an amount of € 1 billion.

In February 2008 – following a significant deterioration in market conditions – this cover turned out to be insufficient. Using newly-developed valuation models for IKB's on-balance sheet portfolio investments, the Board of Managing Directors envisages additional mark-to-market losses, in excess of the existing risk shield, of approx. € 950 million.

Of these valuation losses, expected to amount to approx. € 950 million, the lion's share of approx. € 630 million is attributable to the € 3.1 billion sub-portfolio (size as at February 2008) comprising assets exposed to particularly high default risk – in particular, securities exposed to strong market fluctuations and sub-prime components, and so-called first-loss pieces.

This partial amount of € 630 million exceeds the € 1.0 billion risk shield provided by KfW and the pool of banks for first losses on the sub-portfolio referred to above. Given the prevailing market situation, a portfolio sale would likely involve more sizeable discounts.

IKB expects a valuation loss of approx. € 320 million for approx. € 2.8 billion of portfolio investments outside this risk shield, which are generally exposed to lower risk.

The portfolio investments were revalued through a mark-to-model approach, using customised models designed particularly for IKB in order to map its structured portfolio investments, most of which are very complex. The methods used are based 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 sub-prime crisis.

As a consequence, a further package was agreed upon, which consists of the following elements in particular:

Firstly, a proposal will be submitted to the ordinary shareholders' meeting of IKB AG on 27 March 2008 to pass a resolution to increase the company's capital by up to € 1,486,765,992.96, against cash contributions and with a 6-for-1 subscription right for existing shareholders. KfW has committed to BaFin to ensure that a sufficient quantity of new IKB shares will be subscribed to or purchased under the capital increase that IKB will obtain fresh funds in a minimum amount of € 1.250 billion (excluding costs).

Furthermore, KfW has undertaken, vis-à-vis BaFin, to boost IKB's regulatory tier 1 capital by € 600 million until 19 February 2008, by way of an "additional capital contribution" pursuant to section 272 (2) no. 4 of the HGB, to be recognised in the capital reserve. The contractual details governing this contribution will be determined at short notice; they may include a debtor warrant (Besserungsabrede) which may burden the annual results of future periods.

The disposal of major parts of IKB's portfolio investments is planned as a further component of the restructuring package.

Findings of the agreed upon procedures carried out by PwC

On 1 August 2007, PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft (PwC) was commissioned with the task of carrying out comprehensive agreed upon procedures. The findings of the agreed upon procedures were submitted on 15 October 2007. The newly appointed members of the Board of Managing Directors were in regular dialogue with PwC on the issues being reviewed even while the agreed upon procedures was being prepared.

Main topics of the audit

Within the scope of the agreed upon procedures, PwC determined the risk situation of the IKB Group. The auditors also analysed how the Bank's risk-bearing capacity could be compromised by Rhineland Funding to such an extent that it threatened the Bank's existence. It also assessed IKB's accounting policies, and evaluated the appropriateness of risk management and control processes, taking into account the Bank's wholly-owned subsidiary IKB Credit Asset Management GmbH (IKB CAM). Furthermore, PwC were asked to investigate whether the Supervisory Board was informed sufficiently and accurately by the Board of Managing Directors of the Bank's risk exposure.

Results and consequences of the agreed upon procedures for the Bank's risk management

A central issue identified by PwC's audit report concerns deficiencies in the risk analysis, risk management and reporting for on-balance sheet investments and the portfolio investments for Rhineland Funding. The advisory service to the special purpose vehicles and the management of IKB's on-balance sheet portfolio investments were for the most part transferred to IKB CAM. According to PwC, the role and importance assigned to IKB CAM in an advisory capacity was too extensive overall. This applied to the preparation of investment decisions as well as in terms of portfolio monitoring – even though the final investment decision regarding on-balance sheet portfolio investments was always made by IKB. Decisions regarding portfolio investments by Rhineland Funding were ultimately made by an Investment Committee comprising two representatives of Dresdner Kleinwort, two independent directors of the purchasing entities, and one director of IKB. The capacity for trading held by IKB CAM within the scope of the applicable control structure was not appropriate in relation to the resulting influence it had on the Bank's risk position.

The auditors also found weaknesses in the analysis of acquired securities. Given the scale of the investment volume and the significance of the risks involved, a continous separate analysis of each individual issue after the purchase should have been carried out, as well as a systematic and methodically sound management of overall portfolio risk – both for on-balance sheet and off-balance sheet instruments. Instead, the Bank relied predominately on the good ratings, an appropriate distribution of the rating quality in the portfolio and strengthening the credit portfolio in the form of subordinated tranches of each issue. Although the proportion of sub-prime investment has risen significantly, in the last two years in particular, the CP issues retained their very good short-term rating because of the high rating quality of the portfolio. Overall, the diminutions in value from the sub-prime risk in Rhineland Funding that are quite clear now by far exceeded the Bank's risk-bearing capacity.

In light of the auditors' findings, the Board of Managing Directors adopted a programme of immediate action, most of which has already been implemented. The key points of this action plan were as follows:

- No further new business to be concluded in portfolio investments
- Implementation of a comprehensive portfolio analysis and implementation of a much improved portfolio management system (including adjustment of valuation models)
- Re-integration of IKB CAM, transferring functions and personnel resources to IKB AG
- Strengthening the function of Chief Risk Officer (CRO) in particular through merging of responsibility for risk controlling and back office (second vote on credit decisions)
- Establishing a risk committee, to be chaired by the Chief Risk Officer, to ensure a comprehensive assessment and management of all of the risk exposures
- Improvement in reporting to the Supervisory Board, particularly with respect to residual portfolio investments
- Revising the concept to determine the Bank's risk-bearing capacity

Results and consequences of the audit report with regard to accounting

Based on the results of the audit report, the Board of Managing Directors decided, with the consent of the Supervisory Board, to modify the consolidated financial statements as at 31 March 2007, in particular due to the fact that certain accounting questions would be dealt with differently with knowledge of the developments that subsequently occurred on the sub-prime and commercial paper markets. The changes that were applied retrospectively in accordance with IAS 8 impacted in particular on the consolidation of Rhineland Funding and on parts of a issuing entity whose securities serve as an investment vehicle for IKB's economic capital. These are fixed-income securities that were reported up to now under investment securities, each of which securitises a portfolio of mortgage bonds and derivatives. The consolidation now means that the Pfandbriefe and derivatives are accounted for separately so that these items are measured at fair value instead of at amortised cost. The market value of these derivatives fluctuates considerably in line with changes in general market interest rates, so that the consolidation resulted in significant volatility in the income statement. This better reflects theses instruments' risk/return profile in substance.

The retrospective changes in the accounting as at 31 March 2007 yielded an operating result of € 115 million for the financial year 2006/07, which is € 148 million lower than the figure of € 263 million reported originally. This was primarily due to the valuation of derivatives, which were initially included within the scope of consolidating the issuing entity described in the preceding paragraph, and of Rhineland Funding (and Havenrock in particular). Total assets increased by € 11.5 billion – in particular due to the consolidation of Rhineland Funding – to € 63.5 billion as at 31 March 2007. A detailed reconciliation of the balance sheet and income statement can be found in the Notes, in the chapter "Adjustments pursuant to IAS 8".

The previous figures for the 2005/06 financial year have also been adjusted accordingly. Consequently, the operating result has fallen from € 233 million to € 171 million, and total assets as at 31 March 2006 rose by € 9.1 billion to € 53.3 billion.

The Board of Managing Directors also decided to implement adjustments in the segment reporting as of the financial year 2007/08. In future, transactions securitised by the Bank itself will be shown in the segment "Head Office" and the current "Securitisation" segment will be renamed "Portfolio Investments".

Owing to the events mentioned above and the changes that have been agreed upon, the publication of the audited interim financial report originally scheduled for 15 November 2007 was postponed until March 2008. The publication of the 9-month report scheduled in the financial calendar for 14 February 2008 has also been postponed until March 2008.

Further significant events that occurred after 31 March 2007 can be found in Note 68.

The restructured financial statements and consolidated financial statements as at 31 March 2007 are being reviewed by the German Financial Reporting Enforcement Panel, in accordance with Section 342b, paragraph 2, sentence 3 no. 3 of HGB (sample checks). The Panel will inform IKB of the results upon completion of the review. IKB is obliged to disclose any error determined upon completion of the review by decision of BaFin in accordance with section 37q (2) of the German Securities Trading Act (Wertpapierhandelsgesetz – WpHG).

Changes to personnel

To support the Bank's continued existence, and on the basis of the findings of the agreed upon procedures carried out by PwC, the Supervisory Board of IKB has implemented extensive personnel changes. The former CEO, Stefan Ortseifen, and the former CFO, Dr. Volker Doberanzke, resigned from the Board of Managing Directors with effect from 29 July and 7 August 2007 respectively. Dr. Markus Guthoff and Frank Braunsfeld resigned as members of the Board of Managing Directors with effect from 15 October 2007.

With effect from 29 July 2007, the Supervisory Board appointed Dr. Günther Bräunig, Member of the Board of Managing Directors of KfW, as CEO, whilst Dr. Dieter Glüder, previously a Director of KfW, was also appointed to the Board of Managing Directors of IKB. During Dr. Bräunig's term of office on the Board of Managing Directors of IKB, his function as member of the Board of Managing Directors of KfW will be suspended. Dr. Reinhard Grzesik was appointed as CFO of IKB with effect from 15 October 2007.

The Board of Managing Directors of IKB terminated the employment of Mr Winfried Reinke, Managing Director of IKB CAM in Dusseldorf, without notice with effect from 1 August 2007; and relieved Mr Claus-Dieter Wagner, Head of Risk Management of his duties, effective 17 October 2007.

Current rating situation

Since the crisis on 27 July 2007, the rating agencies changed their assessment of IKB on several occasions. The long-term rating is decisive for the issue of bonds, which are the main source of refinancing for the Bank's business activities. Until the outbreak of the crisis, IKB had an Aa3 rating from Moody's; it has been downgraded three times since them, most recently on 22 January 2008 to A3. The financial strength rating was also downgraded from B to E+. The rating agency Fitch retained its long-term rating of A+ but downgraded the individual rating from B/C to E.

IKB ratings		Long-term	Short-term	Financial Strength individual rating	Outlook
Moody's		Aa3 (from 15 Sep 2003)	P-1	B (negative)	Stable
	31.07.2007	Aa3	P-1	C (negative)	Negative
	04.09.2007	A2	P-1	D- (negative)	Negative
	22.01.2008	A3	P-2	E+ (developing)	Negative
Fitch		A+ (from 05.10.98)	F1	B/C (from 15.12.05)	Stable
	02.08.2007	A+	F1	C (negative)	Stable
	21.12.2007	A+	F1	E	Stable

Current risks

In order to carry out a full assessment of the current risks, the following arguments should be observed in conjunction with the explanations on risk given in the Outlook.

Operational risks

The impact of the sub-prime crisis had the effect of increasing IKB's operational risks considerably. Internal crisis management requires resources that extend far beyond the Bank's own capacities. This gap will be compensated for as much as possible through the use of external advisors. Additionally, the Bank's own resources are weakened by loss of manpower as a reaction to the crisis. New recruits can only partially compensate for this loss at present.

Legal risks

Over the last few weeks, a series of claims for damages against IKB have been lodged by investors. These claims relate in particular to the press release issued by the Bank on 20 July 2007: it is IKB's view that these claims are unfounded. 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. At that time, IKB did not identify any material risks in relation to the liquidity facility extended to Rhineland Funding, because it did not believe it possible that the entire 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.

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.

Annual General Meeting and Dividends

The Annual General Meeting that was originally scheduled for 30 August 2007 will now be convened on 27 March 2008. No net profit (Bilanzgewinn) will be shown in IKB's restated financial statements as at 31 March 2007 in accordance with the German Commercial Code (HGB); therefore, no dividends will be distributed. The Bank had originally planned to distribute a dividend of € 0.85 per share.

2. Outlook

Sale process

On 18 January 2008 KfW initiated the process to sell its stake in IKB. This marks the starting point of a structured selling process, during the course of which all potential bidders will have the opportunity of expressing their interest.

Stiftung Industrieforschung – the Industrial Research Foundation – which is IKB's second-largest shareholder, plans to dispose of its stake within the scope of the selling process.

Potential bidders may submit an indicative bid on the basis of an information memorandum. It is intended to grant the remaining bidders the right to review detailed documentation pertaining to IKB (the so-called Due Diligence) and allow them to submit a binding offer on this basis. This Due Diligence is carried out in close cooperation with IKB.

IKB welcomes the start to the selling process. Since the restructuring, IKB's business model has been focused on the Corporate Clients, Structured Finance, and Real Estate Clients business segments. A strong partner will provide extra momentum, enabling IKB to explore new business potential. For this reason, the Board of Managing Directors agreed to support the selling process and to allow selected bidders in-depth due diligence. The Supervisory Board supports the process and established a separate committee for this purpose.

Strategic direction of the Group and future sales markets

In view of the crisis, the Board of Managing Directors conducted a review of IKB's business model and successfully realigned it. IKB's future business model will be focused more strongly on the Bank's three core business units Corporate Clients (encompassing Domestic Corporate Clients, Leasing and Private Equity), Structured Finance and Real Estate Finance. Innovative financing solutions for customers will remain an integral component of the business model, while investments in international structured securities portfolios, funded via short-term Commercial Paper issues, will not.

In terms of the Corporate Clients segment, Germany will remain the core market. However, the aim is to further increase the acquisition potential of this market by offering long-term investment loans to companies with annual sales of € 7.5 million upwards (previous starting point € 10 million) as of the 2007/08 financial year. In particular, the Bank is looking to use its IKB Direct finance platform, which comprises a simplified standardised credit process, to acquire new clients.

We restructured our private equity business at the beginning of the 2007/08 financial year in light of the increasing level of diversification in this market. Our direct investments business will be managed in the newly established subsidiary IKB Equity Finance GmbH, whilst IKB Private Equity GmbH will continue to deal with our mezzanine business and to look after

our fund investments in the partner structures of Argantis and MM Mezzanine. A particular focus of IKB Private Equity GmbH during the 2007/08 financial year will lie in offering standardised mezzanine capital within the context of equiNotes III.

As well as improving our market position in equipment leasing in Germany, the Bank is also looking to establish branches in Russia and Romania in addition to our existing bases in Central and Eastern Europe. This is based on our appreciation of the fact that a number of German and Western European companies have established themselves in these countries and are looking to finance their production capacity there through leasing arrangements.

In terms of real estate financing, our goal is to grow the volume of new business organically over the next three years. The European real estate platform established during the 2006/07 financial year, which is mainly geared towards syndicated finance, will contribute to this, as will medium and long-term real estate finance in Germany. This will be supplemented with project development activities, for which IKB can offer the full range of its services, earning attractive commission income in the process.

In the Structured Finance division, IKB will be continuing to pursue its successful internationalisation strategy, with particular focus on the European markets. The Bank will play a greater role in the development of these markets, both in the mid-cap LBO sector and in selected areas of project finance. Based on the current situation, we expect that we will also be able over the next two years to generate around 70% of our income from the Structured Finance division on foreign markets, with the share of project finance rising further.

Investments in international credit portfolios must first be stabilised and significantly reduced. Whether new business is gained on a much lower scale and with a different risk structure after this process will depend on future capital resources and the extent to which the markets return to normal.

Future economic parameters

The Board of Managing Directors expects that the basic economic parameters at national and international level will remain positive for the Bank's business in 2008 and 2009. As far as IKB's core market is concerned, namely Germany, the following developments are expected in the economy as a whole:

- German GDP growth was around 2.5% in 2007. The main growth drivers were the export-oriented German companies that drew particular benefit from the positive development of the global economy thanks to their excellent range of products. Global momentum is now grinding to a halt, so that the leading research economists are predicting that German GDP growth will fall to around 1.5% to 2% in 2008. Even this forecast comes with risks given the ongoing turbulence on the financial markets.

- The economic problems in the USA resulting from the crisis in the real estate market will have an even greater impact worldwide in 2009. Germany's GDP growth is unlikely to be more than roughly 1.5%.

- Domestic economic growth will be supported by private consumption in the next two years. In light of positive employment effects and improved income prospects, this effect will be more pronounced in particular in 2008.

- Exports are unlikely to be increasing as strongly as in previous years, given that the global economy is cooling down. IKB is forecasting a rise in the region of 5% to 7% for 2008 and 2009, after 8% in 2007. Capacity utilisation and order levels of IKB's clients – mainly strongly export-oriented medium-sized companies – will therefore remain high for some time yet.

- The most important economic factor for the Bank's lending business, namely investment in plant and equipment by the corporate sector, should post growth rates of 4% to 5% in 2008 and 2009, following a rise of at least 8% in 2007. Lending business involving domestic companies is expected to continue at profitable levels as a result.

- The German Council of Economic Experts anticipates that the international markets, which are relevant for IKB, will develop as follows: in Western Europe, gross domestic product growth will gradually weaken from 2.7% in 2007, to 2% in 2008 and around 1.8% in 2009. The economic research institutions are forecasting substantial weakening in the USA to 1.5% in 2008 and 2009 compared with growth of 2.3% the year before. In light of falling house prices and negative income effects, consumer hesitation amongst private households should have a bearing above all in 2009. The outlook for central Europe remains positive, with GDP growth rates of around 5% forecasted for 2008 and 2009.

The future competitive environment

The competitive situation in the German banking sector was tense once again in 2007. The economic problems affecting many banks as a result of the sub-prime crisis make it especially difficult to predict how competition will look in 2008. Already, during the last few months of 2007, a reticent approach to lending was in evidence in Germany, particularly in the case of real estate loans, combined with an improvement in gross margins. Meanwhile, there are some signs that long-term credit for corporate customers is being used by other banks as an entry product so that further services can be placed with that same customer at a later stage. Overall, this means that IKB remains in competition in domestic lending business above all with the major banks, selected Landesbanken and the major savings banks. The entry into the German market of new competitors, particularly from abroad, looking to offer long-term finance to medium-sized companies is something the Bank expects to see only to a limited extent. Healthy market development hinges on all market operators passing on the higher refinancing and placement costs in the credit margins.

With regard to the credit needs of German medium-sized enterprises, the Bank expects to see a reserved development. Companies are, certainly, investing strongly to meet domestic and foreign demand. At the same time, however, many companies have generated high incomes in the good economic environment of the last few years and are therefore in a position to finance large portions of their investments with only small levels of borrowed capital.

In terms of international finance, IKB expects a significant reduction in market volume during this financial year. It is impossible to predict margin levels in the current market situation.

Financial situation

The risk shield, together with the additional package, has stabilised IKB's financial situation. According to the related action plan, a proposal will be submitted to the ordinary shareholders' meeting of IKB AG on 27 March 2008 to pass a resolution to increase the company's capital by up to € 1,486,765,992.96, against cash contributions and with a 6-for-1 subscription right for existing shareholders. KfW has committed to BaFin to ensure that a sufficient quantity of new IKB shares will be subscribed to or purchased under the capital increase that IKB will obtain fresh funds in a minimum amount of € 1.25 billion (excluding costs).

Furthermore, KfW has undertaken, vis-à-vis BaFin, to boost IKB's regulatory tier 1 capital by € 600 million until 19 February 2008, by way of an "additional capital contribution" pursuant to section 272 (2) no. 4 of the HGB, to be recognised in the capital reserve. The contractual details governing this contribution will be determined at short notice; they may include a debtor warrant (Besserungsabrede) which may burden the annual results of future periods.

The disposal of major parts of IKB's portfolio investments is planned as a further component of the restructuring package.

The refinancing of lending business during the 2007/08 financial year has been made significantly more difficult since the crisis in July 2007 and has been primarily carried out through secured borrowing. Once the planned capital increase has been carried out, the Board of Managing Directors expects to be able to recommence refinancing also by unsecured means, using bonds on the national and international capital markets. This is subject to the international capital markets returning to normal. Additionally, as in the past, IKB will refinance a portion of its lending business by taking up funds from the public development banks.

Complementing its long-term refinancing, the Bank will be issuing money-market instruments primarily with maturities of between 60 and 180 days as a means of diversifying its funding mix in the interbank market.

Furthermore, every opportunity should be used to further relieve pressure on the Bank's ability to carry and sustain risk on the assets side, with a view to improving the solvency ratios. These measures include a further reduction in market price risk as well as in the risk-weighted assets in the lending business, both by limiting new business and by outsourcing credit risks.

Liquidity strategy

Following the outbreak of the crisis, the Bank undertook to extensively revise and refine its liquidity planning and management. This now allows it to generate a detailed forecast of the daily liquidity situation in each of the following three months as well as a sufficiently reliable forecast for a 12-month horizon.

The Bank's liquidity requirements are covered through borrowing on the money market (cash and term deposits), by secured and unsecured means, participating in ECB repos, selling liquid securities investments as well as accepting customer deposits on the basis of promissory note loans. IKB receives additional funds through the promotional loan programmes offered by KfW and the state development banks, which it uses in financing its medium-sized clients.

These instruments also represent the basis for the Bank to generate liquidity until such point as it is broadly eligible for capital market refinancing, especially for long-term borrowing. Successful completion of the planned capital increase will be decisive in this context.

The Bank also intends to deploy at least a part of its portfolio investments of € 5.9 billion (valuation as at February 2008) for the purpose of generating liquidity. Funds will be raised either from such a sale from the shielded part of these portfolio investments, or until then from the loss settlement (up to a maximum of € 1 billion).

The Bank has calculated that it will require funds in the region of approx. € 12 billion spread out over the next 12 months. All told, the Board of Managing Directors anticipates a trend towards a gradual normalisation of money and capital markets in the course of 2008, although short-term distortions cannot be ruled out.

Expected income situation

The necessary restructuring measures, and especially the market development of securitised credit portfolios (as explained above) will also have a major detrimental effect on the result for the current financial year. On the basis of the current market situation, however, this is offset by a positive measurement effect of around € 770 million, of which only a small portion is considered sustainable. The background to this distorted picture is that IKB opted, under IFRS, to measure a substantial portion of its liabilities at fair value. The fact that these liabilities of IKB have lost a great deal of fair value due to the current crisis means that they are reported in the balance sheet on the basis of the lower fair value. This measurement gain is recognised as income in the IFRS consolidated financial statements. Provided that it does not relate to actual defaults of interest or principal on hybrid liabilities, it will be reversed by the time the liabilities are repaid at nominal value, thus creating a corresponding expense. If the fair value of the liabilities rises due to an improvement in IKB's capital market standing, this expense may also occur at a much earlier stage.

Overall, the Board of Managing Directors expects the Group to record a loss for the 2007/08 financial year (according to IFRS) of approx. € 550 million. The previous forecast of a consolidated loss of up to € 700 million for the IKB Group did not include the additional mark-to-market losses of approx. € 700 million resulting from the revaluation of portfolio investments. It does also not include the above mentioned large positive measurement effect of its liabilities at fair value.

The current estimate of results is still subject to significant uncertainty. This is due to the fact that the audit of the half-yearly report as at 30 September 2007 has not yet been completed. The partial sale of a portfolio investments may also result in higher losses.

The Board of Managing Directors expects the net retained loss in the single-entity financial statements of IKB AG to amount to approx. € 750 million. This figure reflects higher losses from the revaluation of portfolio investments, which were offset to some extent by loss-sharing on profit-participation certificates and silent partnership contributions.

Although the operating results of the Corporate Clients, Real Estate Clients and Structured Finance segments are expected to be lower than the year before, they will still be clearly positive. This is due to the fact that whilst the crisis has placed major restrictions on these segments' new business, they have not been affected by losses made in the portfolio investments.

Once the restructuring process has been completed, the Bank should have an income structure that is quite different, with the level of income expected to be lower overall, as income from portfolio investments will fall substantially. The 2008/09 financial year will still be burdened significantly by the impact of the crisis, in particular by the restrictions to new business origination since August 2007, and the strong rise in refinancing cost. The Board of Managing Directors envisages results for the 2008/09 financial year to be slightly positive. The medium-term objective is to generate an adequate return on invested capital from the Bank's operative business.

As a result of write-backs which hybrid capital investors (and possibly KfW) are entitled to, in combination with additional measures within the package, net profit may remain at a low level over several financial years.

Risks of future development

Liquidity risks

The continued existence of IKB is dependent on its ability to achieve greater access to the capital market again in the next financial year also for unsecured longer-term funding. For this purpose, it is essential that

- the planned capital increase is approved in the required amount, registered in the Commercial Register, and carried out without delay;
- the measures planned to generate liquidity, especially new borrowing that are necessary in the short-term and the extension of secured money market funding, are implemented;
- a significant portion of portfolio investments is disposed of; and
- no legal action is taken against the measures set out above, or against the entire risk shield; this applies in particular to any action taken by the EU.

The Board of Managing Directors assumes that that the planned measures outlined above will be implemented as expected in the medium term, thus permitting the Bank to once again achieve extended access to the capital market and also for unsecured longer-term funding.

Market price risks

In conjunction with the measures described above that were taken to shield against risk in the portfolio investments on IKB's balance sheet (and the package implemented to offset the valuation losses determined in February 2008), existing risks associated with a change in the credit spreads for these financial instruments were reduced significantly.

Given the prevailing market situation, however, a portfolio sale would likely involve more sizeable discounts. Moreover, a proportion of these risks – especially for financial instruments outside the risk shield – will remain with IKB even after portfolio investments have been sold.

Further market price risks are associated with the Bank's interest rate exposure. In the meantime, the protective measures introduced in the course of the new financial year had the effect of reducing the risk on this position considerably.

Risk shield and additional package of measures

Implementation of the risk shield and the additional package is subject to the absence of any concerns raised under EU legislation. This has not happened to date, although the related review has not yet been completed.

The agreements regarding the risk shield provide for a special right of termination for KfW in the event of IKB failing to comply with certain reporting duties (or to comply in line with contractual agreements) after two deadlines have been set.

The Board of Managing Directors considers this risk to be minor, as a project to identify, establish, and monitor compliance with contractually-agreed reporting was successfully implemented in close co-operation with KfW, to ensure IKB fulfils its contractual duties vis-à-vis KfW.

Cyclical risks

The business prospects of the Bank's clients in the Corporate Clients, Real Estate Finance and Structured Finance divisions are affected not least by economic development.

A deterioration of the economic environment in the USA can lead to higher provisions for loan losses above all with regard to the funding of American transactions, so as to take adequate account of potentially higher loan defaults. Given that the economic slowdown in the USA should impact significantly on Germany and Europe, higher provisions for loan losses should also be forecasted for European acquisition finance, loans to German SMEs and to a lesser extent for real estate finance.

3. Report for the Financial Year 2006/07

Explanations on the business conditions and basic parameters, the financial situation and the risk report are based predominately on the period from 1 April 2006 to 31 March 2007 – and hence on a period prior to the outbreak of the crisis. Against this background, the explanations in the following three chapters provide a comprehensive insight into the Bank's situation only if it is viewed in conjunction with the Report on Material Events After the Reporting Date and the Outlook.

3.1 Business Conditions and Basic Parameters

Business environment

The 2006/07 financial year was marked by benign macro-economic conditions: this applies both to economic development in IKB's core market, Germany, and to economic development in those countries in which IKB is involved through its structured finance business and equipment leasing activities.

In Germany, GDP rose by 2.9% in 2006. Furthermore, investment in plant and equipment, an even more important indicator for IKB's domestic lending business, rose by 8.3% year-on-year. The main factor driving this increase was exports, which grew by 12.5%.

This strong level of growth can be attributed in particular to the fact that German companies largely export goods based on state-of-the-art technology (i.e. those goods where R&D account for more than 3.5% of sales revenues). The good position enjoyed by German companies on the world markets applies not least to IKB's main target group, medium-sized industrial enterprises.

Due to the high volume of incoming orders from abroad, companies, as well as stepping up their investment in plant and equipment, were also motivated to expand capacity in 2006. And given that medium-sized companies continue to have the majority of their production sites in Germany, they duly borrowed to finance their investments and construction projects.

The real estate market also clearly picked up in Germany during the 2006/07 financial year. Following years of stagnation, if not recession, there was a clear upward trend in demand for real estate buoyed by the general upturn in the economy as a whole.

Strategic positioning of IKB

IKB is the leading German specialist bank in long-term finance for medium-sized corporate clients, real estate investors, project partners and institutional investors. 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 institutions from the public banking 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.

The foundation for the activities is provided by IKB's exceptionally well trained and highly dedicated team of employees. What is important is that the employees can strongly identify with the Bank. Employee surveys regularly show that over 90% of IKB staff agree that this is in fact the case. This is one of the top results in the financial sector. Since the onset of the crisis in July 2007 there has been a rise in staff turnover. However, in view of the situation, the level is still relatively low, demonstrating the strong sense of loyalty felt by employees to IKB.

All of the Bank's business activities focus on its clients. In order to be able to deepen and widen relationships with customers in a targeted way, IKB has divided its market activities into the following segments:

- Corporate Clients
- Real Estate Clients
- Structured Finance; and
- Securitisations

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, 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 periods. In turn, clients place a very high level of trust in IKB.

IKB engages in equipment leasing at a national and international level, and is one of the market leaders in machinery leasing in Germany. With regard to foreign markets, IKB has a successful presence in selected Central Eastern European countries (Czech Republic, Hungary, Poland and Slovakia), as well as in France and Austria.

IKB Private Equity focuses on providing medium-sized companies with direct shareholdings as well as mezzanine capital, particularly within the context of securitisation transactions backed by profit-participation certificates.

Real Estate Clients

The focus in the Real Estate Clients division lies in the following areas:

- domestic real estate finance;
- international real estate finance;
- equity finance (project development); and
- services.

As well as tailored financing, IKB can also offer its clients the full range of real estate services.

By establishing a European financing platform during the second half of 2006, the Bank is getting involved in attractive real estate investments, primarily in the UK, the Benelux countries, France, Italy and Spain.

Structured Finance

Structured Financing, encompassing national and international acquisition and project financing, has developed into a key income contributor for the Bank over the last few years. IKB acts as the arranger of structured finance in Germany, France and – since the 2005/06 financial year – also in Italy and Spain. The Bank also successfully assumes the role of participant in the UK and USA.

IKB applies the same principles of success to acquisition financing as to domestic corporate clients business, namely highly skilled employees in all activities specific to the transaction and excellent industry know-how. Also 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 when cooperating with private equity investors on the ground in mid-cap transactions.

As part of the Bank's project finance activities, IKB arranges and structures the financing for national and international projects. These activities – for energy or infrastructure projects for example – now account for more than 40% of new business in the Structured Finance segment. IKB also finances the export of capital goods (ECA-covered export finance) and accompanies medium-sized companies as they build up production capacity abroad as part of an internationalisation strategy.

Securitisations

The Securitisations segment encompassed two areas: the placement of credit risks with third parties and investments in international credit portfolios. The subsequent consolidation of Rhineland Funding is reflected in this segment. As of the 2007/08 financial year, transactions securitised by the Bank itself will be shown in the segment "Head Office" and the current "Securitisation" segment will be renamed "Portfolio Investments".

Since the late 1990s, IKB has been pursuing the concept of the risk-based external placement of balance-sheet assets, and of loans and advances to customers in particular. To date, the Bank has securitised a cumulative volume of almost € 18 billion of such assets, synthetically placing them largely on the national and international capital markets. This has enabled IKB to reduce its credit risk and to free up a high level of equity, with the result that during the period from 1995 to 2007 the Bank was able to raise its on-balance sheet loan volume (excluding the consolidated purchasing entities of RFCC) by 115% without issuing new shares.

IKB has enjoyed attractive issuing conditions thanks to the high granularity of the individual risks and the convincing performance of previous placement transactions. The current distortions on the securitisation market have, however, greatly increased the placement costs. Having said that, IKB expects the markets to normalise again, even if not to the level prevailing before the sub-prime crisis, which will mean that the strategy of placing credit risks can be continued.

The capital released through securitisation activities over recent years has been used to expand national and international lending business and for investments in international credit portfolios. Two thirds of the investments made on the balance sheet of IKB AG and IKB International Luxembourg are focused on US portfolios with at least investment grade ratings (including, for example, credit card claims, mortgage loan claims and corporate loans), with the remaining third being invested in similarly structured European portfolios.

Cooperations

Once again in the 2006/07 financial year IKB enjoyed very successful working relationships with its cooperation partners.

A joint finance volume of € 1.4 billion was recorded with the KfW Banking Group as a result of either side inviting the other to contribute to financing projects, compared with € 0.9 billion during the previous year. Most of these transactions, as in the previous year, related to national and international project finance.

In addition to these joint deals, IKB once again refinanced a portion of its domestic corporate client lending business with KfW. At its clients' request, IKB made particular use of the following standard programmes: KfW Entrepreneur Loan Programme (Unternehmerkredit), KfW Entrepreneur Capital Programme (Unternehmerkapital) and KfW Innovation Programme (Innovationsprogramm).

There was a gratifying development to report with regard to Movesta Lease and Finance GmbH, a joint subsidiary of IKB and KfW IPEX-Bank. Movesta was able to record € 0.6 billion of new business during the period, up by more than 50% on the year before. Movesta's business activities focus on real estate leasing and the leasing of large-scale equipment.

The upturn in the German economy had a positive impact on Movesta's level of new business. However, the debate surrounding the new basic tax conditions in Germany was more of a burden on real estate leasing business over the course of the year. In light of this obstacle, the good result recorded by Movesta in what was only its second year should be rated even more highly.

The working relationship with the Bank's cooperation partner Sal. Oppenheim was successful during the year under review. Once again, both partners were able to achieve an increase in the reciprocal flow of deals. Moreover, Sal. Oppenheim is a Designated Sponsor of the IKB share.

The Bank also worked intensively with its French cooperation partner Natixis during the financial year under review. Joint activities focused on corporate client business, structured finance, promissory note loans and, in particular, loan syndication. Both Natixis and IKB were able to invite each other to participate in many attractive business transactions. The fact that Natixis – in the wake of the merger between Natexis Banques Populaires and the investment bank IXIS in 2006 – is now one of Europe's leading banks opens up new prospects for bilateral activities.

3.2 Financial Condition and Results of Operations

Against a background of good basic economic parameters, we were able to increase the volume of new business for the Group to € 12.8 billion (previous year: € 11.3 billion). These figures are not changed by the restatement of the consolidated financial statements.

Rather, the changes brought about by the revaluation are reflected in the income statement and in the balance sheet. In the course of retrospective changes in the accounting as at 31 March 2007, the figures for the 2005/06 financial year were also adjusted accordingly. A detailed reconciliation of the balance sheet and income statement can be found in the Notes, in the chapter "Adjustments pursuant to IAS 8".

The changes to the financial figures as at 31 March 2007 compared with the previous year (also amended) focused on predominately below: Any significant deviations in the new figures for 2006/07 compared with the original figures, owing to the changes to the consolidated financial statements, will also be shown.

Income

Consolidated net interest income grew by 11.0% year-on-year during the reporting period, to € 678 million. 80% of this total relates to the business activities of our market-facing segments, whilst 20% was achieved primarily from the investment of equity capital.

The positive difference to net interest income of € 646 million initially reported for the 2006/07 financial year is explained in particular by the consolidation of Rhineland Funding. Instead of the commission income received by IKB CAM, or IKB AG from Rhineland Funding, interest income from Rhineland Funding is recognised in net interest income as a result of the consolidation.

Net provisions for possible loan losses and advances fell by 18.7%, to € 259 million. The fall in net loan loss provisions and the rise in net interest income meant that there was a 43.5% rise in net interest income after provisions for possible loan losses to € 419 million.

Net commission income increased by 71.1%, to € 52 million. This item is composed primarily of structuring fees and commissions earned by the Corporate Clients, Real Estate Clients and Structured Finance segments. The difference to net commission income of € 108 million initially reported for the 2006/07 financial year is also explained here in particular by the consolidation of Rhineland Funding.

Net income from financial instruments at fair value fell by € 30 million from the previous year (€ –11 million) to € –41 million. The year-on-year change as well as the difference of € –121 million to net income from financial instruments at fair value originally reported for the 2006/07 financial year resulted largely from changes in the market value of securities and derivatives, which were included as a result of the consolidation of Rhineland Funding referred to above as well as parts of an issuing entity. Net income from investment securities, at € 7 million, was down on the previous year (€ 13 million).

Against the background of the continuing expansion of the IKB Group, general administrative expenses increased by 17.5%, to € 316 million. The cost/income ratio deteriorated to 45.8% (41.9%). The main cause of the rise in general administrative expenses was the hiring in the 2006/07 financial year of 102 new employees on balance (average FTE). We strongly stepped up the international aspect of our real estate finance and equipment leasing business, whilst IKB Credit Asset Management (CAM) was set up to expand the Bank's advisory and asset management activities.

The operating result fell by 33.0% to € 115 million and is € 148 million lower than the original figure of € 263 million, thereby clearly falling short of our original target of € 250 million. This can be attributed in particular to the subsequent changes to the accounts for the 2006/07 financial year as explained above. No net profit will be shown in IKB's restated financial statements as at 31 March 2007 in accordance with the German Commercial Code (HGB), this omits a dividend.

The Bank had originally planned to distribute a dividend of € 0.85 per share.

The pre-tax return on equity was 9.4% (13.8%).

Segment performance

Corporate Clients

IKB achieved a 14.1% rise in new business in the Corporate Clients segment, recording a figure of € 4.8 billion. This rise is all the more remarkable in light of the fact that the volume of loans disbursed had already been improved by 22% in the previous financial year. An increase was also recorded with regard to the credit portfolio, up to € 16.8 billion (€ 15.7 billion).

Accounting for € 3.9 billion, long-term domestic corporate finance made up the largest proportion of the loan disbursement volume in the 2006/07 financial year. A year-on-year increase of 15.0% was recorded in this area.

Equipment leasing is becoming ever more important to medium-sized companies. This growing importance enabled the Bank to increase the finance volume of new business by 17.1% compared with the previous year to € 0.8 billion. Three quarters of this amount related to domestic clients whilst one quarter of the demand emanated from business partners abroad.

Private Equity activities focused during the year under review on the equiNotes II profit-participation programme, which were issued again in conjunction with Deutsche Bank after the equiNotes I programme was closed. The mezzanine capital made available to medium-sized companies through this programme, which is not included in the disbursement figures, amounted to € 220 million. The total amount of both profit-participation programmes was close to € 600 million.

The Corporate Clients segment improved its operating result for the 2006/07 financial year to € 135 million (€ 130 million). The competition for medium-sized companies was as intense as ever, with a related fall in the average margin achieved in new business to 1.12% (1.31%). Against this background, provisions for possible loan losses in the Corporate Clients segment were cut to € 38 million (€ 44 million). The resulting cost/income ratio was 46.7% (44.4%), with a return on equity of 21.0% (21.6%).

Real Estate Clients

IKB recorded a positive development with regard to its European real estate finance activity. New business worth € 0.3 billion was acquired within just a few months of the Bank's foreign activities being launched. This good result was made possible by the fact that IKB launched this business within the framework of its European financing platform with internationally experienced teams. Looking at real estate finance as a whole, this means that the Bank was able to increase the disbursed amount by 29.0% over the period under review to € 1.3 billion.

The Real Estate Clients segment increased its operating result to € 35 million (€ 32 million). At 1.32% (1.33%), the interest margin almost matched the high level of the previous year. Return on equity stood at 18.2% (17.0%), whilst the cost/income ratio was 45.1% (39.6%).

Structured Finance

IKB is also able to report on a successful performance in the area of structured finance. Operations in this area of business are focused on acquisition and project finance both in Germany and in Western Europe and in the USA. IKB was able to observe a high level of demand for its finance products in all of the markets due to the good economic development.

The Bank was therefore able to generate a 52.0% rise in new business in this area during the reporting period, to reach a new all-time high of € 5.3 billion. Of this total, around 30% related to domestic acquisition and project finance, whilst IKB was able to realise 70% on the foreign markets, primarily Western Europe and the USA.

The operating result of the Structured Finance segment recorded a significant increase, up by almost 42% to € 111 million. The margin fell to 2.01% (2.55%). This fall was essentially due to the changed product mix of new business, which focused more strongly during the reporting year on project finance, a more stable source of business with lower margins. In terms of new business, 43% related to project finance, whilst acquisition finance accounted for 57%.

Return on equity lay at 33.9% (35.2%), whilst the cost/income ratio improved to 31.0% (35.5%).

Securitisations

At € 34 million, the Securitisation segment reported a significantly lower result compared to the previous financial year (€ 145 million). This decline was mainly attributable to the net expenditure from financial instruments at fair value of € 49 million (2006/07: income of € 42 million), and higher provisions for possible loan losses of € 19 million. The cost/income ratio rose to 36.4% (21.0%).

As in previous years, activities were focused on investments in international credit portfolios. New business in this segment totalled € 1.2 billion (€ 2.1 billion), resulting in a slight portfolio increase to € 18.4 billion (€ 15.9 billion).

The Rhineland Funding conduit, which was consolidated retrospectively, increased its investment portfolio to € 12.7 billion (€ 9.7 billion).

Consolidated balance sheet

Total assets as at 31 March 2007 were € 63.5 billion, which was 19.3% higher than at the previous reporting date of 31 March 2006. Largely owing to the consolidation of Rhineland Funding, total assets are € 11.5 billion higher than the original figure of € 52.0 billion. The total loan volume as at 31 March 2007 (including Rhineland Funding) was € 51.2 billion and thus € 5.4 billion higher than on the same reporting date of the previous year (€ 45.8 billion). The total loan volume as at the reporting date comprises loans and advances to banks, loans and advances to customers, securitised lending, leased assets, contingent liabilities, and credit default swaps (CDS).

Loans and advances to customers rose by € 1.7 billion compared with 31 March 2006, to € 29.7 billion. There was a noticeable rise in particular in the maturities from four years and beyond.

Provisions for possible loan losses were reduced by € 0.3 billion to € 1.1 billion. This reduction is the balance of newly created value adjustments (€ 0.4 billion), written-back value adjustments (€ 198 million) and drawings of € 508 million. The reduction reflects the decline from 6.3% to 4.9% in loans classified as non-performing in relation to total loan volume (NPL ratio).

Loans and advances to banks rose by more than 100% to € 4.4 billion. Whilst loans and advances payable on demand dropped slightly at the reporting date, loans and advances with maturities of up to four years rose to € 3.6 billion. Loans and advances with maturities of over four years increased to € 0.2 billion.

The rise of € 1.6 billion in trading assets to € 2.2 billion is primarily due to the building up of short-term trading assets with the aim of transferring these to an asset management company (Rhinebridge) in the 2007/08 financial year.

Investment securities increased by € 4.1 billion to € 27.3 billion. Compared with the original figure reported of € 15.9 billion, this represents a rise of € 11.4 billion through the consolidation of the portfolio investments from Rhineland Funding.

Liabilities to banks fell by € 0.1 billion to € 13.9 billion. Liabilities to customers increased by € 1.7 billion to € 4.3 billion.

IKB's business activities were mainly refinanced through the issuing of bonds. Strong issuing activity saw the volume of securitised receivables rise by € 8.8 billion or 28.6 % as at the reporting date to € 39.6 billion. The increase over the original figure reported of € 28 billion is also attributable to the consolidation effect of Rhineland Funding.

Trading liabilities, amounting to € 1.2 billion as at the reporting date, rose slightly (previous year: € 1.1 billion).

Subordinated capital was raised by € 116 million to € 3.0 billion. Equity fell by € 0.1 billion to € 1.2 billion. The decrease in equity was due to the restated consolidated financial statements, which led to lower reported income and hence to a fall in retained earnings. Regulatory capital in accordance with section 10 of the German Banking Act (Kreditwesengesetz – KWG) – including subscribed capital, hybrid capital, capital reserve and retained earnings, profit-participation certificates and subordinated liabilities – was unchanged at € 4.1 billion as at the reporting date. Based on the risk-weighted assets, the capital ratio according to the German Banking Act (Grundsatz I) was 12.2% (13.3%), and the tier 1 ratio was 7.1% (7.7%).

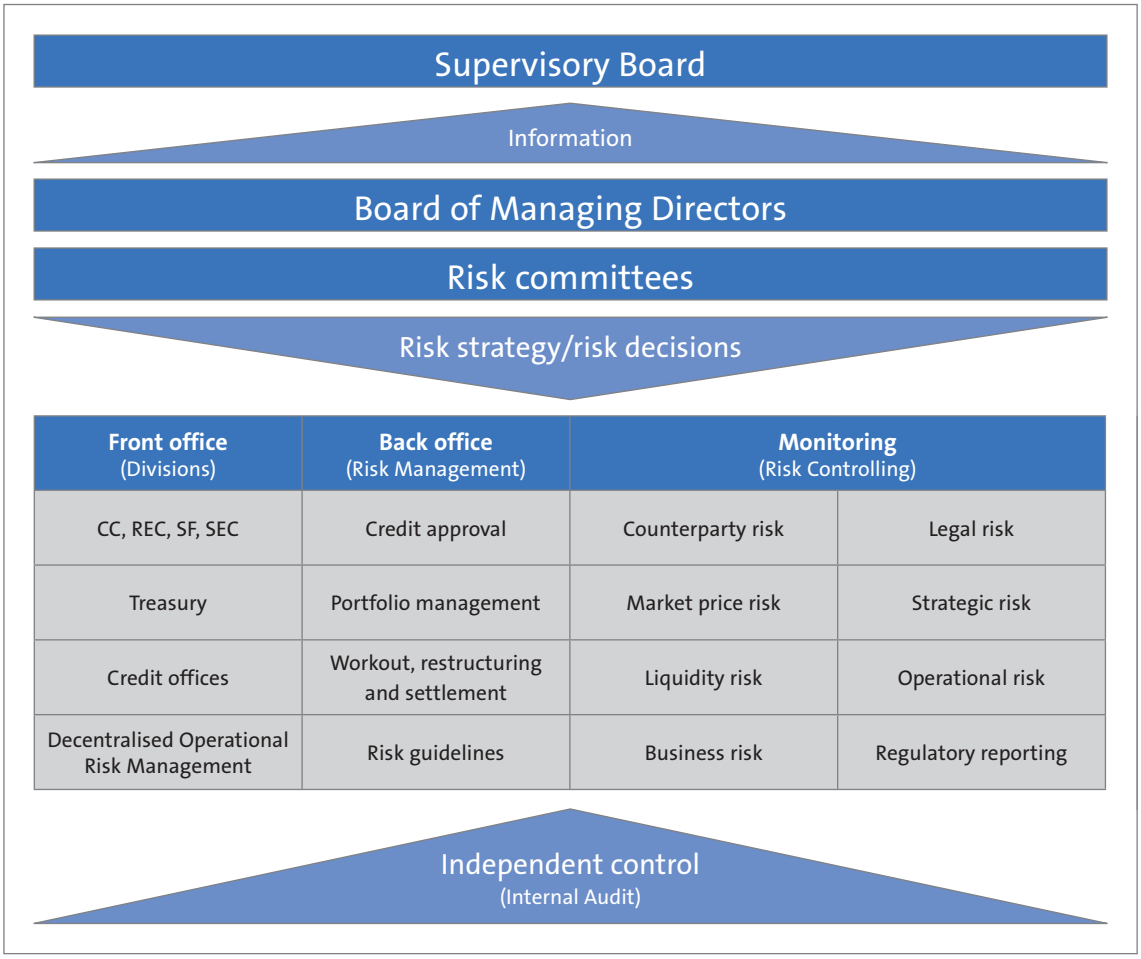
3.3 Risk Report

The Risk report describes the risk management organisation and processes as well as the instruments used in the 2006/07 financial year and hence before the onset of the crisis. In light of this, the following risk report only offers a comprehensive insight into the current risk situation provided it is viewed in conjunction with the Report on Material Events after the Reporting Date and the Outlook.

Risk management organisation.

Risk organisation. Individual tasks and areas of responsibility are described and documented in risk management rules and regulations, which define the principles of IKB's risk management system – taking due account of all statutory and internal requirements in conjunction with credit risk strategy – and provides specific organisational instructions.

Risk organisation in the 2006/07 financial year



Supervisory Board. The Board of Managing Directors is obliged to regularly provide the Supervisory Board at its meetings with detailed briefings on the risk situation and on risk management.

Board of Managing Directors. The Board of Managing Directors is responsible for IKB's risk management. It sets risk policy in the form of a clearly defined business and risk strategy, including the types of business conducted, defines the reasonable total risk within the scope of the Bank's overall risk-bearing capacity and incorporates risk control as an essential component of its processes and planning. The entire Board of Managing Directors is also responsible for dealing with risks related to the Bank's business strategy, and with reputational risks.

Within the Board of Managing Directors, the Chief Risk Officer was responsible during the year under review for the management of counterparty risk, legal risk, and compliance risk. The Chief Financial Officer monitored market price risk, liquidity and funding risks, and operational risks.

Risk committees. Specific committees (e.g. Credit Committee, Limit Committee etc.) manage and monitor decisions that are relevant to risk, supporting the Board of Managing Directors in its risk management operations and decision-making. These committees are responsible for fundamental issues, as well as for decision-making in relation to individual transactions on the basis of the framework laid down by the Board of Managing Directors. The committees are composed of members of the Board of Managing Directors and representatives from the operative business divisions and the responsible corporate centres.

Risk Management. The Risk Management unit is responsible for developing, implementing and complying with Group-wide standards for lending business and for credit portfolio management, as well as for the rating systems used to determine counterparty risk. Alongside the formulation of guidelines for credit analysis and credit decision-making, one of the main tasks of the Risk Management unit lies in the overall credit approval process, with the unit exercising its own credit authority. In other words, the Risk Management unit is the back-office unit for the purposes of the Minimum Requirements for Risk Management ("MaRisk") published by BaFin.

Special management units operate within Risk Management to deal with higher-risk exposures and workout, restructuring and settlement cases, which require specialist expertise and intensive handling. By implementing acceptable solutions at an early stage, this special management facility aims in the first instance to preserve the company as a going concern; or, should these efforts fail, to substantially reduce the financial fallout.

Credit/transaction management teams (which are classified as front-office units) provide support to Risk Management in monitoring and managing credit risk within the relevant business divisions. With the exception of minor decisions permitted under MaRisk, credit approvals are made by the back-office unit, as long as they are outside the remit of the Board of Managing Directors.

Risk Controlling. Risk Controlling, a unit that is independent from front office units and Risk Management, is responsible for monitoring the risk policy specified by the Board of Managing Directors, for internal and external risk reporting, capital planning and risk capital allocation, and for impartial monitoring of credit, market, liquidity and business risks. The unit is subdivided into Credit Risk Controlling, Market Price Risk Controlling, Results Controlling, and Capital Controlling units.

In addition to continuous, near real-time monitoring, analysis and reporting of credit risks on a portfolio level, Credit Risk Controlling is responsible for the ongoing development and validation of models used for quantifying risks and assessing credit quality. Further key issues involve aggregating all types of risk into an overall Group risk position, which is then used as an integral part of simulating and monitoring the Bank's risk-bearing capacity.

The core functions of Market Price Risk Controlling comprise the daily calculation, analysis and reporting of market price risks, monitoring the limits set by the Board of Managing Directors, as well as checking the models and procedures used to value financial instruments. Market Price Risk Controlling is also responsible for the continuous monitoring of, and reporting on, asset/liability management throughout the Bank.

Results Controlling ensures the ongoing monitoring of IKB's results of operations, and related reporting, by way of monthly performance analyses of existing and new business. Detailed financial reports are prepared to identify and analyse any divergence in income and assets from target values.

Capital Controlling is responsible for an integrated capital planning process for the IKB Group, taking into account regulatory and economic aspects, and monitoring the allocation of risk capital to individual operating units subject to a risk/return perspective.

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. Internal Audit submits an annual report to the Board of Managing Directors, in addition to individual audit reports comprising material and major audit findings and their current status. In turn, the member of the Board of Managing Directors responsible for audit regularly briefs the Supervisory Board on current results and developments.

Risk management process

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. As part of this management process, it is not only regulatory capital in relation to the targeted ratios and the minimum levels defined by the authorities that are monitored but also whether the Bank, from the perspective of non-subordinated creditors, has a sufficient cover assets pool to cover even those risks whose occurrence is extremely unexpected. The aggregate risk cover comprises mainly equity components including silent partnership contributions, profit-participation certificates and subordinated liabilities, unrealised measurement results, and the operating result before income taxes.

Regulatory capital requirement. The regulatory capital commitment of the individual business divisions is calculated on the basis of the tied-up tier 1 and tier 2 capital in accordance with the applicable regulatory provisions. Management of regulatory capital for the Bank as a whole is based on two key indicators:

- the tier 1 capital ratio (tier 1 capital to risk-weighted assets);
- the total capital ratio (total capital/"own funds" to risk-weighted assets).

Details regarding regulatory risk positions, equity capital, and capital ratios are provided in Note 49.

With ratios of 7.1% and 12.2% respectively as at the reporting date, IKB clearly exceeds the minimum regulatory capital requirements of 4% (tier 1 ratio) and 8% (total capital ratio).

Economic capital requirement. Economic capital is calculated for the purpose of covering extreme and unanticipated risks. The relevant calculations take into account risk diversification and portfolio effects, using statistical simulations and stress scenario analyses. The risk provisioning budget, plus the annual additions to risk provisions, already cover "anticipated risk" incurred in IKB's business operations.

Calculations are made to determine the economic capital required to cover credit risk, market price risks (which IKB is exposed to largely as a result of interest rate and spread risks from the banking book), operational risk and general business risk. The Bank's own models are used for credit, market price and general business risk. 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. Rather, they are managed by means of other management tools (please see below).

Economic capital calculated 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; it is taken into account in the Bank's management and reporting tools, applying the limits approved by the Board of Managing Directors. The limits imposed on individual risk types, portfolios and partial portfolios, clustering developments, and individual exposures, form a key component of the Bank's quantitative controls and reporting system.

The following table shows the percentage share of the economic capital requirement (excluding diversification benefits) across all types of risk. The previous year's figures for credit risk and operational risk were adjusted to reflect the methodological improvements implemented during the financial year under review.

Economic capital requirement

	31.3.2007		31.3.2006 (adjusted)		31.3.2006	
	in € million	in %	in € million	in %	in € million	in %
Credit Risk	473	62	455	54	368	44
Market price risk*	108	14	206	24	333	40
Business risk	98	13	95	11	95	11
Operational Risk	82	11	90	11	36	4
Total	**761**	**100**	**846**	**100**	**832**	**100**

* excluding € 71 million in economic capital required to cover market risk from spread changes (31 March 2007)

Compared with the adjusted figures for the previous year, the economic capital requirement as at 31 March 2007 (excluding diversification effects) fell by a total of € 85 million. This can be attributed to falls with regard to market price risk. Adjustments regarding market price risk were carried out on the basis of the improved methodology applied to the concepts used to measure interest rate risk exposure in the banking book (for details, please refer to "Measuring risks in the fixed-income fund, and in the investment portfolio"). Adjustments regarding credit risks were the result of methodological enhancements related to the quantification of the risk exposure from tradable assets. The fact that credit risk increased at a lower rate – relative to the growth in business volume – reflects both the improved credit quality structure in the traditional credit business in conjunction with the higher degree of diversification.

The credit risk arising from the liquidity facilities that have been made available for portfolio investment companies was incorporated taking into account the likelihood of the facilities being used. Comparative calculations show that, using IKB's specific risk measurement method, the ratio for credit risk rises only slightly, even if the risk from the assets held by the investment companies is fully taken into account. This slight increase is due to the fact that the external rating at the end of the financial year was still very good and hence, the low likelihood of these investments defaulting on the reporting date.

We have harmonised the methodology to determine economic capital requirements for operational risk with the regulatory parameters of the Basic Indicator Approach under the Basel II framework, also adjusting the figures for the previous financial year to enhance comparability.

Risk types

- Counterparty default risk is the risk of a loss being incurred due to the insolvency of a debtor or counterparty. It also comprises country risk, defined as the risk of loss incurred due to a deterioration of the economic environment, political or social unrest, nationalisation or expropriation of assets, failure or refusal by a country to recognise foreign debt, foreign exchange controls, or the devaluation or complete loss of value of a currency.

- Market price risk is the risk associated with negative economic changes in market values caused by changes in market parameters, with a corresponding effect on performance. IKB's exposure to market price risks is essentially related to the interest rate and spread risks from the banking book.

- The liquidity and refinancing risk is the risk that IKB would cease to be able to fulfil its payment obligations on time, or to be able to acquire funding on the market at reasonable conditions.

- Operational risk is understood by IKB as the risk of losses due to the inadequacy or failure of internal processes, individuals or systems or as a result of external incidents.

- We define business risk (also encompassing risk associated with developments in the business environment and sector risk) as unexpected negative changes in profitability as a result of a deteriorating market environment, changes in the Bank's competitive position or client behaviour, or of changes to the legal framework.

- Reputational risk is the risk of direct or indirect losses being incurred due to events that result in a loss of confidence in the Bank, irrespective of whether this loss of confidence occurs on the part of the public, rating agencies, the supervisory authorities, investors, business partners or employees. Reputational risks generally result from, and are compounded by, one of the aforementioned sources of risk.

- Strategic risk is the risk of negative effects on performance due to investment decisions based on existing or future overall business policy. Like reputational risk, this is not a directly quantifiable type of risk, and ultimately cannot be considered in isolation, but must be dealt with and controlled in conjunction with the above risk types.

Counterparty and credit risk

Definition. A distinction is made in terms of counterparty 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), in the case of default by a contractual partner. 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 lending business as one of the Bank's core processes, credit risk is a priority.

Credit risk strategy. IKB's credit risk strategy is based on the Bank's risk-bearing capacity, risk policy and the risk management process. 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, 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. These guidelines are applied in each individual credit decision; they ensure the quality of new business – and hence, compliance with the credit risk strategy – through minimum parameters for qualitative and quantitative standards, and continuous monitoring of compliance with these parameters.

- risk policy provisions for acquiring new business, as defined in the "Guidelines on Managing Individual Credit Risks";
- credit approvals and credit monitoring for individual transactions;
- credit portfolio monitoring, management and limitation on the basis of "Guidelines on Managing Portfolio Risk" as well as extensive credit portfolio analyses; and
- regular checks conducted by Internal Audit.

Risk policy. The starting point for risk management in the lending business is a joint planning process involving the Board of Managing Directors and the business divisions, supported by Corporate Development, Risk Management, and Finance, Controlling and Taxation. The risk-bearing capacity, and growth and earnings targets provide the basis for explicitly including risk in the planning process. The derived targets, as well as encompassing volume of new business, interest and commission income and material and personnel costs, also cover risk and capital costs. The structural credit quality and securitisation structure is also agreed during the planning of risk costs with a sustained effect on new business, management of the portfolio, and portfolio structure. Another key element is imposing limitations by type of business and product or by sector, as well as regarding exposure to international borrowers, to individual counterparties, or to corporate groups.

Credit approval process and monitoring of individual exposures in traditional lending business. Credit analysis is carried out by the Risk Management unit, which is independent of the divisions. This guarantees separation of business development activities and loan approval (in other words, separation of front-office and back-office functions).

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, within the scope of the regulation of approval powers; the required approval depends on the size of the Group's existing credit exposure, the borrower's credit quality, the collateral provided, the term, and not least, the existing and planned structure of the portfolio. The principle of dual control is always observed. Legally-trained staff members from the Legal department, who are not directly involved in the market, carry out the subsequent loan disbursement and contract implementation.

Every credit approval is based on a detailed credit analysis which outlines and assesses all information pertaining to the decision, subsequently documenting it clearly and straightforwardly in a decision proposal.

In this respect, use is made of a further tool that IKB has developed itself – known as the Portfolio Adviser – with which to manage decision processes regarding our portfolio at the level of individual transactions and commitments. This tool calculates various different risk factors on the basis of the client's credit quality, transaction-specific features such as term and collateral, and portfolio-related indicators. This means that even at the stage of acquiring new business, key momentum can be generated in terms of portfolio management. 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 its 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 additional, individual sub-portfolios (including major individual exposures) are analysed within the scope of annual reviews conducted between Risk Management and the divisions, and strategies on handling exposures derived on that basis.

Approval and monitoring process for portfolio investments. Decisions in conjunction with portfolio investments are made on the basis of the "Guidelines on the management of portfolio investments". These stipulate the suitable asset classes, the minimum requirements in terms of ratings awarded by internationally recognised credit rating agencies and rating-based figures for individual investments on and off the balance sheet. The Guidelines also incorporate quality-based criteria for the definition of suitable investments.

Until portfolio investment activities were spun off with the creation on 1 September 2006 of IKB CAM, Treasury & Financial Markets operated as a front-office unit as defined in MaRisk. This meant that Treasury was responsible for sourcing potential new investments and for preparing the financing decision/the decision proposal. The responsible Risk Management team was in charge of preparing the back-office decision.

The transfer of Treasury employees responsible for portfolio investments and the Risk Management unit of IKB AG to IKB CAM meant the spin-off of front-office credit decision-making and significant risk analysis functions. The internal workflow and decision-making structure at IKB CAM was such that

the investment officer was responsible for sourcing transactions, whilst preparing the transaction analysis (portfolio, manager and deal structure) in the form of an investment proposal was the task of the credit analyst. Once the investment proposal has been drawn up, the issuing of an investment recommendation was decided at the IKB CAM Investment Committee. Represented at this meeting, alongside the Chief Investment Officer who made the decision on the investment recommendation, were the team managers from Research and Credit Analysis and the responsible investment officer and credit analyst.

With the establishment of IKB CAM, filter processes were agreed by the Board of Managing Directors of IKB AG for investment recommendations to IKB AG and the Rhineland Funding conduit advised by IKB AG, on the basis of which IKB CAM could issue a commitment. The decision on a potential investment for IKB AG submitted by IKB CAM was made by the Board of Managing Directors Investment Meeting (VIS) on the basis of IKB CAM's investment proposal and the decision prepared by the back office. In the event of a negative decision (rejection) the investment already made by IKB CAM had to be disposed of again. In the case of transactions that did not meet the filter criteria, IKB CAM could not enter into a commitment. In this case, the decision was made by VIS based on IKB CAM's investment proposal and the back-office decision.

The filter criteria were also applied to investment recommendations submitted by IKB CAM to Rhineland Funding. The setting-up of IKB CAM also involved the transfer of the investment advisory mandate to the company. Up until 20 December 2006, IKB AG continued to act as investment advisor for portfolio investments. This role has been assumed by IKB CAM since 21 December 2006. If the filter criteria are met, an investment recommendation based on the decision of the investment committee of IKB CAM is possible. If the criteria are not met, the written prior consent of a member of the Advisory Board of IKB CAM, who thereby assumes joint responsibility for the "risk prospect", is required. An investment recommendation may only be submitted to Rhineland Funding with the approval of such a member.

Rating process and procedures. Assessing the credit quality of clients and investments is a key element of the entire credit process. Strict demands are made in terms of credit quality, and substantial collateralisation of our exposure required, when selecting business partners and investments. This requirement is implemented via corresponding lending guidelines.

IKB employs a computerised rating system for assessing credit quality in traditional lending business. This is designed specifically for the corresponding client segment or specific type of financing solution. 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 (best rating) to 6.0 in increments of 0.5. This rating scale is calibrated by the probability of default, on the basis of a statistical analysis of historical defaults. As well as providing an instrument with which to assess credit quality, our rating procedures therefore also enable us to calculate risk-based and risk-differentiated margins and provide a basis for determining economic capital for credit risk.

In the Corporate Clients division, IKB uses its concept of rating medium-sized enterprises – known as IKB Mittelstandsrating – which has been subject to ongoing enhancement over the last few years. This concept is also applied, where appropriate, in other businesses. A mathematical and statistical process is used to assess the borrower's economic situation on the basis of financial indicators. The specific characteristics of the individual client and sector are then examined on the basis of an expert system, which takes into account the size of the company and exposure involved, incorporating qualitative information to an increasing extent. By combining the results from the two procedures, we ensure a very high degree of rating quality and precision.

A special rating procedure takes into account the particular features of project finance and special finance, emphasising the extent and sustainability of available cash flow to meet the interest and principal payments arising during the lifetime of the project. We employ quantitative models to assess each exposure using various scenarios and simulations; the results are complemented by qualitative criteria on sponsors, operators, sales and procurement markets, and the specifications of the transaction concerned. A special rating procedure developed on the basis of the "IKB Mittelstandsrating" concept is used for acquisition financings.

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 explicit details about the tenant structure and quality, individual credit quality assessment of the investors in relation to assets and liquidity, and the property's ability to cover interest and principal payments from cash flows generated.

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.

Sector risk is incorporated using a rating process which IKB carries out on a regular basis for around 370 different industry sectors. The rating process is based on an econometric model incorporating domestic and international macro-economic trends as well as cross-sectoral relationships. We leverage the vast knowledge of sector experts in the Economics department.

Validation tests carried out using available data show that the internal rating procedures used classify the risks appropriately. A high degree of precision leads to better risk selection and thereby supports the Bank's portfolio management.

In the case of portfolio investments, at least two ratings awarded by internationally recognised credit rating agencies are available, any changes to these are systematically recorded as they occur. The limits defined in the Guidelines on Managing Portfolio Investments are based on such factors as these external ratings. Investments must have a rating of at least "BBB" or "Baa2" at the time of the transaction being concluded.

Quantification of credit risk. To quantify credit risk, and with regard to traditional lending business and portfolio business, we have in each case developed a proprietary model that takes into account information on each individual loan/investment (loan/investment amount, collateralisation, term, sector affiliation, group affiliation, rating and if applicable likelihood of liquidity facilities being drawn upon), in addition to a variety of statistical variables, such as probabilities of default, collateral realisation proceeds and sector/asset correlations. These variables are derived from the Bank's own historical data, or based on external reference data. The distribution of losses on the credit portfolio – the focus of the observation – is subdivided into 'expected losses' and 'unexpected losses'.

‚Expected loss' is a statistically anticipated value (which is also referred to as 'standard risk costs'), that is covered by the calculated risk premium.

In contrast, ‚unexpected loss' (also known as 'credit value at risk') reflects the potential risk that may exceed the expected loss.

Quality assurance. Internal and external ratings and mathematical models are increasingly being integrated into the entire credit process. Given their resulting impact on the management of the Bank as a whole, quality assurance has become crucially important. Regular validation and benchmarking processes are applied both to the internal systems for assessing credit ratings, as well as to the approval, monitoring and management processes within the lending business. The ensuing results not only serve as the basis for developing the credit processes, taking the aforementioned regulatory requirements (MaRisk and Basel II) into consideration. We also use them for optimisation according to the Bank's own requirements.

Portfolio monitoring and management. In terms of portfolio monitoring, the focus is on the credit portfolio as a whole. The task is to monitor the portfolio such that the concentration of risk in individual exposures, countries, target groups and products is duly limited. It also involves determining the main drivers of risk for the overall portfolio. Consequently, the Bank employs a set of management tools which regularly monitor all credit risks, taking into consideration any association within corporate groups. The portfolio is oriented by country, business division, rating class and industry. This form of portfolio management for portfolio investments is essentially based on the rating grades assigned by the rating agencies. It is obvious (especially in hindsight) that the key drivers of risk for portfolio investments was above all US sub-prime risk, which accounted for a large share of the value of the investment, plus the fact that as a result, the main concentration risks were not recorded adequately.

The structural credit quality of IKB's credit portfolio has gradually improved over recent years, thanks to the consistent implementation of the guidelines formulated in the risk policy when acquiring new business, the use of loan securitisation and sub-participations to transfer credit risk, and the economic recovery staged by the German Mittelstand in the recent past.

Credit rating structure of lending business as at 31 March (excluding non-performing loans)*

in € billion	2007	2006	2005	2004	2003
1/1.5	13.1	8.8	6.5	6.0	6.6
2/2.5	8.9	10.1	9.5	9.2	8.8
3/3.5	5.5	5.2	6.0	6.0	7.2
4/4.5	2.2	2.1	2.4	3.2	3.9
5 or higher	1.3	1.6	1.9	2.5	1.8
	31.0	**27.8**	**26.3**	**26.8**	**28.2**

*) Any discrepancies in the totals are due to rounding differences

IKB's Economics department is responsible for the timely monitoring of sectors and market changes. This extensive sector expertise forms a core element of cluster analyses carried out as part of the Bank's risk management process. The purpose of such analyses – which incorporate our expectations – 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 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. Limits are defined in terms of volume and risk contribution at the various levels of the lending portfolio, taking into account the existing structure, historical performance, and risk quantification of the credit portfolio and their changes over time, as well as sector-specific risks and the impact of economic trends identified by the economists. Additional maximum thresholds for individual loans or loans to corporate groups are defined to prevent concentration risk.

In combination with risk placements carried out by IKB, this approach ascertains a high degree of diversification and granularity in the loan portfolios of the Corporate Clients, Real Estate Clients and Structured Finance segments. Accordingly, the potential impact of recessions in individual sectors is kept to a minimum.

Country risk limits apply to the total exposure in all countries. This means that transactions involving country risk may only be approved if there is still scope within the country risk limit, even in cases where the clients concerned have a good or very good credit standing. The limits are stipulated by the Limit Committee and apply to all transactions in the country concerned. Utilisation of these limits is monitored in near-real time, using a reporting system which provides information on a regular basis.

In addition to its lending business, IKB also invested in securitised international credit portfolios, in order to further enhance the diversification of its loan assets and the profitability of its portfolio. The volume of these investments stood at € 6.8 billion as at 31 March 2007. 98% of investments had an investment-grade rating at this time, of which approximately 73% had a triple-A or double-A rating.

Credit rating structure of IKB's portfolio investments as at 31 March (excluding Rhineland Funding)*

in € billion	2007	2006	2005	2004	2003
Aaa	2.1	2.2	1.8	1.4	0.8
Aa	2.9	2.5	1.7	0.7	0.5
A	1.2	1.2	1.0	0.5	0.2
Baa	0.5	0.5	0.3	0.3	0.3
Ba/B	0.0	0.1	0.2	0.1	0.1
Sub B	0.1	–	–	–	–
	6.8	**6.6**	**5.0**	**3.0**	**1.9**

*) Any discrepancies in the totals are due to rounding differences

Asset structure of IKB's portfolio investments as at 31 March (excluding Rhineland Funding)

in € billion	31 Mar 2007 Total		31 Mar 2006 Total	
Corporates	2.9	(42%)	2.9	(44%)
ABS	3.0	(45%)	2.8	(42%)
of which: including sub-prime exposures	2.4	(35%)	2.1	(32%)
CDO of CDO – ABS + Corporates	0.9	(13%)	0.9	(14%)
of which: including sub-prime exposures	0.2	(2%)	0.2	(3%)
Total	**6.8**	**(100%)**	**6.6**	**(100%)**

Alongside own investments, IKB has also advised portfolio investment companies (Rhineland Funding in particular) on their investments in securitised credit portfolios. IKB, in addition to other banks, provided these companies with liquidity facilities. The facilities provided by IKB had a total value of just under € 11.8 billion as at 31 March 2007, with approximately € 5.4 billion in liquidity facilities having been provided by the other banks.

These total liquidity facilities of € 17.2 billion existed as at the reporting date against some € 12.7 billion of investments, of which, as at the reporting date, € 11.5 billion are consolidated in the consolidated financial statements of IKB. The share of investments with a triple-A or double-A rating as at 31 March 2007 was around 85%.

Credit rating structure of Rhineland Funding portfolio investments as at 31 March*

in € billion	2007	2006	2005	2004	2003
Aaa	5.8	4.0	2.9	2.5	2.0
Aa	3.9	2.8	2.0	1.6	1.2
A	1.5	1.4	1.0	0.9	0.7
Baa	0.2	0.6	0.5	0.5	0.4
Ba/B	0.0	0.1	0.1	0.2	0.0
	11.5	**9.0**	**6.5**	**5.7**	**4.4**

*) Any discrepancies in the totals are due to rounding differences

Asset structure of Rhineland Funding portfolio investments as at 31 March*

in Mrd. €	31 Mar 2007 Total		31 Mar 2006 Total	
Corporates	0.4	(3%)	0.9	(10%)
ABS	10.3	(91%)	6.9	(77%)
of which: including sub-prime exposures	9.7	(85%)	5.9	(65%)
ABS + Corporates	0.3	(3%)	0.7	(7%)
of which: including sub-prime exposures	0.1	(1%)	0.1	(1%)
CDO of CDO – ABS + Corporates	0.4	(3%)	0.5	(5%)
of which: including sub-prime exposures	0.2	(2%)	0.2	(2%)
Total	**11.5**	**(100%)**	**9.0**	**(100%)**

Regional distribution of lending business (excluding IKB and Rhineland Funding portfolio investments). In addition to the investments in international credit portfolios referred to above, as at the reporting date € 7.6 billion of the total loan volume related to foreign countries, both within Europe and elsewhere. After deduction of exposures covered by credit insurance (such as Hermes) and placements with third parties, more than 99.4 % of this lending volume was classified in country risk classes 1 to 1.5, the two top grades.

Collateral, placement of risk with third parties and securitisations. In terms of IKB's traditional long-term lending business, classic forms of collateral (real property liens, transfer of ownership by way of security and guarantees) continue to be very important. Irrespective of whether a lending decision is imminent, the valuation of collateral provided in each case is continuously reviewed and updated.

This form of risk mitigation is supported by the portfolio-oriented placement of risks from individual exposures to third parties, by syndicating loans to other banks, or by placing risk through securitisation.

IKB is one of the leading issuers in securitisations of loans and advances to small and medium-sized enterprises. This is complemented by the securitisation of international structured finance and real estate finance exposures. This form of placement is used for the purposes of targeted portfolio management, enabling us to avoid any clustering of risks, and to optimise our use of regulatory capital.

Such domestic and foreign credit exposures have been placed in the capital market synthetically; whilst remaining in the IKB balance sheet, being refinanced and continuing to be looked after by the Bank in terms of the lending side, the counterparty risk exposure has been neutralised. We have used securitisation to place a total of just under € 18 billion with third parties over recent years. The total volume of loans and advances placed through securitisation exceeded € 7 billion at the reporting date. The current situation on the securitisation markets has led to a marked increase in hedging costs with regard to new securitisation transactions.

Identification and specific handling of exposures in danger of default. All exposures subject to credit risk are monitored on a permanent basis. This allows the Bank to draw up a current evaluation of the borrower's credit quality, and therefore to assess the risk structure of the loan portfolio. A computerised system is also used with regard to traditional lending business to facilitate early risk recognition, in order to implement suitable measures at an early stage, on the basis of risk indicators identified using sample patterns.

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 insolvency proceedings have been instigated, if interest or principal payments are more than 90 consecutive days in arrears, or in the event of other clear signs that the debtor is unable to meet the contractual obligations and in the absence of any objective indications of subsequent payments or the realisation of collateral. 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

	31 Mar 2007 in € million	31 Mar 2006 in € million	Change in € million	in %
Domestic clients	1 750	2 225	–475	–21
Western Germany	943	1 166	–223	–19
Eastern Germany	807	1 059	–252	–24
International customers	82	98	–16	–16
Credit portfolio investments	128	0	+128	
Total	**1 960**	**2 323**	**–363**	**–16**
% of total loan volume[1)]	4.9	6.3		

[1)] The total loan volume comprises loans to customers, loans to credit institutions, securitised lending, operating and financing lease agreements, as well as guarantees and credit default swaps. Excluding the consolidated investments of RFCC

The reduction in non-performing loans is attributable to a stringent workout process (also refer to Note 33 “Provision for possible loan losses”), and to measures adopted on the basis of the early detection of risks.

Risk provisioning. With regard to financial instruments carried at amortised cost, as well as for contingent liabilities, risk provisioning takes the form of a provision, a write-down or a value adjustment, which is then carried in the income statement as the amortisation or value adjustment of receivables. Additions of provisions for possible loan losses are recognised in the income statement. With regard to products carried at fair value, any changes in value due to changes in credit quality are taken into account when determining fair value.

The corresponding value adjustments – which are determined by Risk Management – take into account both expected future cash flow and the value of collateral available. Each case is assessed individually by Risk Management, which in turn determines the workout strategy and estimates the incoming payments achievable in future. This procedure applies accordingly to on-balance sheet portfolio investments and, as at 31 March 2007, resulted in risk provisioning for these investments for the first time.

Financial instruments carried at amortised cost are also checked for the existence of any deferred impairment. For portfolios with similar credit risk characteristics we engage in lump-sum provisioning for possible loan losses if there are objective indications that loans may be at risk of being non-performing but cannot yet be individually calculated. Further details relating to provisions for possible loan losses can be found in Notes 22 and 33.

Overall, provisions for possible loan losses were down by just under 20%, from € 319 million in the previous financial year to € 259 million. The total allowance for possible loan losses thus amounted to € 1,142 million as at 31 March 2007.

Liquidity risk and market price risk

Liquidity risk. A distinction is made between two types of liquidity risk: the risk that current or future payment obligations cannot be met on time, or in full; and the risk that required funding can only be obtained at less favourable market conditions.

Regular liquidity analyses and cash flow forecasts were carried out during the reporting period to ensure that sufficient liquidity was available at all times. To secure liquidity, negotiable variable-rate securities were held that could be sold or used as collateral where appropriate. The Bank has also made regular use in the past of the Central Bank's tender facilities, through which the banking system is supplied with liquidity.

To quantify the level of back-up liquidity needed, a system is being established which is designed to take sustained market disruptions into account – through to the complete collapse of market activities – over a defined period, observing external requirements (specifically, the liquidity ratio according to the German Banking Act).

The Bank's long-term refinancing requirement based on balance-sheet assets is calculated and regularly updated in a process coordinated between the Treasury and the Finance, Controlling and Taxation department, on the basis of how we expect business to develop. Given IKB's broad refinancing basis and placement strength on the capital market up until July 2007, it was possible to procure adequate refinancing for all lending operations in terms of the required maturity structure and conditions – even in difficult market phases. Details on measures the Bank will take to secure liquidity in the future can be found in the Outlook.

Market price risk. Market price risks comprise interest rate, volatility, currency and price risks for shares and other assets. We manage these risks as part of a risk management process that conforms with the Minimum Requirements for Risk Management (MaRisk).

Limit system. Daily reporting to the Board of Managing Directors forms a cornerstone of managing market price risk, backed by a differentiated limit system that is geared primarily towards a market value-oriented limitation of interest rate, equity and exchange rate risks, and of risks from options positions. The Board of Managing Directors sets limits for the Treasury division, on the basis of the Bank's risk-bearing capacity as also set by the Board. Based on this limit system, the Treasury implements its market expectations in investment and refinancing strategies.

IKB differentiates between the portfolios of proprietary trading, proprietary investment (further broken down into two sub-portfolios: fixed-income fund and investment portfolio), and refinancing of lending operations. These portfolios are valued daily in relation to market risks. Their risk content is measured using a value at risk (VaR) system based on present values, which forms the basis for limiting market risks. The limit system combines performance and VaR limits for various scenarios at Group level and is strictly governed by the Bank's risk-bearing capacity.

Portfolios that are carried at amortised costs are not included here. Given their purpose as long-term investments held until final maturity, their market price fluctuations are not measured daily but only result in value adjustments in the event of long-term impairment.

Quantification of market price risk. IKB employs various mathematical models to quantify interest rate and spread risk. These models use historical simulation in order to determine the risk exposure inherent in the Bank's major positions. To ensure that the characteristics of each product are properly taken into account, this historical simulation also incorporates a revaluation of instruments, using observed yield curve data, and incorporating correlation effects. 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.

Risk measurement in proprietary trading. The basis for the quantification of the interest rate risk is a value at risk model which uses a variance-covariance approach with a confidence level of 95% and a holding period of ten days. During the risk measurement process, historical observation periods of 510 and 60 days are used. The higher value at risk figure of the figures calculated during the risk measurement process is used for risk reporting. In addition, the risk is calculated for worst-case scenarios which can be derived from historical interest rate developments. A scenario matrix approach implemented in the Kondor+ system is applied by IKB for options, in order to take account of interest rate and interest volatility risks. The equity price risk is calculated on the basis of the standard procedure as defined in the capital ratio according to the German Banking Act (Grundsatz I).

Risk measurement in the fixed-income fund, and in the investment portfolio. The main risks assumed by the Bank in these two portfolios are interest rate and volatility risks. Risks associated with equity prices and currency exchange rate movements are less important.

A historical simulation is primarily used to measure risk. When quantifying the risk exposure to own funds invested on a long-term horizon in the fixed-income fund, for the purpose of optimising net interest income, the simulation is based on corresponding assumptions regarding maturity and return. Simulation parameters are mirrored (and the number of simulation scenarios thus doubled) to determine VaR within the scope of stress testing. Maturity assumptions regarding the own funds invested in the fixed-income fund are not taken into account for stress test analyses.

Risk measurement in loan refinancing. In order to calculate the currency and interest rate risks associated with loan refinancing, IKB uses the discounted balances from the interest rate gap analyses and historical simulation.

Aggregation of risk measurement figures. For the purposes of risk aggregation, the risks of the trading book and the banking book are taken into account. The aggregation of the risk measures is performed by adding the VaR figures of the sub-portfolios, assuming full correlation of the results. This conservative procedure tends to result in an over-estimation of risk.

Quality assurance. Backtesting is regularly carried out in order to verify the accuracy of projections obtained using our models. The results are reported 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.

Reporting. To monitor market risk and to support Market Risk Management, detailed information on the results of operations and risk exposure of the above-mentioned portfolios are submitted to the responsible members of the Board of Managing Directors and Treasury on a daily basis. Once a month, the member of the Board of Managing Directors responsible for Finance, Controlling and Taxation provides an extensive report to the entire Board on market developments, results and risk situation of these positions. In this context, the fundamental framework and interest rate assessment presented by our economists are reported, and their potential impact analysed jointly with representatives from Treasury and from Finance, Controlling and Taxation.

Operational and reputational 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, irrespective of whether such loss was caused intentionally or by chance, or whether it occurred naturally.

Management of operational risks. 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. This ongoing development takes into account the increasingly complex and international nature of the IKB Group's business. For this purpose, ORM arranges for 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.

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.

The risk audits conducted up until the end of the reporting year showed that the Bank does not face any disproportionate risks from its operational risk fields. Measures have been implemented to avoid all identified risks, and opportunities for early recognition of negative developments and the relevant emergency precautions have been recognised. Where necessary, corresponding insurance cover has been arranged.

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. Legal risks arising after the onset of the crisis will be explained in the Report on Material Events After the Reporting Date.

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; as well as the extension of backup systems which allow the further reduction of operational risk exposure concerning the Bank's communications, IT and settlement systems. At the same time, the Bank's IT employees undergo continuous training so that they are prepared for every eventuality. IKB's implementation of a suitable management system for information security was certified by TÜV Rhineland during the past financial year.

All of these measures are further reinforced through regular reviews and emergency drills. By means of the measures taken, the Bank has accounted for all material risks.

Compliance risks. Very strict statutory provisions apply to the financial sector in particular. Additional rules and regulations were implemented to ensure that our employees always conduct themselves correctly and consistently with the relevant laws: most importantly, conflicts of interest need to be avoided and market manipulation or insider trading prevented. This was the reason behind our developing a Code of Conduct which reflects 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.

Personnel risks. Operating entities – 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 ascertaining 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 to manage training and CPD measures. 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.

Reputational risks. Reputational risks are the risks of losses, falling revenues, rising costs or loss in value due to a 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.

Strategic risks

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 by the market or competitive environment, IKB's customers, or 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 Corporate Development, and are subject to constant analysis. This includes regular checking of business division strategies within the framework of the strategic planning process, and of the resulting strategic initiatives and investments.

Business risk

Business risk is defined as the risk of negative deviations from target levels of income (comprising commissions and interest) and expenses.

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 Finance, Controlling and Taxation, 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 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 communication

All relevant information compiled from the trading and credit businesses, from Risk Management, from Finance, Controlling and Taxation, and from Human Resources as well as from the other units is processed and examined. This is then presented and explained in detail, at least once a month, to the Board of Managing Directors, and to the heads of divisions.

The credit risk report contains the information relevant to the Group's total risk position, and contains comprehensive information on the credit risk to which the Bank is exposed. Besides structural developments within the portfolio (credit quality data, collateralisation, loan terms, sector and country diversification), it also outlines the development of impaired or non-performing receivables, and provisions for possible loan losses, in an up-to-date and comprehensive presentation. These details also include measurements on the level of concentration with the portfolio. In addition to the presentation and explanation of special exposures and developments, the report also contains an overview (including a quantification) of all individual types of risk, to monitor the Bank's risk-bearing capacity also in stress scenarios, and information regarding

utilisation of all economic capital limits. Nevertheless, sub-prime risks were not seen as special risk factor in the portfolio.

We regularly match the risk/return figures of the lending business with up-to-date planning and target figures, and report the results to the Board of Managing Directors and to the heads of business divisions. This allows us to counter deviations at an early stage.

All business divisions and corporate centres therefore have access to extensive, necessary and up-to-date information. Within the scope of market price risk reporting, in addition to daily monitoring of, and reporting on, limit utilisation, Risk Controlling prepares a daily briefing for the responsible members of the Board of Managing Directors, Treasury and other units involved. This includes marking the Bank's positions to market, together with accrued and risk-free net interest income generated from the Bank's refinancing activities and proprietary investments. This briefing also includes a statement of the present value exposure under a stress scenario, the utilisation of various market price risk limits, and comments on particular developments.

Operational Risk Management keeps the Board of Managing Directors informed regarding operational risk, as well as individual losses and their distribution amongst the divisions.

Core content of the risk situation

The 2006/07 financial year was characterised by a reduction in provisioning for possible loan losses, and in non-performing loans. Within the scope of the annual review, we adjusted the credit risk strategy during the 2006/07 financial year where necessary, in line with the strategic orientation of the credit business.

The strategy for managing operational risk was updated during the financial year under review, and implemented throughout the IKB Group; reporting lines were harmonised and linked with the various sources of operational risk data.

All remaining projects for the implementation of Minimum Requirements for Risk Management (MARisk) were completed during the 2006/07 financial year. We remained committed to continuing the project that involved preparations for Basel II; it was successfully completed at the end of 2007.

Observation of the Bank's risk-bearing capacity over the 2006/07 financial year indicated that, from the perspective of a non-subordinated lender, the aggregate risk cover was sufficient even in cases of unexpected risks under stress scenarios materialising. The measurement systems and processes implemented within IKB's framework of risk monitoring and management are generally suitable for the early identification and adequate capture of risks. However, following the reporting date, the previous methods used to value those portfolio investments for which active markets ceased to exist in late July are seen to be no longer sufficient.

4. Remuneration Report for the Financial Year 2006/07

This Remuneration Report relates to the remuneration of the members of the Board of Managing Directors and Supervisory Board in/for the 2006/07 financial year and describes how the remuneration systems in/for this financial year are designed. It takes into account the regulations of the German Commercial Code as amended by the German Act on the Disclosure of Remuneration of Management Board Members (Vorstandsvergütungsoffenlegungsgesetz – VorstOG), as well as by the general principles of the German Corporate Governance Code. At the same time, it should be regarded as an integral part of the Group Management Report.

The remuneration system for members of the Board of Managing Directors

Several significant changes took place regarding the composition of the Board of Managing Directors in the financial year 2006/07. The following were members of the Board of Managing Directors during the period to which this Remuneration Report relates: Stefan Ortseifen, Frank Braunsfeld, Dr. Volker Doberanzke, Dr. Markus Guthoff, Claus Momburg, Joachim Neupel and Frank Schönherr. Frank Schönherr and Joachim Neupel retired from the Board as at 30 November 2006 and 31 December 2006 respectively. Dr. Volker Doberanzke was appointed as a member of the Board of Managing Directors with effect from 1 June 2006, and Frank Braunsfeld was appointed with effect from 1 March 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 additional benefits and pension commitments. There are no stock option plans or similar schemes. The structure of the remuneration system for the Board of Managing Directors is subject to regular discussion and review by the Supervisory Board, as proposed 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 for the reasonableness of remuneration 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 economic situation, the performance and outlook of the Company, taking into account its peer companies. The appropriateness of the respective total remuneration is also reviewed regularly. Any remuneration from offices 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 the form of remuneration in kind which mainly consist of insurance premiums, use of a company car and the property value of the rented company accommodation of Joachim Neupel and Stefan Ortseifen to be applied in accordance with tax laws. These additional benefits must be disclosed as remuneration in each Board member's personal tax return. 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. The amount of the variable remuneration is determined by a target agreement system: for financial year 2006/07, this included targets that depend on the success of the company (65%) and individual targets (35%). The targets depending on the company's success relate to the operating result, the cost/income ratio and the return on equity in the consolidated financial statements. The individual targets include divisional, functional, and project-related targets. The first step in this process is to set a target bonus. The bonuses earned are then determined according to the extent to which the targets have been reached. As a rule, it is not possible to change the agreed performance targets retroactively. In the 2006/07 financial year, the variable remuneration amounted to approximately 63% of the total remuneration paid; this figure is based on the payments made before the onset of the crisis affecting the Bank. The maximum bonus actually paid amounts to 200% of the target bonus, the minimum bonus is 30% of the target bonus.

The variable remuneration for the 2006/07 financial year was determined at the meeting of the Executive Committee on 13 February 2007, in other words a relatively long time before the outbreak of the crisis in late July 2007, and was paid immediately following approval on 27 June 2007 of the financial statements presented in May 2007. The restatement of the financial statements as at 31 March 2007 made it necessary to review and reset the targets agreed upon with members of the Board of Managing Directors. Demands will be made to repay the variable remuneration, except the minimum bonus.

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 the 30% minimum of the target bonus, the variable remuneration component is risk-based, as it does not constitute guaranteed remuneration. As a rule it is not possible to change the agreed performance targets retroactively.

Pension provisions. Having retired from the company, the members of the Board of Managing Directors are entitled to pension payments in the following cases: upon reaching the standard retirement age limit of currently 63 years, permanent disability, early retirement or the non-renewal of the 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. No

transition payments will be made to members of the Board of Managing Directors who resigned as a consequence of the crisis.

The annual pension entitlement amounts to between 30% and 75% 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% 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 their 25th year for the term of their education including national or civil service. 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 company has recognised pension provisions in accordance with IFRS for future pension claims of members of the Board of Managing Directors.

The new members of the Board appointed on 29 July 2007 and 15 October 2007 have no pension provisions or have pension provisions that differ from the terms set out here.

Change of control. In the event of a term of office as member of the Board of Managing Directors being ended prematurely due to a change of control, the members of the Board who were in office during the 2006/07 financial year shall have a general entitlement under their contract to payment of a one-off settlement payment and a transitional allowance. According to the rules, 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. If a change of control leads to the early termination or non-renewal of the service contract, regardless of whether under the instruction of the company or of a member of the Board of Managing Directors, because the change of control impacts significantly on the Board member in question, the member is entitled to severance pay of at least three times the variable annual remuneration as well as a transition payment until his 63rd birthday, after which time the member shall be entitled to pension payments in accordance with the aforementioned regulations on pension provisions. Different rules on settlement payments may result from individual termination agreements.

The agreements entered into with members currently active on the Board of Managing Directors do not contain a change-of-control clause.

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.

Details of the remuneration paid to the members of the Board of Managing Directors for the financial year 2006/07 are shown in the following table:

	Annual remuneration				Pensions	
€ thousand	Fixed remuneration	Variable amounts*)	Value of ancillary benefits*)	Total	Annual remuneration at retirement as at 15 Feb 2008	Additions to pension provisions (service costs) as at 31 Mar 2007
Stefan Ortseifen	504	1 000	93	1 597	326	171
Frank Braunsfeld (from 1 Mar 2007)	25	35	14	74	77	50
Dr. Volker Doberanzke (from 1 June 2006)	300	750	32	1 082	38	149
Dr. Markus Guthoff	384	750	59	1 193	131	99
Claus Momburg	384	750	53	1 187	308 ***)	118
Joachim Neupel ****) (until 31 Dec 2006)	288	563	96	947		
Frank Schönherr****) (until 30 Nov 2006)	256	470	31	757		
Total	**2 141**	**4 318**	**378**	**6 837**	**n. a.**	**587**

*) Variable remuneration paid; following the restatement of the financial statements for the 2006/07 financial year, the Supervisory Board will demand repayment of variable components paid to members of the Board of Managing Directors
**) Including remuneration of € 225,000 received for directorship functions carried out at subsidiaries.
***) Assumes the Board member will remain in office until his 63rd birthday
****) Pensions paid to Mr Neupel for the period from 1 Jan-31 Mar 2007 (€ 96,000), and transfer to pension provisions for Messrs Joachim Neupel and Frank Schönherr are included in the total remuneration for former members of the Board of Managing Directors and their surviving dependants, as outlined below

For the financial year 2005/06, the annual remuneration of the entire Board of Managing Directors amounted to € 6,068,000, of which € 2,368,000 related to fixed remuneration components and € 3,700,000 to variable components.

Former members of the Board of Managing Directors and members who retired before the end of the 2006/07 financial year. Total remuneration paid to former members of the Board of Managing Directors and to members who retired before the end of the 2006/07 financial year and their surviving dependants in the form of disbursements, personal and non-cash contributions and pension provisions amounted to € 5,622,000 (previous year: € 3,147,000). A total of € 37,227,000 in provisions was recognised for pension obligations to former members of the Board of Managing Directors and their surviving dependents.

Further information on the remuneration package for members of the Board of Managing Directors is disclosed in the Notes to the Consolidated Financial Statements.

The remuneration system of the Supervisory Board

The remuneration of the Supervisory Board is governed by Article 11 of the Memorandum and Articles of Association of IKB. 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 in the amount of € 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 in the amount 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 shall receive 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 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 figures than the remuneration of the Board of Managing Directors, which means that an unintended harmonisation of the remuneration interests of both corporate bodies is not possible. The fixed annual remuneration of € 20,000 is intended in particular to take account of the Supervisory Board‘s independence, which is necessary for the Board to perform its supervisory function. The new system is also aimed at ensuring an appropriate minimum remuneration that does not depend on the economic success of the Company. The aim of the dividend-based remuneration component is to create a certain harmonisation of the Supervisory Board’s remuneration interests with the return expectations of the shareholders. 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 2006/07 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 personally rendered services, in particular advisory and agency services, over and above their fixed remuneration.

Details for the remuneration of the members of the Supervisory Board for the financial year 2006/07 are shown in the following table:

€ thousand	Total (fixed component only; no variable remuneration since no dividend will be paid)
Dr. Ulrich Hartmann	55
Detlef Leinberger (since 31 Aug 2006)	30
Hans W. Reich (from 31 Aug 2006)	19
Dr. Alexander v. Tippelskirch	40
Dieter Ammer	20
Jörg Asmussen	20
Dr. Jens Baganz	20
Dr. Jürgen Behrend	20
Wolfgang Bouché	23
Hermann Franzen	20
Dr. Mathias Kammüller	20
Wilhelm Lohscheidt (until 31 Aug 2006)	8
Jürgen Metzger	20
Roland Oetker	20
Dr. Eberhard Reuther	20
Randolf Rodenstock	20
Rita Röbel	20
Dr. Michael Rogowski	20
Jochen Schametat (from 31 Aug 2006)	13
Dr. Carola Steingräber	22
Dr. Martin Viessmann	20
Ulrich Wernecke	20
Andreas Wittmann	20
Subtotal	**510**
Total travel expenses/VAT for the Supervisory Board	183
Total	**693**

For the 2006/07 financial year, the fixed annual remuneration paid to the Supervisory Board amounted to € 693,000, of which € 183,000 related to travel expenses and VAT.

For the financial year 2005/06, the annual remuneration of the Supervisory Board amounted to € 1,247,000, of which € 510,000 related to fixed remuneration components and € 571,000 to variable components. A further amount of € 166,000 related to travel expenses and VAT.

Further details can be found in the Notes to the Consolidated Financial Statements.

5. Other Financial Information

Disclosures required under sections 289 (4) and 315 (4) of the German Commercial Code (Handelsgesetzbuch – "HGB")

The company's share capital amounted to € 225,280,000 as at 31 March 2007, and comprised 88,000,000 notional no-par value bearer shares (bearer unit shares). On 07 January 2008, IKB issued a € 54.3 million mandatory convertible bond, excluding shareholders' pre-emptive rights, which was subscribed by KfW Banking Group. The convertible bond was convertible into shares in the Company of up to 10% of its share capital. The terms of the convertible bond provide for an early conversion obligation if certain conditions are met. These conditions have subsequently been met, triggering the conversion obligation; as a result, IKB is obliged to issue shares from conditional capital. These shares from conditional capital are expected to be issued to the holder(s) of the bonds on the day preceding the General Meeting on 27 March 2008. Therefore, IKB's issued share capital is expected to amount to € 247,794,332.16 at the time of the General Meeting, consisting of 96,794,661 shares. All shares entitle the holder to the same rights. Each share grants the holder one vote and determines the participation in profit.

The Federal Republic of Germany holds an 80% stake in the KfW Banking Group, based in Frankfurt am Main. Through its wholly-owned subsidiary KfW-Beteiligungsholding GmbH, Frankfurt am Main, the KfW Group holds 37.8% of the voting rights in IKB. The Stiftung zur Förderung der Forschung für die gewerbliche Wirtschaft (Industrial Research Foundation), Cologne, also holds an 11.8 % interest in the company. 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 may revoke the appointment of a member of the Board of Managing Directors on serious grounds. The Articles of Association may only be amended by means of a resolution adopted at the General Meeting in accordance with Section 179 (1) of the AktG and Article 17 of the Memorandum and Articles of Association. 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.

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 with or without a limited term, 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 in relation to the development of share capital.

Report of the Board of Managing Directors in accordance with sections 289 (4) and 315 (4) of the German Commercial Code (HGB)

The Board of Managing Directors has made disclosures in the Company's Management Report and in the Group Management Report in accordance with sections 289 (4) and 315 (4) of the HGB, with reference to which it comments as follows:

- The composition of share capital is based on Article 5 of the Memorandum and 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 Banking Group 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.

- 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. Changes to the Memorandum and Articles of Association are made to the extent permitted by law.

- The arrangements in place with the members of the Board of Managing Directors relating to a potential change of control are also set out in the remuneration report and do not require further clarification. The employment contracts of the employees do not contain any provisions relating to a change of control.

Disclosures in accordance with 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: "IKB received appropriate consideration for each legal transaction set out in the report on transactions with related parties. This assessment is based on the circumstances known to us at the time of issues subject to reporting requirements. We did neither take nor omit to take any measures within the meaning of Section 312 of the German Stock Corporation Act (AktG)."

Corporate Governance

Joint Corporate Governance report by the Board of Managing Directors and Supervisory Board of IKB Deutsche Industriebank AG

Applying best practice in Corporate Governance is crucially important for responsible and value-oriented corporate management. IKB welcomes the adoption of uniform Corporate Governance standards. We see this as a major milestone in the process of enhancing management and control practices in enterprises. IKB therefore explicitly supports the German Corporate Governance Code, and its associated objectives and purposes.

IKB's Corporate Governance Officer. Implementation of, and compliance with the German Corporate Governance Code is monitored by a Corporate Governance Officer appointed by the Board of Managing Directors in consultation with the Chairman of the Supervisory Board. The position of Corporate Governance Officer was held by Panagiotis Paschalis until 5 February 2008. Since 6 February 2008 this position has been held by Marcus Jacob, Head of the Board Office/Legal Department. The Supervisory Board duly noted and approved the last Annual Report of the Corporate Governance Officer on the implementation of and compliance with the Code at the Supervisory Board meeting on 27 June 2007.

Recommendations and suggestions of the German Corporate Governance Code. Since the submission of the Declaration of Compliance of 28 June 2006, IKB has complied with the recommendations of the German Corporate Governance Code (as last amended on 12 June 2006) with the exception of Section 3.8 (deductible for D&O insurance policy) and Sections 4.2.4 / 5.4.7 (individual disclosure of remuneration paid to members of the Board of Managing Directors and Supervisory Board); individual disclosure of the remuneration paid to members of the Board of Managing Directors and Supervisory Board shall be carried out for the first time for the 2006/07 financial year. The Board of Managing Directors and Supervisory Board declared in their last annual Declaration of Compliance, of 27 June 2007, that the recommendations would also be complied with in future with the exception of Section 3.8 (deductible applicable to D&O insurance policy).

Since submitting the last annual Declaration of Compliance, IKB has met the recommendations of the Code with the exceptions of 2.3.1 (convening the Annual General Meeting at least once a year), 3.8 (deductible for D&O insurance policy), 4.2.1, second sentence (ruling on responsibilities for departments of members of the Board of Managing Directors in the internal rules of procedure) and 7.1.2 (publication of interim reports within 45 days of the end of the reporting period). IKB has decided to publish these exceptions in an updated Declaration as at 16 February 2008. The updated Declaration of Compliance is included at the end of this chapter, and is also available on the IKB website (www.ikb.de).

As a rule, IKB complies with all suggestions set out in the Code, with few exceptions: one of these is the fact that extracts of the Annual General Meeting, up to the end of the speech of the Chair of the meeting and the Chairman of the Board of Managing Directors, will be transmitted live on the IKB website.

The representatives appointed by IKB for the purpose of exercising shareholders' rights in accordance with instructions can only be contacted during the Annual General Meeting by shareholders present. Shareholders who do not participate in the Annual General Meeting in person retain the option, however, to

authorise these representatives prior to the Annual General Meeting. Furthermore, the variable components of the compensation package for the Board of Managing Directors do not include long-term incentives such as equity options, as recommended by the Code.

Corporate management and control exercised by the Board of Managing Directors and the Supervisory Board. In accordance with German company law, IKB's Board of Managing Directors and the Supervisory Board operate a dual-level management and control structure. The Board of Managing Directors is appointed by the Supervisory Board. In accordance with the German One-Third Employee Participation Act (Drittelbeteiligungsgesetz), the Supervisory Board is made up of two-thirds shareholder representatives and one-third employee representatives. The shareholder representatives are selected at the Annual General Meeting by way of individual election. The clearly defined duties and responsibilities of both executive bodies are stipulated by law. The Board of Managing Directors of IKB is responsible for managing the enterprise. In doing so, it is bound to the enterprise's best interests, as well as to the principles of the business policy adopted, and undertakes to increase the sustainable value of the enterprise. The Board of Managing Directors manages the company's business in accordance with the law, IKB's Memorandum and Articles of Association, the internal rules of procedure, the distribution of responsibilities agreed upon, and the service contracts entered into with each member of the Board.

The Board of Managing Directors informs the Supervisory Board regularly, without delay and comprehensively, of all issues of importance to the IKB Group with regard to business development, strategy and company planning, on income and profitability, compliance, risk exposure and risk management as well as risk controlling. The Board of Managing Directors points out any deviations in the actual business development from previously formulated plans and targets, indicating the reasons for such deviations. Transactions of fundamental importance require the approval of the Supervisory Board.

However, the agreed upon procedures report compiled by PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft (PwC) identified deficiencies in the Board of Managing Director's reporting concerning the portfolio investments. Specifically, the Chairman of the Supervisory Board and the Executive Committee were only informed of the Bank's sub-prime exposure on 27 July 2007 for the first time. Furthermore, the analyses in the credit risk reports of the economic risks in relation to Rhineland Funding were less than adequate.

The Supervisory Board supervises and advises the Board of Managing Directors on its management of IKB and its Group subsidiaries. It conducts its business in accordance with the law, IKB's Memorandum and Articles of Association and the Bank's internal rules of procedure.

The Supervisory Board is composed of fourteen shareholders' representatives and seven staff representatives. A number of the Supervisory Board members are associated with other companies with whom IKB has forged business relationships. Transactions between IKB and these companies are always conducted in line with the same market conditions that prevail for third parties. We believe that these transactions do not impact on the independent status of those members of our Supervisory Board who are closely associated with these companies. No consulting agreements or other contracts for services or work that required Supervisory Board approval were entered into by any member of the Supervisory Board with IKB or its subsidiaries. There were no conflicts of interest affecting members of the Board of Managing Directors or the Supervisory Board in their dealings with the Company. A conflict of interest arose in two cases in relation to the Supervisory Board, which was disclosed by the Supervisory Board member in question. This Supervisory Board member abstained from voting at the corresponding voting process, or did not take part in the proceedings regarding the agenda item concerned.

The Supervisory Board has constituted two committees in order to enhance the efficiency of its work: the Executive Committee (Aufsichtsratspräsidium) and the Finance and Audit Committee (Finanz- und Prüfungsausschuss), plus a committee to support the selling process, which have been entrusted with particular tasks. The Executive Committee's remit includes the forwarding of proposed Supervisory Board candidates' names to the Supervisory Board for its nominations to the Annual General Meeting, which means that to this extent the Executive Committee also assumes the role of the nominations committee as defined in the German Corporate Governance Code. The Supervisory Board provides information on the composition of these committees, and details of its own activities, in its report to the Annual General Meeting. The German Corporate Governance Code recommends that the Chairman of the Audit Committee possesses specific knowledge of, and is experienced in applying, international accounting standards and internal control processes. Detlef Leinberger, Chairman of the Finance and Audit Committee since 31 August 2006, has the necessary qualifications, thanks to his many years' experience as a member of the Board of Managing Directors of KfW Banking Group.

Managing risks. The Board of Managing Directors is responsible for IKB's risk management. It sets risk policy in the form of a clearly defined business and risk strategy, including the types of business conducted, defines the reasonable total risk within the scope of the Bank's overall risk-bearing capacity and incorporates risk control as an essential component of its processes and planning. Following the crisis that developed in July 2007, the IKB Board of Managing Directors arranged for such factors as the Bank's risk management system to be reviewed in the context of an agreed upon procedures to be conducted by PwC. For the greater part, the findings of the agreed upon procedures were implemented by the end of January 2008. For details, please refer to the Risk Report, which forms part of the Group Management Report.

Annual General Meeting. IKB's shareholders exercise their rights and cast their votes at the General Meeting. Important company events are communicated to shareholders via a financial calendar published in the Bank's annual report, in quarterly reports, and on the IKB website (www.ikb.de). Shareholders may either exercise their voting rights in person at General Meetings, via a proxy of their own choice, or via a proxy appointed by the Company and bound to vote in accordance with their instructions.

Accounting and audit of the financial statements. IKB Group's accounts are prepared in accordance with the International Financial Reporting Standards (IFRS) and the financial statements of IKB Bank AG in accordance with the provisions of the German Commercial Code (Handelsgesetzbuch – HGB). In accordance with the provisions of the AktG, the external auditors are appointed by shareholders at the Annual General Meeting. The Finance and Audit Committee prepared the proposal of the Supervisory Board to the Annual General Meeting regarding the appointment of an external auditor for the financial year 2006/07. In accordance with the recommendation of the German Corporate Governance Code, the Chairman of the Finance and Audit Committee has obtained the auditor's declaration regarding any reasons for exclusion, or for disqualification on the grounds of bias, and has entered into all agreements required in the course of instructing the auditor.

The auditor of the 2006/07 consolidated financial statements and of the financial statements of IKB AG for 2006/07 according to HGB was KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Düsseldorf. At its meeting on 15 October 2007, the Supervisory Board decided to commission a new auditor, PwC, to audit the half-yearly financial report as at 30 September 2007. Upon application by the Board of Managing Directors and the Supervisory Board, the Dusseldorf Local Court appointed PwC as the auditor for the consolidated interim financial statements as at 30 September 2007.

Transparency and information. IKB observes the principle of equality. This means that all interested parties must have access to the same information at the same time. Via IKB's website (www.ikb.de) even private investors can access timely information on key dates and current developments (including ad-hoc disclosures) in the Group. In addition, key events within the Company are announced by means of press releases, which are also published on the website. Any interested parties can choose to subscribe to IKB's electronic newsletter, which contains current financial reports, ad-hoc disclosures and press releases.

Persons exercising management functions – in particular members of IKB's Board of Managing Directors and Supervisory Board – and their related parties (as defined in section 15a of the German Securities Trading Act) are legally obliged to disclose transactions involving IKB shares (or financial instruments based thereon), if the value of the transactions conducted by the member or related parties reaches or exceeds the sum of € 5,000 in one calendar year. The following transaction was concluded in the year under review and published on the IKB website (www.ikb.de):

Name of person exercising management	Function	Financial instrument	Trade date/ exchange	Trade type	Quantity	Price	Transaction volume
Behrend, Dr. Jürgen	Member of the Supervisory Board of IKB Deutsche Industrie-bank AG	IKB ordinary bearer shares, ISIN DE 0008063306	22 Sep 2006/ Frankfurt	Sale	17 850	€ 27.23	€ 486 055.50

As at 31 March 2007, there were no shareholdings subject to a reporting requirement within the meaning of Section 6.6 of the German Corporate Governance Code. Offices held by the members of the Board of Managing Directors and the Supervisory Board and relationships to persons defined as related parties are set out in the Notes to the Consolidated Financial Statements.

Code of Conduct. The Board of Managing Directors has issued a Code of Conduct for IKB Group employees, which includes regulations on dealing with business partners and government institutions, on safeguarding confidentiality, independence and objectivity, as well as on dealing with conflicts of interest. Internal measures have been implemented to monitor compliance with these rules.

Declaration of Compliance in accordance with Section 161 of the German Joint Stock Corporations Act (AktG)

The Board of Managing Directors and the Supervisory Board of IKB Deutsche Industriebank AG declare in accordance with Section 161 of the Joint Stock Corporations Act (AktG) that the Company has complied with the recommendations of the Government commission 'German Corporate Governance Code' (as amended on 14 June 2007), as published by the German Federal Ministry of Justice in the official section of the electronic Federal Gazette (Bundesanzeiger), since the last declaration issued on 27 June 2007, subject to the exceptions identified below; contrary to recommendations, deficiencies were identified in the Board of Managing Directors' reporting to the Supervisory Board until such time as the crisis erupted on 27 July 2007.

- *Section 2.3.1.: Convening the Annual General Meeting at least once per year*

  IKB's Ordinary General Meeting for the 2006/07 financial year did not take place in 2007 and has been postponed until 27 March 2008. This was due to the crisis facing IKB Deutsche Industriebank AG since July 2007 and the resulting need for internal reviews and the revision of the balance sheet amounts and measurements in the financial statements and consolidated financial statements of IKB for the 2006/07 financial year on the basis of up-to-date information requiring the reassessment of valuations.

- *Section 3.8: Agreement on an appropriate deductible upon the arrangement of a liability insurance policy for members of the Board of Managing Directors and the Supervisory Board (D&O insurance)*

  IKB has taken out a D & O liability insurance policy for the members of the Board of Managing Directors and the Supervisory Board that does not provide for a deductible. A decision will be made on agreeing a deductible at a later date.

- *Section. 4.2.1, second sentence: Ruling on responsibilities for departments of members of the Board of Managing Directors in the internal rules of procedure*

  The responsibility for departments of the members of IKB's Board of Managing Directors is not dealt with in the relevant internal rules of procedure but in a separate document setting out the distribution of responsibilities. This is proposed by the Chairman of the Board and adopted, revised or rescinded with the unanimous approval of the full Board of Managing Directors.

- *Section 7.1.2: Publication of interim reports within 45 days of the end of the reporting period*

  The interim report for the first quarter of the 2007/08 financial year was published on 28 September 2007. The half-yearly financial report for the 2007/08 financial year will be published in March 2008. IKB will also be unable to meet the prerequisite whereby the nine-month interim report is to be published no later than 45 days after the end of the period under review. The reason for the delays was the crisis facing IKB Deutsche Industriebank AG and the resulting need to review the balance sheet amounts and measurements in the 2006/07 financial statements on the basis of up-to-date information requiring the reassessment of valuations that came to light up until the date of preparation.

The Board of Managing Directors and Supervisory Board further declare that IKB Deutsche Industriebank AG meets the recommendations of the Government Commission ‚German Corporate Governance Code', as last amended on 14 June 2007, with the exception of Sections 3.8 and 4.2.1, second sentence.

Düsseldorf, 16 February 2008

For the Supervisory Board of
IKB Deutsche Industriebank AG

Dr. h.c. Ulrich Hartmann

For the Board of Managing Directors of
IKB Deutsche Industriebank AG

Dr. Günther Bräunig

Report of the Supervisory Board

Owing to the crisis threatening the Bank's existence that arose on 27 July 2007, the Annual Report for the 2006/07 financial year, which contained the Report of the Supervisory Board as at 27 June 2007, was no longer representative of the new situation in which the Bank found itself. Instead, the Supervisory Board has now submitted its report, which also takes into consideration the Bank's new situation and the duties performed by the Supervisory Board up to today (16 February 2008):

In the absence of any apparent pointers, the crisis affecting the Bank came as a surprise to the Supervisory Board. As early as 20 July 2007, the Board of Managing Directors of the company had reported on the quarterly results for the period ending 30 June 2007 in a press release, where it forecasted an expected rise of 15% (to € 63 million) over the comparable period of the previous year. The Board of Managing Directors had also reported that the impact on IKB resulting from developments on the US mortgage market would be minimal. The statement was released to the press without the consent of the Supervisory Board.

The Chairman of the Supervisory Board was informed for the first time on 27 July 2007 – towards midday – by the Chairman of the Board of Managing Directors about the crisis that threatened the existence of the Bank.

On the evening of the 27 July 2007 the Executive Committee then held a meeting, which was attended by members of the BaFin. At this meeting the Board of Managing Directors informed the Supervisory Board for the first time of the company's exposure to the subprime market. During the Supervisory Board meeting held one month earlier (on 27 June 2007), members of the Supervisory Board had enquired about any sub-prime exposure by IKB. At this meeting, the Board of Managing Directors had given the impression that there were no significant risks emanating from the sub-prime investments. KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft (KPMG) also commented on this issue during that meeting.

Duties of the Supervisory Board until the onset of the crisis affecting the Bank on 27 July 2007

During the 2006/07 financial year that ended on 31 March 2007, the Supervisory Board discussed the Group's business development in four scheduled meetings. Discussion centred around the measures taken during the 2006/07 financial year to strengthen capitalisation and profitability, the development of the risk situation and the active management of risks designed to enhance the credit quality structure. This pertained in particular to the credit risks in the classic credit business conducted by the Bank. Furthermore, the Supervisory Board discussed the Group's medium-term planning up to the financial year 2008/09, together with the strategic position and development of the Bank's business segments, taking into account the changing business environment. The further expansion of international real estate lending and material changes affecting subsidiaries was also discussed in detail.

In the meetings held in June/August 2006, the Board of Managing Directors informed the Supervisory Board of the planned separation of the advisory business to IKB Credit Asset Management GmbH (IKB CAM), owing to the sharp rise in the volume of portfolio investments. The Supervisory Board also concerned itself with IKB's business cooperations; with

KfW Banking Group, Frankfurt/Main; Bankhaus Sal. Oppenheim jr. & Cie. KGaA, Cologne; and with NATIXIS, Paris – the successor institution having emerged from the business combination of Natexis Banques Populaires, IKB's existing cooperation partner, with IXIS Corporate & Investment Bank. It also discussed the transfer of cover assets for the company pension scheme to a trustee, which was carried out via a contractual trust arrangement, effective 31 March 2007.

The Supervisory Board discussed the provisions made for possible loan losses and the interest rate risk in relation to the investment of the Bank's economic capital; these items were raised by former member of the Board of Managing Directors, Frank Schönherr. In this context, the Supervisory Board commissioned KPMG shortly thereafter to conduct a special audit of the provisions for possible loan losses and interest rate risk arising from the investment of economic capital. The audit did not determine any indication from the topics mentioned above (provisions for possible loan losses, interest rate risk arising from the investment of economic capital) regarding the company's sub-prime exposure from portfolio investments, which did not come to the Supervisory Board's attention until 27 July 2007.

KPMG ascertained - within the scope of its special audit report, which was presented on 8 February 2007 – that

- the concept of the impairment process was adequate to ensure appropriate measurement of provisions for possible loan losses;
- the amount allocated to the provisions for possible loan losses as at 31 March 2006 was adequate overall;
- the Bank's market price risk (value at risk) is high, compared to other institutions, the decisive factor being, however, the extent to which the bank acts within the framework of its risk-bearing capacity, and within the scope of its buy-and-hold strategy;
- the Bank had always complied with the limits it had set for utilisation of aggregate risk cover;
- that according to KPMG's calculations, the Bank's liquidity scenario for the position of interest rate risk (taking into consideration the absolute risk of proprietary investments) exceeds the comparable range of other large banks and (excluding proprietary investments) lies at the upper end of the range; as at 30 September 2006 the Bank had adequate aggregate risk cover in place in both scenarios. Furthermore, this aggregate risk cover was unchanged from 31 March 2006;
- and the risk management system established by the Bank to limit market price risks is suitable to manage and monitor interest rate risks.

The report on the special audit carried out by KPMG was discussed in detail at a special meeting of the Finance and Audit Committee held on 16 April 2007 and which was also attended by the auditors of KPMG. The Supervisory Board was informed of the result at the Supervisory Board meeting of 27 June 2007.

The Board of Managing Directors also reported at the Supervisory Board meeting held on 13 February 2007 about the preliminary results of the routine audit conducted by the German Banks' Audit Association (Prüfungsverband deutscher Banken). This audit came to the conclusion that there was no reason to presume that the deposits were under threat.

Activities of the Supervisory Board Committees until the onset of the crisis affecting the Bank on 27 July 2007

The Supervisory Board constituted two committees from amongst its members. The Executive Committee, comprising the Chairman of the Supervisory Board and the two Deputy Chairmen, met on five occasions during the 2006/07 financial year. The Committee also assumes the role of the nominations committee as defined in the German Corporate Governance Code, which was clarified at the Supervisory Board meeting on 27 June 2007 by an amendment to the internal rules of procedure for the Supervisory Board.

The Executive Committee concerned itself mainly with issues discussed in the Supervisory Board meetings. Until the onset of the crisis affecting the company, it focused predominately on the business development (including any authorisation of transactions requiring Supervisory Board approval) and the strategic direction of IKB Group. The meetings were attended by all members of the Executive Committee.

The Finance and Audit Committee met twice during the financial year 2006/07. Until the onset of the crisis affecting the company, the activities of the Finance and Audit Committee focused in particular on the financial statements and consolidated financial statements, on the proposal regarding the appropriation of profits and the subordinate status report, as well as on accounting and risk management issues, including the cooperation with the external auditors. One of the key topics for deliberation was changing the consolidated financial statements to International Financial Reporting Standards (IFRS), with effect from 31 March 2006, including the changes to the accounting system resulting from the first-time application of IFRS. The Chairman of the committee obtained the statement of independence from the external auditors (in accordance with section 7.2.1 of the German Corporate Governance Code) and commissioned the external auditor to carry out the audit of the Bank's accounts. This included agreeing on points of focus for the audit, and concluding an agreement on the audit fee.

KPMG's special audit report on provisions for possible loan losses, and on interest rate risk exposure, as well as a report on an audit conducted on behalf of the deposit insurance fund were discussed at a special meeting of the Finance and Audit Committee on 16 April 2007.

Activities by the Supervisory Board after the onset of the crisis affecting the Bank

Since the outbreak of the crisis, the Supervisory Board has adapted its monitoring and advisory activities to the situation threatening the Bank's existence. The measures introduced by the Board of Managing Directors were discussed extensively within the scope of a total of nine Supervisory Board meetings, as well as in many meetings held by the Executive Committee and the Finance and Audit Committee.

After the Supervisory Board was informed towards midday on 27 July 2007 by the Chairman of the Board of Managing Directors of the crisis that threatened the very existence of the Bank, the Executive Committee met with members of the BaFin on the same day.

At the Supervisory Board meeting held in the evening of 29 July 2007, the Board of Managing Directors reported on the company's situation; this meeting was also attended by members of the BaFin and the Bundesbank. The Supervisory Board discussed with the Board of Managing Directors the risk shield provided by the KfW Banking Group and the three banking associations. The Supervisory Board also concerned itself with personnel matters pertaining to the Board of Managing Directors. The Supervisory Board agreed by mutual consent to relieve the Chairman of the Board of Managing Directors, Stefan

Ortseifen, of his office, with immediate effect. The employment of Mr Ortseifen was terminated for good cause, without giving notice.

On 1 August 2007 the Board of Managing Directors commissioned PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft (PwC) to carry out a agreed upon procedures of the company, to cover the period from 1 April 2006 to 2 August 2007. The instruction was given by the newly-appointed members of the Board of Managing Directors, who also supported the audit.

As the Supervisory Board and BaFin had been informed about the agreed upon procedures in advance, they refrained from commissioning their own reviews. However, the Supervisory Board required to extend the scope of the audit, and to investigate whether there were any indications that the Board of Managing Directors had failed to inform the Supervisory Board sufficiently and accurately of the risk situation of the Bank during the period under review. Furthermore, although the audit was restricted to the audit period from 1 April 2006 to 2 August 2007, and was required to be completed as quickly as possible, the Supervisory Board requested that as a rule, any evidence of critical incidents having occurred before the audit period would also have to be investigated.

The Supervisory Board also appointed the law firm Shearman & Sterling LLP and the audit firm and tax consultant Ernst & Young AG to expertly support the agreed upon procedures and to check the validity of the results produced by PwC.

On 15 October 2007 the Supervisory Board was informed of the results of the agreed upon procedures carried out by PwC. The agreed upon procedures confirmed that there were no indications which would have required a Supervisory Board discussion of the sub-prime exposure, the crisis on the US mortgage market, or any resulting potential threats to the existence of IKB or associated risks, prior to 27 July 2007 (Executive Committee) and 29 July 2007 (entire Supervisory Board).

Although the Supervisory Board was aware of the size of liquidity facilities granted to the purchasing entities of Rhineland Funding, it had not been informed of the extensive risks assumed for the liquidity facilities of other providers of liquidity to the purchasing entities of Rhineland Funding; nor was it informed of IKB's complex relationship with Rhineland Funding and of the risks to the company of a possible disruption to the market for asset-backed commercial paper. The agreed upon procedures confirmed that the issue of sub-prime risk was raised at the Supervisory Board meeting on 27 June 2007, through questions posed by members of the Supervisory Board to the Board of Managing Directors.

As a result of PwC's findings in relation to the deficiencies in risk analysis, risk management and the reporting of portfolio investments on-balance and off-balance, improvements to these risk and controlling processes were discussed in depth by the Supervisory Board together with the Board of Managing Directors. This is also the case with deficiencies identified by PwC in the Board of Managing Directors' reporting to the Supervisory Board.

Activities of the Supervisory Board Committees after the onset of the crisis affecting the Bank

Following the announcement of the crisis affecting the company, the Supervisory Board committees (Executive Committee and Finance and Audit Committee) adjusted their monitoring activities accordingly and stepped up their advisory activities. An additional committee was formed at the Supervisory Board meeting on 25 January 2008, whose role it is to support the process involved in selling the stake held by the KfW Banking Group in the company.

The Executive Committee held a total of eleven special meetings. Discussions were held with the Board of Managing Directors in particular on the Bank's situation (including the authorisation of transactions requiring Supervisory Board approval), and on personnel changes including proposals for election to the Supervisory Board.

The Executive Committee and the Finance and Audit Committee also convened jointly on seven occasion, to discuss the company's economic situation in view of the company's situation and the status of the risk shield. Suggestions were also made to the Board of Managing Directors regarding the structure of the risk shield.

The Finance and Audit Committee held a total of six special meetings. The issues discussed in particular included the restatement of the financial statements and the consolidated financial statements, the audit of the half-yearly financial report and the appointment of an external auditor for the half-yearly financial report as at 30 September 2007.

Additionally, the committee members also exchanged advice on a regular basis and were in constant contact with the Board of Managing Directors and advisors commissioned by the Supervisory Board outside the scope of the committee meetings. The advisors to the Supervisory Board were also in direct contact with the Board of Managing Directors, the company, and the company's advisors.

The respective Chairmen of Supervisory Board Committees gave a detailed account of the work in the Committees to the plenary meeting.

A breakdown of the meetings held by the Supervisory Board and its committees including the main topics that were advised on, is included in this report.

Corporate Governance

For further details on these issues, please refer to the section on Corporate Governance, which also includes the Declarations of Compliance issued on 27 June 2007 and on 16 February 2008.

Conflicts of interest that arose in two cases in relation to the Supervisory Board deliberations were disclosed by the Supervisory Board member in question. This Supervisory Board member abstained from voting at the corresponding voting process, or did not take part in the proceedings regarding the agenda item concerned.

Examination and approval of the financial statements, consolidated financial statements and subordinate status report for the financial year 2006/07

The Board of Managing Directors restated the financial statements and consolidated financial statements with the management reports for IKB AG and IKB Group. The Board of Managing Directors was thus complying with the recommendation made by PwC within the scope of the agreed upon procedures; this involved amongst other things consolidating Rhineland Funding and issuing entities, whose securities are held by the Company in its proprietary investments, in the consolidated financial state-ments as at 31 March 2007, taking hidden encumbrances into account.

The Supervisory Board agrees that there are important economic reasons behind the need for a restatement of the financial statements and consolidated financial statements prepared as at 15 May 2007. On 25 January 2008 the Supervisory Board approved the resolution of the Board of Managing Directors of 7 January 2008 on an amendment to the financial statements and consolidated financial statements and to the Management Report. It also approved the resolution of the Board of Managing Directors of

15 October 2007 on an amendment to the consolidated financial statements and management report for the 2006/07 financial year.

The restated accounts, financial statements and consolidated financial statements together with the management reports for IKB AG and the IKB Group, have each been examined and certified without qualification by KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, the external auditors. The single-entity financial statements of IKB AG have been prepared in accordance with the German Commercial Code (Handelsgesetzbuch – "HGB"), and the consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS), and also in accordance with additional provisions pursuant to section 315a (1) of the HGB. The present consolidated financial statements in accordance with IFRS provide for exemption from preparing consolidated financial statements in accordance with the HGB. The examination of the report submitted by the Board of Managing Directors on the relationship to affiliated companies for the financial year 2006/2007 was also within the scope of the external audit. The subordinate status report has been examined and certified without qualification by the external auditors, as follows: "Having duly examined and assessed this report in accordance with professional standards, we confirm that the report is free from factual misrepresentation, and that the company did not pay any excessive consideration with regard to the transactions identified in the report."

Following the presentation of the results of the agreed upon procedures by PwC, the members of the Supervisory Board have occupied themselves continuously with the facts relevant to the restatement. The restatement of the financial statements was discussed on 25 January 2008 as well as on 11 and 16 February 2008. In particular, this included discussions regarding the revaluation of portfolio investments, and the resulting mark-to-market losses, as well as the company's liquidity situation and capitalisation (including regulatory capital requirements). The package of measures was discussed with the Board of Managing Directors. Draft documentation for the financial statements were made available for the first time on 11 February, and a revised version on 15 February 2008. These documents were discussed in detail by the Finance and Audit Committee on 16 February 2008, and during the Supervisory Board meeting to discuss the financial statements, on 11/16 February 2008. The reports issued by the external auditors, together with their audit opinion, were presented to the Finance and Audit Committee, and to the Supervisory Board, on 16 February 2008.

The auditors took part in the Finance and Audit Committee's deliberations on the financial statements and consolidated financial statements on 11 February and 16 February 2008. Representatives of PwC also participated in the deliberations, where the auditors reported on the key results of their audit, answered further questions and provided additional information on the reasons behind the restatement. No objections were raised by the Supervisory Board following the final examination of the audit by the Finance and Audit Committee, and the Supervisory Board's own examination of the financial statements, consolidated financial statements and management reports. The Supervisory Board therefore approved the results of the audit.

The restated financial statements and consolidated financial statements for the financial year 2006/07 prepared by the Board of Managing Directors (by way of resolution dated 15 February 2008) were approved by the Supervisory Board at its meeting on 16 February 2008, revoking its approval of the financial statements and consolidated financial statements for the financial year 2006/07 dated 27 June 2007. The financial statements are thus confirmed. There were also no objections following examination of the subordinate status report, and the concluding declaration of the Board of Managing Directors in this report. The Supervisory Board duly noted and approved the external auditors' report.

Personnel matters – Supervisory Board

The Annual General Meeting held on 31 August 2006 re-elected Supervisory Board members Messrs. Jörg Asmussen, Hermann Franzen, Dr.-Ing. h.c. Eberhard Reuther and Randolf Rodenstock, and elected Detlef Leinberger as a new member, all representing the Company's shareholders. Dr. Carola Steingräber and Wolfgang Bouché were re-elected as employee representatives to the Supervisory Board at the same time, and Jochen Schametat was elected as a new employee representative member. At the end of the Annual General Meeting on 31 August 2006, Messrs. Hans W. Reich and Wilhelm Lohscheidt retired from the Supervisory Board by rotation. In consideration of his retirement from the Management Board of KfW Banking Group, Hans W. Reich also retired early from his various offices on IKB's Supervisory Board: these being Deputy Chairman of the Supervisory Board and Chairman of the Supervisory Board's Finance and Audit Committee. The Supervisory Board thanks those members who retired from the Supervisory Board for their contribution.

Following the Annual General Meeting on 31 August 2006, the Supervisory Board and the Finance and Audit Committee held their constituting meetings. Detlef Leinberger was newly elected as Deputy Chairman of the Supervisory Board, and as Chairman of the Finance and Audit Committee. Wolfgang Bouché was newly elected as a member of this committee. Dr. Carola Steingräber retired from the Finance and Audit Committee at the end of the Annual General Meeting on 31 August 2006. The Supervisory Board would also like to thank her for her contribution to the committee.

Personnel matters – Board of Managing Directors (until the onset of the crisis affecting the Bank on 27 July 2007)

Frank Schönherr, member of the Board of Managing Directors since 1 April 2004, agreed with the Bank's Supervisory Board and Board of Managing Directors to retire from office, with effect from 30 November 2006. Joachim Neupel, who had been a member of the Board of Managing Directors since 1 July 1989, retired from the Board on 31 December 2006. Dr. Volker Doberanzke was appointed as a member of the Board of Managing Directors with effect from 1 June 2006, and Frank Braunsfeld was appointed with effect from 1 March 2007. The appointments of members of the Board of Managing Directors, Dr. Markus Guthoff and Stefan Ortseifen, were extended by rotation on 13 February 2007 – before the onset of the crisis affecting the Bank – until 31 March 2012 and 31 October 2012, respectively.

Personnel matters – Board of Managing Directors (after the onset of the crisis affecting the Bank)

Against the background of the critical development affecting the Bank, the Supervisory Board took immediate personnel measures relating to executive staff. During the extraordinary meeting on 29 July 2007, it was agreed by mutual consent to terminate the office of Stefan Ortseifen on the Board of Managing Directors, for good cause without giving notice.

On 7 August 2007 Dr. Volker Doberanzke resigned in writing his position as member of the Board of Managing Directors with immediate effect; the Supervisory Board approved this decision at its meeting on 7 August 2007. It was agreed by mutual consent to relieve Dr. Volker Doberanzke of his duties with effect from 31 December 2007. Dr. Volker Doberanzke will receive no severance pay or one-off settlement.

Dr. Markus Guthoff resigned from the Bank by mutual consent on 15 October 2007 and his office was terminated on 31 December 2007. Dr. Markus Guthoff will not receive any severance pay or one-off settlement.

The appointment of Frank Braunsfeld as a member of the Board of Managing Directors was revoked by the Supervisory Board on 15 October 2007 with immediate effect. The contract was terminated with immediate effect without giving notice, after Mr Braunsfeld had rejected a rescission of the contract which would have expired on 31 December 2007 without entitlement to severance pay.

On account of the distribution of responsibilities of the Board of Managing Directors, Claus Momburg was not concerned with the Securitisation division which triggered the outbreak of the crisis affecting the Bank, nor with the Risk Management unit. Against this background – notwithstanding that overall responsibility for the company lies with the Board of Managing Directors – he was requested to remain as member of the Board in order to maintain the functionality of the Board of Managing Directors to ensure the continuity of the ordinary banking operations.

Due to the restatement of the financial statements and consolidated financial statements as at 31 March 2007, the achievement of the targets agreed with the members of the Board of Managing Directors within the scope of the variable component of the remuneration package was discussed, with the outcome that a demand for repayment of the variable component, except the minimum bonus, will be made.

The Supervisory Board is reviewing whether the company is to enforce any claims for damages against members of the Board of Managing Directors.

Immediately following the outbreak of the crisis, Dr. Günther Bräunig was appointed as member and Chairman of the Board of Managing Directors and Dr. Dieter Glüder as member of the Board of Managing Directors as at 29 July 2007. On 15 October 2007 the Supervisory Board appointed Dr. Reinhard Grzesik as a member of the Board of Managing Directors. Dr. Grzesik joined the Board as CEO.

The Supervisory Board would like to thank the serving members of the Board of Managing Directors, and all staff, for their personal commitment and contribution particularly after the onset of the crisis that threatened the existence of the Bank.

Düsseldorf, 16 February 2008

The Supervisory Board

Dr. h.c. Ulrich Hartmann
Chairman

Supervisory Board meetings held in the period from 1 April 2006 to 16 February 2008	
Date on which the meeting was held	**Issues discussed**
28 June 2006	• Report on the 2005/06 financial year, including proposal for the appropriation of distributable profit and 3-year plan • Financial statements and consolidated financial statements as at 31 March 2006 • Performance of the divisions/subsidiaries • Credit risk report • Report by the external auditors • Report of the Finance and Audit Committee on the preparations for the examination of the financial statements and consolidated financial statements with the management reports for IKB AG and IKB Group, the proposal regarding the appropriation of profits and the subordinate status report for the 2005/06 financial year • Confirmation of the financial statements and approving the consolidated financial statements together with management reports for IKB AG and IKB Group and submitting the subordinate status report for the 2005/06 financial year as well as the draft Supervisory Board report • Proposals for the agenda for the Annual General Meeting as at 31 August 2006 • Corporate Governance (including the report of the Corporate Governance Officer/ Corporate Governance report for the financial year and the annual Declaration of Compliance) • Remuneration structure for the Board of Managing Directors • Amendment of IKB's Corporate Governance Code • Amendment of the internal rules of procedure for the Supervisory Board and the Board of Managing Directors • Approval of the regular appointment or reappointment of the Advisory Board • Annual report of the Group Audit • Human resources planning and development of human resources activities
31 August 2006	• Election of a Deputy Chairman of the Supervisory Board • Election of the member of the Finance and Audit Committee from the group of staff representatives
13 November 2006	• Report on the current 2006/07 financial year • Consolidated interim results for the first half of the 2006/07 financial year • Note by Mr Schönherr regarding provision for possible loan losses, and interest rate exposure from proprietary investments • Development of the risk situation and credit risk strategy • Performance of the divisions (segment reporting) • Examination of efficiency of the Supervisory Board • Personnel matters (termination of office of Frank Schönherr)

Supervisory Board meetings held in the period from 1 April 2006 to 16 February 2008	
Date on which the meeting was held	**Issues discussed**
13 February 2007	• Report on the current 2006/07 financial year • Consolidated interim results as at 31 December 2006 and preview of the end of the financial year ended 31 March 2007 • KPMG special audit report • Development of the risk situation • Current development of human resources activities • Examination of efficiency of the Supervisory Board • Personnel matters (reappointment of Stefan Ortseifen and Dr. Marcus Guthoff, and appointment of Frank Braunsfeld to the Board of Managing Directors)
27 June 2007	• Overview of the financial year • Report on the 2006/07 financial year, including proposal for the appropriation of distributable profit and 3-year plan • Financial statements and consolidated financial statements as at 31 March 2007 • Performance of the divisions/subsidiaries • Credit risk report • Report of the Finance and Audit Committee on the results of its meeting on 16 April 2007, focusing on (i) the special audit carried out by KPMG dated 8 February 2007 on “risk provisioning” and “interest rate risk” issues; and (ii) routine report conducted on behalf of the deposit insurance scheme conducted by the German Banks’ Audit Association on 1 March 2007 • Report by the external auditors • Report of the Finance and Audit Committee on the preparations for the examination of the financial statements and consolidated financial statements with the management reports for IKB AG and IKB Group, the proposal regarding the appropriation of profits and the subordinate status report for the 2006/07 financial year • Confirmation of the financial statements and approving the consolidated financial statements together with management reports for IKB AG and IKB Group and submitting the subordinate status report for the 2006/07 financial year as well as the draft of the Supervisory Board report • Proposals for the agenda for the Annual General Meeting as at 30 August 2007 • Corporate Governance (annual report of the Corporate Governance Officer, rescission of IKB's Corporate Governance Code and Corporate Governance report for the financial year including the annual Declaration of Compliance) • Introduction of deductible for D&O insurance policies • Remuneration structure for the Board of Managing Directors • Amendment of the internal rules of procedure for the Supervisory Board and the Board of Managing Directors • Annual report of the Group Audit
29 July 2007	• Report on the situation of IKB • Personnel matters (resignation of Stefan Ortseifen from, appointment of Dr. Bräunig and Dr. Glüder to the Board of Managing Directors)
7 August 2007	• Report on IKB's current situation • Personnel matters (resignation of Dr. Doberanzke from the Board of Managing Directors)

Supervisory Board meetings held in the period from 1 April 2006 to 16 February 2008	
Date on which the meeting was held	**Issues discussed**
20 August 2007	• Report on the current development and economic situation of IKB • Examination of a restatement of the financial statements as at 31 March 2007 • Amendment to the proposal regarding the appropriation of profits for the 2006/07 financial year
29 September 2007	• Description and approval of the "risk shield" • Report on the results for the first quarter of the 2007/08 financial year
15 October 2007	• Report on the results of the agreed upon procedures carried out by PwC • Statement issued by the advisors of the Supervisory Board on PwC report • Personnel matters (termination of office of Dr. Guthoff, appointment of Frank Braunsfeld revoked, Dr Grzesik appointed to the Board of Managing Directors) • Statement issued by the Board of Managing Directors on the PwC report and introduction of an action plan/package of measures • Appointment of external auditor for the financial statements and consolidated financial statements for the 2007/08 financial year and for the half-yearly financial report for 2007/08
14 November 2007	• Current business development of IKB and status of the restructuring measures • Information on the granting of due diligence planned by the Board of Managing Directors • Credit risk report as at 30 June 2007 and preliminary credit risk report as at 30 September 2007 • Report on IKB's compliance concept
25 January 2008	• Current business development of IKB and status of the restructuring measures • Sale process • Amendment of financial statements and consolidated financial statements as at 31 March 2007 and preparation and audit of half-yearly financial report as at 30 September 2007 • Capital adjustments • Status of preparations for the Annual General Meeting
11 February 2008	• Current business development of IKB and status of the restructuring measures since 25 January 2008 • Report of the Finance and Audit Committee on the preparations for the examination of the restated financial statements and consolidated financial statements, including the restated management reports for IKB AG and the IKB Group • Restated financial statements and consolidated financial statements for the financial year 2006/07, including the management reports for IKB AG and the IKB Group. • Report by the external auditors • Proposal for the Corporate Governance Report (including Declaration of Compliance) • Proposal for the Report of the Supervisory Board • Discussion of proposals for the agenda for the General Meeting on 27 March 2008 • Overview of strategy documents, and on the integration with the risk strategy

Supervisory Board meetings held in the period from 1 April 2006 to 16 February 2008	
Date on which the meeting was held	**Issues discussed**
16 February 2008	• Current business development of IKB and status of the restructuring measures since 11 February 2008 • Report by the external auditors for the 2006/07 financial year • Report of the Finance and Audit Committee on the preparations for the examination of the restated financial statements and consolidated financial statements, including the restated management reports for IKB AG and the IKB Group for the financial year 2006/07 • Confirmation of the restated financial statements, including the restated management report, and approval of the restated consolidated financial statements, including the restated group management report for the financial year 2006/07; together with revocation of the confirmation of the financial statements and approval of consolidated financial statements for the financial year 2006/07 dated 27 June 2007 • Amended report of the Supervisory Board • Amended Corporate Governance Report (including amended Declaration of Compliance) • Proposals for the agenda for the Annual General Meeting as at 27 March 2008 • Loans granted by KfW Banking Group

Executive Committee meetings held in the period from 1 April 2006 to 16 February 2008	
Date on which the meeting was held	**Issues discussed**
27 June 2006	• Preliminary discussion ahead of the Supervisory Board meeting • Strategic development of the divisions • Loans to members of staff • Examination of efficiency of the Supervisory Board • Appointment or reappointment of the Advisory Board
31 August 2006	• Preliminary discussion ahead of the Annual General Meeting • Preliminary discussion ahead of the Supervisory Board meeting • Strategic development of the divisions
23 October 2006	• Note by Mr Schönherr regarding provision for possible loan losses, and interest rate exposure from proprietary investments
13 November 2006	• Preliminary discussion ahead of the Supervisory Board meeting • Strategic development of the divisions • Examination of efficiency of the Supervisory Board
13 February 2007	• KPMG special report • Preliminary discussion ahead of the Supervisory Board meeting • Strategic development of the divisions • Personnel matters (reappointment of Stefan Ortseifen and appointment of Frank Braunsfeld to the Board of Managing Directors) • Determination of the schedule for 2008
26 June 2007	• Preliminary discussion ahead of the Supervisory Board meeting • Strategic development of the divisions • Loans to members of staff
27 July 2007	• Report on the situation of IKB • Personnel matters (removal of Stefan Ortseifen from the Board of Managing Directors, appointment of Dr. Bräunig and Dr. Glüder to the Board of Managing Directors)
6 August 2007	• Report on IKB's current situation • Personnel matters (termination of service contract with Stefan Ortseifen) • Report from PwC on the agreed upon procedures
20 August 2007	• Preliminary discussion ahead of the Supervisory Board meeting

Executive Committee meetings held in the period from 1 April 2006 to 16 February 2008	
Date on which the meeting was held	**Issues discussed**
5 October 2007	• Personnel matters (mandates on Board of Managing Directors of Frank Braunsfeld, Dr. Guthoff and Claus Momburg, appointment of Dr. Grzesik)
14 October 2007	• Preliminary discussion ahead of the Supervisory Board meeting
15 October 2007	• Personnel matters (termination of service contracts with Dr. Guthoff and Frank Braunsfeld)
18 October 2007	• Personnel matters (termination of service contract with Dr. Doberanzke)
14 January 2008	• Status of forensic examination in relation to whether any claims for damages may be enforced against the members of the Board of Managing Directors
25 January 2008	• Current status of preparations for the Annual General Meeting • Composition of/elections to the Supervisory Board
11 February 2008	• Preliminary discussion ahead of the Supervisory Board meeting • Proposals for election to the Supervisory Board as shareholder representatives, to be submitted to the General Meeting (in the capacity of Nomination Committee)
16 February 2008	• Preparation of the Supervisory Board meeting on 16 February 2008

Meetings of the Finance and Audit Committee in the period from 1 April 2006 to 16 February 2008	
Date on which the meeting was held	**Issues discussed**
27 June 2006	• Overview of the 2005/06 financial year and 3-year plan • Annual and consolidated financial statements as at 31 March 2006 and subordinate status report (attended by the external auditors) • Credit risk report • Report by the external auditors • Recommendation regarding the appointment and authorisation for appointment of the external auditor and the auditor for the consolidated financial statements for the 2006/07 financial year • Report on the processing of the comments arising from audit under section 44 of the German Banking Act
31 August 2006	• Appointment of Chairman of the Finance and Audit Committee
16 April 2007	• Report on the special audit carried out by KPMG on 8 February 2007 • Report on the audit concluded on behalf of the deposit insurance fund as at 1 March 2007
26 June 2007	• Overview of the 2006/07 financial year and 3-year plan • Annual and consolidated financial statements as at 31 March 2007 and subordinate status report (attended by the external auditors) • Credit risk report • Report by the external auditors • Recommendation regarding the appointment and authorisation for appointment of the external auditor and the auditor for the consolidated financial statements for the 2007/08 financial year
6 August 2007	• Report on IKB's current situation • KPMG report
15 October 2007	• Appointment of external auditor for the financial statements and consolidated financial statements for the 2007/08 financial year and for the half-yearly financial report for 2007/08 • Restatement of 2006/2007 financial statements
7 January 2008	• Issuance of convertible bond
25 January 2008	• Status of restatement of 2006/07 financial statements
11 February 2008	• Restated annual and consolidated financial statements (including management reports) • Comments by external auditors
16 February 2008	• Adoption of the report of the Finance and Audit Committee on the preparations for the examination of the restated financial statements and consolidated financial statements, including the restated management reports for the financial year 2006/07 • Report by the external auditors

Joint meetings of the Executive Committee and the Finance and Audit Committee in the period from 1 April 2006 to 16 February 2008	
Date on which the meeting was held	**Issues discussed**
12 September 2007	• Report on IKB's situation • Report on the agreed upon procedures carried out by PwC
25 September 2007	• Report on IKB's situation • Report on the results for the first quarter of the 2007/08 financial year • Status report on the risk shield
12 November 2007	• Report on IKB's situation
14 November 2007	• Report on IKB's situation
14 December 2007	• Current business development of IKB and status of the restructuring measures • Amendment of financial statements and consolidated financial statements as at 31 March 2007 and preparation and audit of half-yearly financial report as at 30 September 2007 • IKB International S.A., Luxembourg capital increase • Reintegration of IKB CAM • Capital adjustments • Annual General Meeting • Sale process
14 January 2008	• Current business development of IKB and status of the restructuring measures • Current status of the sale process • Amendment of financial statements and consolidated financial statements as at 31 March 2007 and preparation and audit of half-yearly financial report as at 30 September 2007 • Procedure regarding possible capital measures to be taken at IKB • IKB International S.A., Luxembourg capital increase
11 February 2008	• Report on the situation and development of IKB since 25 January 2008 • Preparation of proposals for the agenda for the Annual General Meeting on 27 March 2008

Restated Consolidated Financial Statements in Accordance with International Financial Reporting Standards for the Financial Year ended 31 March 2007

Restated Consolidated Income Statement of IKB Deutsche Industriebank AG for the Period from 1 April 2006 to 31 March 2007

	Notes	1 Apr 2006 – 31 Mar 2007 in € million	1 Apr 2006 – 31 Mar 2007 in € million	Veränderung in %
Net interest income	(21)	**677.9**	**610.5**	**11.0**
Interest income		3 758.5	2 681.9	40.1
Interest expenses		3 080.6	2 071.4	48.7
Provision for possible loan losses	(22)	**259.0**	**318.6**	**–18.7**
Net interest income after provision for possible loan losses		**418.9**	**291.9**	**43.5**
Net fee and commission income	(23)	**52.0**	**30.4**	**71.1**
Fee and commission income		66.6	54.2	22.9
Fee and commission expense		14.6	23.8	–38.7
Net income from financial instruments at fair value	(24)	**–40.9**	**–11.2**	**>100.0**
Net income from investment securities	(25)	**6.9**	**13.1**	**–47.3**
General administrative expenses	(26)	**316.2**	**269.0**	**17.5**
Personnel expenses		185.8	162.8	14.1
Other administrative expenses		130.4	106.2	22.8
Net other operating income	(27)	**–6.2**	**115.8**	
Operating result		**114.5**	**171.0**	**–33.0**
Income taxes	(28)	74.7	60.1	24.3
Other taxes		1.9	2.1	–9.5
Net income for the year		**37.9**	**108.8**	**–65.2**
Minority interests		–0.1	0.0	
Net income after minority interests		**37.8**	**108.8**	**–65.3**
Allocation to retained earnings		–37.8	–34.0	11.2
Consolidated profit		**–**	**74.8**	**–100.0**

Restated Earnings per share	2006/07	2005/06	Change in %
Net income after minority interests (€ million)	37.8	108.8	–65.3
Average number of shares outstanding (million)	87.9	88.0	–0.1
Earnings per share (€)	**0.43**	**1.24**	**–65.3**

There was no dilution, since there were no conversion or option rights outstanding as at the relevant balance sheet dates.

Restated Consolidated Balance Sheet of IKB Deutsche Industriebank AG as at 31 March 2007

	Notes	31 Mar 2007 in € million	31 Mar 2006 in € million	Change in %
Assets				
Cash reserve	(7, 29)	28.7	47.6	–39.7
Loans and advances to banks	(8, 30)	4 441.9	2 197.1	>100.0
Loans and advances to customers	(8, 31)	29 685.0	28 017.7	6.0
Provision for possible loan losses	(9, 33)	–1 094.7	–1 411.7	–22.5
Assets held for trading	(10, 34)	2 208.5	586.0	>100.0
Investment securities	(11, 35)	27 265.0	23 174.2	17.7
Intangible assets	(12, 36)	37.9	27.5	37.8
Property and equipment	(13, 37)	212.1	231.1	–8.2
Income tax assets	(14, 38)	13.7	28.9	–52.6
Other assets	(15, 39)	739.6	364.0	>100.0
Total assets		**63 537.7**	**53 262.4**	**19.3**
Shareholders' equity and liabilities				
Liabilities to banks	(8, 40)	13 912.5	14 060.5	–1.1
Liabilities to customers	(8, 41)	4 277.8	2 546.0	68.0
Securitised liabilities	(16, 42)	39 555.5	30 760.9	28.6
Liabilities held for trading	(10, 43)	1 164.7	1 021.4	14.0
Provisions	(17, 18, 44, 45)	60.0	303.4	–80.2
Income tax liabilities	(14, 46)	79.2	102.9	–23.0
Other liabilities	(15, 47)	271.0	263.8	2.7
Subordinated capital	(19, 48)	3 026.4	2 910.4	4.0
Shareholders' equity	(20, 49)	1 190.6	1 293.1	–7.9
Subscribed capital		225.3	225.3	–
Capital reserve		568.2	568.2	0.0
Retained earnings		323.7	273.0	18.6
Currency translation reserve		–15.2	–7.5	>100.0
Revaluation reserve		88.4	159.1	–44.4
Minority interests		0.2	0.2	0.0
Consolidated profit		–	74.8	–100.0
Total shareholders' equity and liabilities		**63 537.7**	**53 262.4**	**19.3**

Restated Statement of Recognised Income and Expense

The following statement presents all income and expense items recognised during the financial year in accordance with IAS 1. This statement also includes items that are generally defined as income and expenses under IFRS, but which are not recognised in the income statement but directly in equity due to specific application rules, such as gains and losses from re-measuring *Financial assets available for sale* (IAS 39).

The changes in equity are presented in Note 49.

	2006/07 in € million	2005/06 in € million	Change in %
Gains/losses on remeasurement of securities	–39.0	–0.2	>100.0
Unrealised gains/losses from investment securities available for sale	–32.6	14.9	
Reclassification into income statement due to investment securities available for sale	–6.4	–15.1	–57.6
Fair value changes from hedging relationships recognised in profit or loss	–74.8	–74.8	–
Exchange differences	–7.7	3.5	
Changes due to actuarial gains/losses	20.3	–19.0	
Deferred taxes on changes recognised directly in equity	34.7	40.3	–13.9
Gains/losses recognised directly in equity (net)	**–66.5**	**–50.2**	**32.5**
Net income for the year	**37.9**	**108.8**	**–65.3**
Total recognised gains/losses	**–28.6**	**58.6**	
Attributable to shareholders of IKB	–28.7	58.6	
Attributable to minority interests	0.0	0.0	

Restated Consolidated Cash Flow Statement

in € million	2006/07	2005/06
Net income for the year	**38**	**109**
Non-cash items included in net income for the year and reconciliation of net income to net cash provided by (used in) operating activities		
Write-downs and valuation allowances of loans and advances, and write-ups to loans and advances and additions to provisions for credit risks	262	321
Depreciation and write-downs of property and equipment, and write-downs of investment securities, less reversals of impairment losses on these items	17	43
Changes in other non-cash items (mainly changes in provisions and certain liabilities, and positive and negative market values from derivative financial instruments)	55	294
Gains/losses on disposal of investment securities	–14	–37
Gains/losses on disposal of property and equipment	2	–141
Other adjustments (mainly reclassification of interest received and interest paid incl. gains/losses from leases and income taxes paid)	–604	–584
Subtotal	**–244**	**5**
Changes in assets and liabilities from operating activities after adjustment for non-cash components		
Loans and advances		
to banks	–2 227	–791
to customers	–2 189	–1 356
Assets held for trading	–1 486	361
Other assets from operating activities	–494	10
Liabilities		
to banks	–163	1 797
to customers	1 672	543
Liabilities held for trading	–15	–309
Securitised liabilities	8 527	2 858
Other liabilities from operating activities	–36	–129
Interest and dividends received	3 524	1 927
Interest paid	–2 650	–1 619
Income taxes paid	–21	–20
Net cash provided by (used in) operating activities	**4 198**	**3 277**
Proceeds from the disposal of		
Investment securities	3 415	1 747
Property and equipment	37	232
Payments for the acquisition of		
Investment securities	–7 619	–3 963
Property and equipment	–100	–34
Effects of changes in the scope of consolidation	–26	–1 272
Net cash provided by (used in) investing activities	**–4 293**	**–3 290**
Dividend payments	–75	–70
Net change in cash and cash equivalents from other financing activities (reserves, subordinated capital, etc.)	151	97
Net cash provided by (used in) financing activities	**76**	**27**
Cash and cash equivalents at end of prior period	**48**	**34**
Net cash provided by (used in) operating activities	4 198	3 277
Net cash provided by (used in) investing activities	–4 293	–3 290
Net cash provided by (used in) financing activities	76	27
Cash and cash equivalents at end of period	**29**	**48**

Restated Notes

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Basis of Accounting

The consolidated financial statements of IKB as at 31 March 2007 have been prepared in accordance with International Financial Reporting Standards (IFRS), and are based on Regulation (EC) No. 1606/2002 of the European Parliament and of the Council of 19 July 2002 and the related subsequent regulations by means of which IFRS were adopted by the EU. This applies simultaneously to the interpretations of such IFRSs issued by the Standing Interpretations Committee (SIC) and the International Financial Reporting Interpretation Committee (IFRIC). We also applied the requirements under Section 315a (1) of the German Commercial Code (HGB).

The Company has not exercised the option for early application of those standards and interpretations required to be applied for financial years beginning on or after 1 January 2007 (IFRS 7, 8 and amendments to IAS 1 as well as IFRIC 7, 8, 9, 10, 11, 12). We do not expect any significant effects on IKB's results from the IFRS provisions required to be applied for the first time in financial year 2007/08.

The consolidated financial statements include the income statement and the balance sheet as well as the statement of recognised income and expense, the cash flow statement and the notes. The notes also include segment reporting.

Unless otherwise indicated, all amounts are presented in € million.

Restatement (corrections in accordance with IAS 8)

Based on the results and recommendations of the audit report prepared by PwC, the Board of Managing Directors decided, with the consent of the Supervisory Board, to modify the consolidated financial statements as at 31 March 2007, due to the fact that certain accounting questions would be dealt with differently with knowledge of the developments that subsequently occurred on the sub-prime and commercial paper markets. Please refer to the detailed explanations provided in the Group Management Report for causes and background of the financial market crisis, and its consequences.

The changes were made retrospectively, in accordance with IAS 8, and mainly relate to the consolidation of Rhineland Funding Capital Corporation (RFCC), Delaware, including its 28 affiliated purchasing entities; the conduit Havenrock I Ltd., Jersey; as well as four cells ("silo entities") of ELAN Ltd., Jersey.

The consolidation of RFCC and Havenrock I results in a significant increase in total assets and total equity and liabilities. The increase amounts to € 11.5 billion (previous year: € 9 billion) as at 31 March 2007 and relates in particular to investment securities on the asset side and securitised lia-

bilities on the liability side. The effects on the income statement during the year under review are primarily transfers between net interest income in the amount of € 49 million and net fee and commission income in the amount of € –56 million. In addition, the consolidation reduced net income from financial instruments at fair value by € 64 million. The aggregate impact on equity and income as at the end of the financial year totalled € –44 million. Furthermore, the consolidation of RFCC will reduce loan commitments by € 11 billion (2005/06: € 10 billion). Please note that we had to make estimates and assumptions to a considerable extent, due to the limited availability of financial statements for companies of the RFCC Group since there was no requirement in accordance with applicable local law for some companies to prepare financial statements.

The four cells (silo entities) of ELAN Ltd. were also fully consolidated retrospectively. Assets of € 1,165 million (previous year: € 1,163 million) were allocated to the category Available for sale. At the same time, the derivatives included in the cells in the amount of € 34 million (previous year: € 52 million) are reported as liabilities held for trading. This resulted in an aggregate reduction of equity and income by € 149 million as at 31 March 2007.

In addition, the interest components of certain structured securities used for investments of economic capital were amortised, to the extent that interest had accrued at rates above prevailing market levels, starting from the end of the fixed-interest period, over the remaining variable-interest term. The distribution of 'excess returns' from fixed coupons over the variable-interest periods resulted in a reduction of retained earnings by € 6 million as at 31 March 2006 and a decrease of net interest income in the amount of € 18 million in the financial year 2006/07.

Pursuant to Article 11 of the Memorandum and Articles of Association of IKB, the variable remuneration for members of the Supervisory Board is subject to payment of a dividend. On the basis of the envisaged approval of the changed financial statements (restated), no dividend is intended to be paid; as a consequence, no variable remuneration will be paid to the Supervisory Board. As a result, administrative expenses decrease by € 0.6 million.

Actuarial gains and losses previously reported in the revaluation reserve have been reclassified to retained earnings. This resulted in an increase in the revaluation reserve as at 31 March 2007 by € 9.3 million, and a reduction in retained earnings by the same amount (previous year: € 21.3 million).

Effects of corrections in accordance with IAS 8 on the consolidated balance sheet as at 31 March 2006

in € million	31 Mar 2006 before restatements	Restatements according IAS 8	31 Mar 2006 after restatements
Assets			
Cash reserve	47.6	–	47.6
Loans and advances to banks	2 197.1	–	2 197.1
Loans and advances to customers	28 017.7	–	28 017.7
Provision for possible loan losses	– 1 411.7	–	–1 411.7
Assets held for trading	557.5	28.5	586.0
Investment securities	14 152.1	9 022.1	23 174.2
Intangible assets	27.5	–	27.5
Property and equipment	231.1	–	231.1
Income tax assets	28.9	–	28.9
Other assets	361.8	2.2	364.0
Total assets	**44 209.6**	**9 052.8**	**53 262.4**
Shareholders' equity and liabilities			
Liabilities to banks	14 060.5	–	14 060.5
Liabilities to customers	2 546.0	–	2 546.0
Securitised liabilities	21 718.9	9 042.0	30 760.9
Liabilities held for trading	952.7	68.7	1 021.4
Provisions	303.4	–	303.4
Income tax liabilities	102.9	–	102.9
Other liabilities	260.3	3.5	263.8
Subordinated capital	2 910.4	–	2 910.4
Shareholders' equity	1 354.5	–61.4	1 293.1
Subscribed capital	225.3	–	225.3
Capital reserve	568.2	–	568.2
Retained earnings	356.5	–83.5	273.0
Currency translation reserve	–7.5	–	–7.5
Revaluation reserve	137.0	22.1	159.1
Minority interests	0.2	–	0.2
Consolidated profit	74.8	–	74.8
Total shareholders' equity and liabilities	**44 209.6**	**9 052.8**	**53 262.4**

Effects of corrections in accordance with IAS 8 on the consolidated balance sheet as at 31 March 2007

in € million	31 Mar 2007 before restatements	Restatements according IAS 8	31 Mar 2007 after restatements
Assets			
Cash reserve	28.7	–	28.7
Loans and advances to banks	4 441.9	–	4 441.9
Loans and advances to customers	29 685.0	–	29 685.0
Provision for possible loan losses	–1 094.7	–	–1 094.7
Assets held for trading	2 054.3	154.2	2 208.5
Investment securities	15 943.5	11 321.5	27 265.0
Intangible assets	37.9	–	37.9
Property and equipment	212.1	–	212.1
Income tax assets	13.7	–	13.7
Other assets	730.7	8.9	739.6
Total assets	**52 053.1**	**11 484.6**	**63 537.7**
Shareholders' equity and liabilities			
Liabilities to banks	13 912.5	–	13 912.5
Liabilities to customers	4 277.8	–	4 277.8
Securitised liabilities	28 024.2	11 531.3	39 555.5
Liabilities held for trading	1 011.9	152.8	1 164.7
Provisions	60.0	–	60.0
Income tax liabilities	79.2	–	79.2
Other liabilities	264.3	6.7	271.0
Subordinated capital	3 026.4	–	3 026.4
Shareholders' equity	1 396.8	–206.2	1 190.6
Subscribed capital	225.3	–	225.3
Capital reserve	568.2	–	568.2
Retained earnings	462.4	–138.7	323.7
Currency translation reserve	–11.8	–3.4	–15.2
Revaluation reserve	77.7	10.7	88.4
Minority interests	0.2	–	0.2
Consolidated profit	74.8	–74.8	–
Total shareholders' equity and liabilities	**52 053.1**	**11 484.6**	**63 537.7**

Effects of corrections in accordance with IAS 8 on the consolidated income statement and earnings per share for the period from 1 April 2005 to 31 March 2006

in € million	1 Apr 2005 – 31 Mar 2006 before restatements	Restatements according IAS 8	1 Apr 2005 – 31 Mar 2006 after restatements
Net interest income	**557.3**	**53.2**	**610.5**
Interest income	2 374.3	307.6	2 681.9
Interest expenses	1 817.0	254.4	2 071.4
Provision for possible loan losses	**318.6**	**–**	**318.6**
Net interest income after provision for possible loan losses	**238.7**	**53.2**	**291.9**
Net fee and commission income	**90.5**	**–60.1**	**30.4**
Fee and commission income	98.0	–43.8	54.2
Fee and commission expense	7.5	16.3	23.8
Net income from financial instruments at fair value	**39.6**	**–50.8**	**–11.2**
Net income from investment securities	**13.1**	**0.0**	**13.1**
General administrative expenses	**269.0**	**–**	**269.0**
Personnel expenses	162.8	–	162.8
Other administrative expenses	106.2	–	106.2
Net other operating income	**119.6**	**–3.8**	**115.8**
Operating result	**232.5**	**–61.5**	**171.0**
Income taxes	62.4	–2.3	60.1
Other taxes	2.1	–	2.1
Net income for the year	**168.0**	**–59.2**	**108.8**
Minority interests	0.0	0.0	0.0
Net income after minority interests	**168.0**	**–59.2**	**108.8**
Allocation to retained earnings	–93.2	59.2	–34.0
Consolidated profit	**74.8**	**–**	**74.8**

	1 Apr 2005 – 31 Mar 2006 before restatements	Restatements according IAS 8	1 Apr 2005 – 31 Mar 2006 after restatements
Net income after minority interests (€ million)	168.0	–59.2	108.8
Average number of shares outstanding (million)	88.0	–	88.0
Earnings per share (€)	**1.91**	**–0.67**	**1.24**

Effects of corrections in accordance with IAS 8 on the consolidated income statement and earnings per share for the period from 1 April 2006 to 31 March 2007

in € million	1 Apr 2006 – 31 Mar 2007 before restatements	Restatements according IAS 8	1 Apr 2006 – 31 Mar 2007 after restatements
Net interest income	**646.4**	**31.5**	**677.9**
Interest income	3 212.4	546.1	3 758.5
Interest expenses	2 566.0	514.6	3 080.6
Provision for possible loan losses	**259.0**	**–**	**259.0**
Net interest income after provision for possible loan losses	**387.4**	**31.5**	**418.9**
Net fee and commission income	**107.9**	**–55.9**	**52.0**
Fee and commission income	123.8	–57.2	66.6
Fee and commission expense	15.9	–1.3	14.6
Net income from financial instruments at fair value	**79.8**	**–120.7**	**–40.9**
Net income from investment securities	**6.9**	**–**	**6.9**
General administrative expenses	**316.8**	**–0.6**	**316.2**
Personnel expenses	185.8	–	185.8
Other administrative expenses	131.0	–0.6	130.4
Net other operating income	**–2.2**	**–4.0**	**–6.2**
Operating result	**263.0**	**–148.5**	**114.5**
Income taxes	81.4	–6.7	74.7
Other taxes	1.9	–	1.9
Net income for the year	**179.7**	**–141.8**	**37.9**
Minority interests	–0.1	–	–0.1
Net income after minority interests	**179.6**	**–141.8**	**37.8**
Allocation to retained earnings	–104.8	67.0	–37.8
Consolidated profit	**74.8**	**–74.8**	**–**

	1 Apr 2006 – 31 Mar 2007 before restatements	Restatements according IAS 8	1 Apr 2006 – 31 Mar 2007 after restatements
Net income after minority interests (€ million)	179.6	–141.8	37.8
Average number of shares outstanding (million)	87.9	–	87.9
Earnings per share (€)	**2.04**	**–1.61**	**0.43**

Effects of corrections in accordance with IAS 8 on contingent liabilities as at 31 March 2006

in € million	31 Mar 2006 before restatements	Restatements according IAS 8	31 Mar 2006 after restatements
Contingent liabilities	934.7	–	934.7
Guarantees, warranties, other	714.7	–	714.7
Assumptions of liability	220.0	–	220.0
Other commitments	14 103.0	–10 383.6	3 719.4
Commitments for up to one year	12 060.7	–10 348.6	1 712.1
Commitments for more than one year	2 042.3	–35.0	2 007.3
Total	**15 037.7**	**–10 383.6**	**4 654.1**

Effects of corrections in accordance with IAS 8 on contingent liabilities as at 31 March 2007

	31 Mar 2007 before restatements	Restatements according IAS 8	31 Mar 2007 after restatements
Contingent liabilities	1 012.5	–	1 012.5
Guarantees, warranties, other	842.9	–	842.9
Assumptions of liability	169.6	–	169.6
Other commitments	16 703.1	–10 926.3	5 776.8
Commitments for up to one year	14 085.4	–10 883.6	3 201.8
Commitments for more than one year	2 617.7	–42.7	2 575.0
Total	**17 715.6**	**–10 926.3**	**6 789.3**

Accounting Policies

(1) Accounting principles

The consolidated financial statements are prepared on a going concern basis; in accordance with IAS 27, the accounting policies were applied consistently throughout the Group.

Generally, the financial statements of the consolidated subsidiaries are prepared as at the same date as the financial statements of the parent. Financial statements prepared as at 31 December 2006 are included in the list of IKB shareholdings. For IKB Capital Corporation and the Rhineland Funding Capital Corporation conduit (RFCC), interim financial statements were prepared as at 31 March 2007.

Adjustments of material effects during the period of transition between 31 December 2006 until 31 March 2007 were taken into account in the relevant subsidiaries' financial statements, to the extent necessary pursuant to the principle of materiality.

There have been no material events subsequent to the balance sheet date, or adjusting events, that need to be disclosed in the consolidated financial statements. Risks from credit exposures affecting the financial year 2006/07 and known as at the reporting date have been taken into account in the provisions for possible loan losses.

(2) Changes to acccounting policies

The accounting policies have not changed in general compared to last year's consolidated financial statements; this includes changes made in accordance with IAS 8. We refer to the following additional changes made:

In contrast to the previous year, the result from the equity investments of IKB Private Equity GmbH is now included in net income from financial instruments at fair value; the prior-year figure was adjusted accordingly. In the previous year, this result was shown under net income from investment securities.

In the financial year 2006/07, we offset deferred tax assets and deferred tax liabilities for the first time for companies which belong to the same German or foreign tax entity. In order to improve comparability, the prior-year figures were adjusted accordingly.

Until the past financial year 2005/06, the direct benefit obligations of the Bank and its subsidiaries had been financed exclusively by internally recognising provisions. Under a Contractual Trust Arrangement (CTA), IKB Deutsche Industriebank AG and the subsidiaries included therein separated the required assets from their remaining company assets and transferred such assets to a trustee in order to fulfil pension benefit claims. In doing so, IKB follows the international trend to transfer claims for pension benefits to third parties. The assets contributed by IKB represent plan assets within the meaning of IAS 19 and are therefore offset with pension provisions as at 31 March 2007. Further explanations are included in Note 17.

The calculation method for portfolio impairment charges was changed to a method derived from the Basel II framework. Portfolio impairments for risks which have materialised, but not yet been identified, are now determined on the basis of historical data for loss given default. Portfolio-oriented loss identification period factors are used to account for the time lag until identification or discovery of an event of default. Total allowance for portfolio impairments has not changed as a result.

It should also be noted that the consolidated financial statements as at 31 March 2007 are currently the subject of an audit being carried out by the German Financial Reporting Enforcement Panel in accordance with Section 342b (2) sentence 3, no. 3 of the German Commercial Code (HGB).

(3) Scope of consolidation

In addition to the parent company, 26 (prior year: 24) German and 15 (prior year: 15) foreign companies are included in the consolidated financial statements of IKB as at 31 March 2007. IKB Deutsche Industriebank AG holds the majority of the voting rights in these companies. The consolidated companies are disclosed in the list of shareholdings in Note 70. The changes during the year under review relate to the following companies:

IKB Lux Beteiligungen S.a.r.l., Luxembourg, was established in the year under review. The company now holds our shares in IKB International S.A.

The IKB Private Equity GmbH, Düsseldorf, addresses the increasing diversification by means of an organisational split of the mezzanine and direct shareholdings businesses. The group of fully consolidated companies increased by three companies in the financial year 2006/07: IKB Equity Capital Fund I GmbH & Co. KG, IKB Erste Equity Suporta GmbH and IKB Equity Finance GmbH. Subsequently, the direct shareholdings business was largely transferred to IKB Capital Fund I GmbH & Co. KG and IKB Erste Equity Suporta GmbH.

This first-time consolidation of companies did not result in goodwill under IFRS 3.

In addition, there were changes with regard to immaterial companies.

IKB Financial Products S.A., Luxembourg, was merged into IKB International S.A., Luxemburg, in the financial year 2006/07. All assets and liabilities of the acquired company were transferred to IKB International S.A. in accordance with the simplified merger procedure as permitted under Luxembourg law (dissolution without liquidation). This transfer resulted in the dissolution of IKB Financial Products S.A.

IKB Facility-Management GmbH was changed into a limited partnership under German law (Kommanditgesellschaft), effective after 31 December 2006. IKB Grundstücks GmbH became the general partner. Effective 28 February 2007, the general partner retired from IKB Facility- Management GmbH & Co. KG. This resulted in an increase of the interest of IKB Grundstücks GmbH in the business assets of the company of the sole limited partner IKB Deutsche Industriebank AG. Hence, the company was dissolved and deconsolidated accordingly.

In addition, as explained above, the conduit Rhineland Funding Capital Corporation (RFCC), Delaware, including its 28 (previous year: 20) affiliated purchasing entities, the conduit Havenrock I Ltd., Jersey, as well as four cells (“silo entities”) of ELAN Ltd., Jersey, were consolidated.

Through the aforementioned consolidated companies, IKB is associated with various firms acting in a variety of functions (e.g. liquidity agent, investment advisor, etc.). Taking into account the overall picture of the financial relationships, however, IKB does not fulfill the prerequisites stated in IAS 27 and SIC 12 in any of these cases for consolidating these companies. For example, the Bacchus special-purpose vehicles, which serve as securitisation within the scope of a collateralized debt obligation programme, are not included in the IFRS list of consolidated entities. Within the scope of these securitisation transactions, the Bacchus special-purpose vehicles acquire CDO portfolios that are refinanced through issuing notes as well as unrated subordinated notes. Some of the rated notes and unrated subordinated notes are components of so-called combination notes, which in some cases have been acquired by IKB. In addition, IKB assumes part of the initial loss position resulting from the direct acquisition of subordinated notes. IKB has submitted proposals regarding the acquisition of assets of the special-purpose vehicles, but the acceptance or rejection of the proposals will be decided by a board of directors that is independent of IKB. Taking into consideration the overall picture of the financial relationships, there

is no obligation to consolidate the Bacchus special-purpose vehicles, according to consolidation criteria stipulated by IAS 27 and SIC 12, since the decision-making authority is essentially exercised by the board of directors of the Bacchus companies. Furthermore, IKB does not carry the majority of opportunities and risks despite its participations in the combination and subordinated notes.

In the IKB Group, no subgroup consolidated financial statements were prepared.

(4) Consolidation methods

Companies are consolidated using the purchase method, pursuant to which all assets and liabilities of the relevant subsidiary are measured at their fair value applicable at the time of acquisition (see Note 6, Financial instruments, for a definition of fair value). Any difference between the cost of acquisition and the Group's interest in equity is offset with the assets' hidden reserves, disclosed during fair value measurement. Any remaining excess is recognised as goodwill under intangible assets. Any remaining negative difference is recognised immediately in profit or loss.

Inter-company receivables and liabilities, as well as income and expenses from inter-company transactions, are eliminated in accordance with IAS 27.

Associated companies are measured in accordance with the equity method and reported as investments in associates, under investment securities. The carrying amounts of such investments and any related differences (goodwill) are determined as at the date of initial consolidation, using the same rules applied to subsidiaries

Shares in joint ventures are measured at equity in accordance with the applicable election.

In accordance with IAS 28 in connection with IAS 39, direct shareholdings of IKB Private Equity GmbH, of IKB Capital Fund I GmbH & Co. KG and of IKB Erste Equity Suporta GmbH are measured at fair value, and reported under investment securities.

Subsidiaries acquired or sold during the course of the year are included in the consolidated income statement from the date of acquisition or until the date of disposal, as appropriate.

(5) Currency translation

Monetary assets and liabilities arising from foreign currency transactions must be translated at the closing rate on the balance sheet date, in accordance with IAS 21. Currency translation differences are recognised in profit or loss. The closing rate is the reference rate of the European Central Bank on the balance sheet date. Equity investments, and shares in subsidiaries denominated in foreign currencies, are recognised at historical cost. Income and expenses arising from foreign currency transactions are translated at the exchange rates of the relevant transaction.

Financial statements of foreign subsidiaries prepared in foreign currencies are translated using the modified closing rate method. Accordingly, equity items are translated at the historical rate, and all other balance sheet items are translated at the reference rate of the European Central Bank on the balance sheet date. All income and expenses are translated at the average rate of the European Central Bank. Any resulting foreign exchange gains and losses are recognised directly in equity. Foreign exchange gains or losses resulting from consolidation are also reported separately in equity.

(6) Financial Instruments: Recognition and Measurement

Financial instruments are accounted for in accordance with IAS 39. They are initially recognised at the date of addition, which is normally the trade date for derivatives. Financial instruments settled within the settlement period generally accepted in the marketplace are recognised or de-recognised by IKB at the settlement date. Financial instruments which are not settled within such generally accepted settlement period are regarded as forward transactions, and recognised at fair value through profit or loss. In accordance with IAS 39, the *fair value* of a financial asset or a financial liability is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable and willing parties in an arm's-length transaction. In the following, the terms *fair value* and *market value* are used as synonyms.

In addition, all financial assets and liabilities must be allocated to a certain category (according to their intended purpose) and measured accordingly. The IKB Group has implemented the rules as set out in IAS 39 as follows:

a. Financial assets

- Financial assets at fair value through profit or loss | Financial instruments of this category are both initially and subsequently measured at fair value. Any net gain/loss from re-measurement is recognised in the income statement under "Net income from financial instruments at fair value". This category consists of the following:

  Financial assets held for trading | Financial instruments which have been acquired for the purpose of generating short-term gains are classified as *Financial assets held for trading*. Derivative financial assets are always classified as *Financial assets held for trading,* unless they are used for hedging purposes or to avoid or reduce accounting mismatches and employed in an effective manner.

  Fair value option | The fair value option, as defined in IAS 39, additionally offers the possibility to irrevocably designate financial assets that are not held for trading as financial instruments that are subsequently measured at fair value. Equity instruments, for which quoted market prices in an active market or reliably determinable fair values are not available, may not be designated as described above.

  The Company may only elect to classify financial assets into this category when

  - accounting mismatches can be avoided or reduced to a considerable extent, or
  - the financial instrument contains one or more embedded derivatives, or
  - the management and performance measurement of a portfolio of financial instruments is conducted on a fair value basis.

  IKB uses the fair value option only if the first two requirements are met.

  Financial instruments which are accounted for under the fair value option are reported by product under the relevant balance sheet item. Changes in their fair value are recognised in the income statement under "Net income from financial instruments at fair value".

- Loans and receivables | All non-derivative financial assets with fixed or determinable payments that are not traded in an active market are included in the category *Loans and receivables*.

  Financial instruments of this category are initially measured at fair value, and subsequently at amortised cost. Related premiums and discounts are recognised in net interest income over the instrument's remaining life, using the effective interest method.

- Financial assets held to maturity | IKB does not currently classify any of its financial instruments as held to maturity.

- Financial assets available for sale | This category includes all financial assets which have not been allocated to one of the above-mentioned categories.

  Financial assets of this category are initially – as well as subsequently – measured at fair value. Only in those cases in which their fair value cannot be reliably determined are such financial assets carried at amortised cost. Any net gain or loss from re-measurement is recognised under the revaluation reserve, until the asset is disposed of or permanently impaired. Premiums and discounts are recognised in net interest income over the life of the asset, using the effective interest method.

b. Financial liabilities

- Financial liabilities at fair value through profit or loss | By analogy with the categories for financial assets, two sub-categories have been established for financial liabilities of this category as well:

  Financial liabilities held for trading | This category includes financial liabilities which have been acquired for the purpose of generating short-term gains. In addition, this category includes derivatives with negative fair values.

  Fair value option | The fair value option is applied to financial liabilities under the same requirements as defined for the asset side.

  The accounting policies for financial liabilities of this category correspond to those for financial assets.

- Other financial liabilities | This category includes all financial liabilities not measured at fair value through profit or loss.

  These items are measured at amortised cost. Premiums and discounts are recognised in net interest income over the life of the liability, using the effective interest method.

c. Financial instruments with embedded derivatives

The accounting treatment of financial instruments with embedded derivatives depends on whether the related embedded derivatives have to be accounted for separately from the host contract. Embedded derivatives must be separated, particularly when the economic characteristics of the host contract and the embedded derivative are not closely related.

If there is a close economic relationship, i.e. if both instruments are subject to the same risk factors, the individual instruments may not be separated. In this case, the accounting method for the entire instrument corresponds to that of the host contract. If the host contract and the derivative are subject to different risk factors, the instruments should be separated. This involves measuring the derivative at fair value through profit or loss, unless the entire financial instrument is accounted for at fair value through profit or loss. Securities with embedded derivatives, in particular, are not separated for at IKB, but recognised as an instrument of the category *Financial assets or liabilities measured at fair value through profit or loss,* using the fair value option. Only in certain exceptions are embedded derivatives which are required to be separated accounted for separately. In this case, the relevant derivatives are recognised at fair value separately from the host contract in the trading portfolio. The accounting treatment of the host contract corresponds to the category to which it has been allocated.

d. Financial guarantee contracts

In accordance with IAS 39, a financial guarantee contract is a contract which requires the issuer to make specified payments. These payments represent a reimbursement for the loss that the issuer incurs when a specified debtor fails to make payment when due under the applicable terms of a debt instrument.

Measurement of financial guarantee contracts is initially made at recognition, and generally leads to a fair value of zero at the time of contract conclusion since the premium at normal market conditions corresponds to the value of the obligation for the guarantee. During subsequent measurement, the contracts have to be reviewed to determine whether provisions need to be recognised.

Financial guarantee contracts are recognised upon acceptance of the guarantee offer.

e. Securities repurchase agreements

Securities repurchase agreements are combinations of spot transactions and simultaneous forward transactions with securities (sale or repurchase) with the same counterparty (repo transactions). Securities sold under repo transactions (cash sale) continue to be carried in the balance sheet. The inflow of cash from such transactions is shown in the balance sheet either as liabilities to banks or liabilities to customers, depending on the counterparty. The repo rate to be paid is recognised on a pro-rata basis over the term of the transaction, and reported under net interest income. Reverse repo transactions (cash purchase of securities) are accounted for as loans and advances to banks, or as loans and advances to customers. Securities purchased under agreements to resell are not reported in the balance sheet; the repo rate received is recognised ratably in net interest income.

(7) Cash reserve

The cash reserve includes cash on hand and balances with the central bank, which are carried at face value.

(8) Loans and advances from, and liabilities to, banks/customers

Loans and advances from, and liabilities to, banks and customers which are not held for trading purposes or which are not traded in an active market, are measured at amortised cost. Premiums and discounts are reported in the relevant item of loans and advances. They are amortised over the life of the asset, using the effective interest method, and recognised in net interest income. We refer to Note 9 (Provision for possible loan losses) for information on impairment.

Derivatives embedded in loans, advances, and liabilities, are separated if required and recognised at fair value under assets or liabilities held for trading (see also Note 6).

Leases

Receivables from finance leases are recognised under loans and advances to customers at their net investment value. Finance leases mainly relate to non-full-payout leases, where the residual value has been contractually agreed upon with the lessee. Amortisation is based on the implicit interest rates. In addition, IKB has also concluded full-payout leases and cancellable leases, as well as hire and hire purchase contracts. The finance lease contract ends after all obligations by the contracting parties have been fully met as contractually agreed.

(9) Provision for possible loan losses

IKB recognises specific valuation allowances in order to take account of all identifiable risks from the lending business. In addition, any further risks which have not been covered by specific valuation allowances are accounted for with a portfolio impairment on the basis of statistical experience.

Specific valuation allowances are recognised in the amount of the potential loss when the probability of default with regard to interest receivable and redemption is sufficiently high, on the basis of assessment criteria applied consistently throughout the Group. The potential loss is determined as the difference between the current carrying amount and the present value of the expected cash flows. The discount rate corresponds to the original effective interest rate of the impaired loan or advance.

The amount of the portfolio impairment is based on the present value of expected future cash flows. The present value is determined by taking into account probabilities of default, which are calculated on the basis of historical data for the relevant portfolio. The existing time lag is taken into account up until the point of identification or recognition of an event through portfolio-oriented parameters (i.e. loss identification period factor).

Valuation allowances and portfolio impairment are recognised on the asset side with a minus sign. Uncollectable loans and advances are directly written off. Recoveries on loans and advances previously written off are recognised in profit or loss.

For value-adjusted financial instruments, the interest income is derived by applying the original effective interest rate through reversal of the accounts receivable. Therefore, the contractually agreed amounts of interest income are no longer recorded, but rather the present value is carried forward to the next reporting cut-off date (i.e. unwinding).

(10) Assets and liabilities held for trading

In accordance with IAS 39, all derivatives are classified as assets and liabilities held for trading and recognised at their respective fair values. In addition, these items include financial instruments held for trading, predominantly equities and promissory note loans as well as bonds intended for outplacement with third parties.

For products listed on a stock exchange, the quoted market price is used to determine the fair value. The fair value of unlisted products is calculated using the present value method or other appropriate models. Any net gain/loss from re-measurement, as well as realised gains or losses, are reported in “Net income from financial instruments at fair value”. Interest income and interest expenses are recognised in net interest income.

(11) Investment securities

All bonds and other fixed-income securities, equities and other non-fixed-income securities, shares in associates, unconsolidated subsidiaries and joint ventures, as well as other equity investments not classified as held for trading, are classified as investment securities.

Items not traded in an active market are measured at amortised cost, unless they were accounted for under the fair value option. Any existing premiums and discounts are directly allocated to the corresponding financial instruments, amortised over the remaining term to maturity on the basis of the effective interest method, and recognised in net interest income.

Associated companies and joint ventures are measured using the equity method.

The direct shareholdings of IKB Private Equity GmbH, of IKB Capital Fund I GmbH & Co. KG and of IKB Erste Equity Suporta GmbH are reported under investment securities and measured at fair value in accordance with IAS 28 in connection with IAS 39. Any resulting net gain/loss is recognised in "Net income from financial instruments at fair value".

All other assets reported under investment securities are measured at fair value upon initial recognition, as well as at the relevant reporting dates. If the fair value of shares in unconsolidated subsidiaries and other equity investments cannot be reliably determined, they are measured at cost.

Gains and losses from remeasurement of assets belonging to the category *Financial assets available for sale* are recognised directly in equity under the revaluation reserve. In case of permanent or material impairments, the related write-downs are recognised in income and deducted from the assets' carrying amount.

Any net gain/loss from remeasurement of assets accounted for under the fair value option is recognised in the income statement under "Net income from financial instruments at fair value".

(12) Intangible assets

In addition to internally generated intangible assets, which mainly result from directly attributable development costs for internally developed software, intangible assets also include purchased software which is not an integral part of the related hardware. They are carried at cost less accumulated amortisation.

Intangible assets are amortised on a straight-line basis over a useful life of five years. If there are indications that an impairment might have occurred, a write-down is recognised for the relevant asset. Amortisation is recognised in the income statement under general administrative expenses.

(13) Property and equipment

Property and equipment includes land and buildings predominantly used for own purposes, as well as operating and office equipment. Property and equipment are carried at depreciated cost, except investment property which is accounted for at fair value in accordance with IAS 40.

Buildings are depreciated over a useful life of 33 to 50 years on a straight-line basis. The depreciation period for operating and office equipment ranges from three to 20 years. The depreciation amounts are recognised under general administrative expenses.

If there are indications for an extraordinary impairment due to technical or economic obsolescence, or as a result of a decline in market prices, the asset is written down.

Gains or losses on disposal of property and equipment are recognised in the item "Net other operating income".

Leases

Leased assets accounted for by IKB under operating lease agreements are reported under property and equipment.

Leased assets are carried at cost less any accumulated depreciation (over the expected useful life) or impairment losses recognised due to permanent impairment.

Leases can be in the form of full-payout leases and non-full-payout leases, as well as cancellable leases. In the case of full-payout leases, a fixed term for the lease is agreed with the customer. Non-full-payout leases involve an agreement on the residual value, in addition to the agreement on the term of the lease. The amortisation of the residual value results from the disposal of the leased asset or the renewal of the lease at the end of the lease term. IKB has an option to sell the leased asset at its residual value pursuant to the contractual arrangements. In the case of non-full-payout leases for motor vehicles, the participation in surpluses from realisation, when the proceeds from realisation exceed the residual value, is governed in the contractual arrangements. Cancellable leases are concluded for an indefinite term. The imputed term, cancellation options, as well as settlement payments, are agreed upon individually.

(14) Income tax assets and liabilities

The calculation of current income taxes for the individual Group companies is based on the tax regulations of the relevant countries. Income tax expenses with an effect on cash flows, as well as expenses and income from changes in deferred tax assets or liabilities, are reported in the income statement under income taxes.

Current and deferred tax assets as well as current and deferred tax liabilities are each reported separately on either the asset side or the liability side of the balance sheet. The items “Current income tax assets” and “Current income tax liabilities” include the current income taxes expected to be recovered from or paid to the taxation authorities. Deferred tax assets and deferred tax liabilities are reported under other assets or other liabilities, as appropriate.

Other taxes not related to income are reported separately in the income statement.

(15) Other assets/liabilities

Other assets and liabilities mainly include deferred tax assets and liabilities, trade accounts receivable/payable as well as prepaid expenses and deferred income.

Deferred tax assets and liabilities are determined in accordance with IAS 12 on the basis of the balance sheet liability method. They result from differences between the carrying amounts of assets and liabilities in the consolidated financial statements and their related tax base, to the extent that these differences are likely to result in income tax liabilities or benefits (temporary differences) in the future. The temporary differences are measured on the basis of country-specific income tax rates which are expected to be applicable at the time these differences will be reversed.

Deferred tax assets on unused tax loss carryforwards for a taxable entity are recognised when it can be reasonably expected that the taxable entity concerned will generate sufficient taxable profits for the utilisation of the tax loss carryforward.

Deferred taxes are not discounted. Changes in tax rates are taken into account in the calculation of deferred tax assets and liabilities, to the extent that such tax rates are known at the time of preparing these financial statements.

Depending on the underlying circumstances, deferred income tax assets or liabilities are recognised and reversed either in the income statement as income taxes or directly in equity.

(16) Securitised liabilities

Issued bonds and money market instruments (e.g. certificates of deposit, Euro notes and commercial paper) are reported as securitised liabilities. These financial instruments are carried either at amortised cost (*Other financial liabilities*) or at fair value if the fair value option was applied.

(17) Provisions for pensions and similar obligations

The Company maintains defined benefit plans – funded by pension provisions – for employees of IKB Deutsche Industriebank AG and the subsidiaries IKB Leasing GmbH, IKB Leasing Berlin GmbH, IKB Immobilien Management GmbH, IKB Private Equity GmbH, IKB International S.A., IKB Data GmbH and IKB Credit Asset Management GmbH. The retirement provisioning includes performance-based components.

Provisions for pensions and similar obligations are predominantly used to cover occupational pensions as a result of direct pension commitments. Accordingly, pensions are paid upon retirement, i.e. when the employee reaches the retirement age, or earlier in case of disability, or to the surviving dependents in case of death. The amount of provisions for defined benefit plans depends on the applicable deferred compensation rules (Versorgungsordnung, VO). While the 1979 Deferred Compensation Rules (VO 79) are mainly based on factors such as pensionable service period and pensionable remuneration, the 1994 Deferred Compensation Rules (VO 94) include a so-called benchmark model (Eckwertmodell) and a special pension components system (Rentenbausteinsystem). In accordance with the VO 94, the amount of the obligations recognised as liabilities is based on the final salary and the benchmark value of pensions for income components below the contribution ceiling (in accordance with the RV-Bezugsgrößenverordnung, which are rules with regard to applicable calculation parameters in the German statutory pension insurance) and on the amount of the pension component earned on a yearly basis.

IKB follows the observable market trend to match retirement provisioning more closely to the development of the corresponding assets with the introduction of the 2006 Deferred Compensation Rules (VO 06). VO 06 is a cash-balance-based pension system, which includes a performance-based component, but also specifies a minimum return as well as special additional benefits in case of disability or death. VO 06 applies to all employees joining IKB Deutsche Industriebank AG, IKB Data GmbH and IKB Credit Asset Management GmbH during the financial year 2006/07 or thereafter.

All pension provisions are calculated using the projected unit credit method in accordance with IAS 19. The measurement of the future obligations is based on actuarial opinions prepared by independent actuaries. This method reflects not only pension payments and vested benefits known at the balance sheet date, but also future increases of pensionable remuneration and pensions as well as employee turnover. The present value of the pension obligation is determined using the current market interest rate for long-term capital investments.

The expenses for direct retirement benefit obligations, which have to be recognised in profit or loss, is composed of the interest and length of service elements. The interest element is reported under interest cost, and service cost is reported under personnel expenses. Any actuarial gains or losses result from changes in the parameters and bases of calculation originally underlying the actuarial pension reports as well as changes in the number of beneficiaries. These gains or losses are recognised directly in equity in the revaluation reserve, in their full amount in the period in which they are incurred, i.e. in the amount of the present value of the so-called defined benefit obligation.

Obligations similar to pension obligations also include provisions for early retirement schemes and obligations with regard to deferred compensation, calculated on the basis of actuarial principles. Provisions for jubilee payments that are also determined on the basis of actuarial opinions are recognised under “Other provisions” in accordance with IFRS.

At the beginning of November 2006, IKB established a deferred income accounts scheme (Wertkontenplan), a deferred compensation model with the purpose of increasing the flexibility of the start of early retirement. Based on the German Law on Social Protection for Flexible Working Times (Gesetz zur sozialrechtlichen Absicherung flexibler Arbeitszeitregelungen, FlexiGesetz), employees may elect to dispense with immediately receiving salary components not relating to the regular monthly salary and instead to invest such amounts in fixed-income or equity funds under this scheme. Due to the inflow of the investment with a guaranteed interest of 2.25% in favour of the participants, which is deferred to a future time, this model complements the existing benefit regulations of IKB and offers a further possibility for deferred compensation.

Until the past financial year 2005/06, the direct benefit obligations of the Bank and its subsidiaries had been financed exclusively by internally recognising provisions. No specific funds existed for the settlement of these pension obligations. The occupational pensions were paid from the generated profit. Late in March 2007, a major part of the assets used to cover pension obligations related to VO 79 and 94, deferred compensation, and early retirement, were spun off. Under this Contractual Trust Arrangement (CTA), IKB Deutsche Industriebank AG and the subsidiaries included therein separated the required assets from their remaining company assets and transferred such assets to a trustee in order to fulfil pension benefit claims. In doing so, IKB follows the international trend to transfer claims for pension benefits to third parties.

The assets contributed by IKB represent plan assets within the meaning of IAS 19 and are therefore offset with pension provisions.

(18) Other provisions

Other provisions are recognised for current legal or constructive obligations for which the date and/or the amount of the obligation are uncertain, and for which an outflow of resources required to settle the obligation is probable. Provisions for expenses which do not relate to external obligations are not recognised. Other provisions are measured in the amount expected to be utilised.

(19) Subordinated capital

Subordinated liabilities

The item “Subordinated liabilities” includes liabilities which will only be repaid once all other unsubordinated liabilities have been repaid in the case of insolvency or liquidation. Subordinated liabilities are eligible capital within the meaning of the German Banking Act (Kreditwesengesetz – KWG) and thus qualify as liable capital. If the liabilities have a remaining term of less than two years, they are only partially allocated to eligible capital.

Interest accruals for such transactions are recognised under “Other liabilities”.

Profit-participation certificates

Profit-participation certificates fully participate in the loss of the Company. In contrast to subordinated liabilities, interest payments are solely made in the case of an existing consolidated profit. The rights of holders of profit-participation certificates to redemption of capital are subordinated to the rights of other creditors. Profit-participation capital is used to strengthen liable capital in accordance with the provisions of the German Banking Act.

Interest accruals for such transactions are recognised under “Other liabilities”.

Silent partnership contributions / preferred shares

Silent partnership contributions include issues in the form of capital contributions made by silent partners. In addition, we also report preferred shares of two US subsidiaries under this item.

These liabilities are carried either at amortised cost (*Other financial liabilities*) or at fair value if the fair value option was applied for them.

(20) Shareholders' equity

Subscribed capital

This item includes IKB AG's share capital, less treasury shares held by the Company for price management purposes.

Capital reserve

The capital reserve includes the amount of the proceeds from the issuance of shares which exceeds the nominal value. Gains or losses from transactions with treasury shares are also offset directly in equity against capital reserves.

Retained earnings

Retained earnings are composed of legal reserves and other reserves. In accordance with IAS 19, retained earnings reserve also include actuarial gains or losses resulting from changes in calculation parameters and variations with regard to risk factors (i.e. disability or mortality figures) observable as at the balance sheet date compared to expectations.

Currency translation reserve

The currency translation reserve includes foreign exchange gains, or losses resulting from the translation of subsidiaries' equity denominated in a foreign currency.

Revaluation reserve

The revaluation reserve contains the net gains or losses from remeasurement of *Financial assets available for sale*. In addition, effects from remeasurement from hedging relationships that were in existence before the date of transition to IFRS (and that are hedges of variable cash flows) are shown under this item. The items mentioned are each adjusted by effects from deferred taxes.

Minority interest

Minority interests in the equity of subsidiaries are reported in a separate item within equity.

Consolidated profit

The consolidated profit of the Group is reported in the amount of total dividends that IKB AG intends to distribute.

Notes to the Consolidated Income Statement

(21) Net interest income

Net interest income includes interest income and interest expenses, dividends from securities, current income from shares in companies measured at equity, current income from shares in unconsolidated affiliated companies and equity investments as well as income from leasing transactions. IKB recognises current income from shares in associated companies and joint ventures on an accrual basis. Dividends are recognised on a received basis. Interest income and interest expenses are recognised on an accrual basis, using the effective interest method. Interest income from finance leases is allocated over the basic lease term, on a pattern reflecting a constant periodic rate of return on the net investment in the leases.

	2006/07 in € million	2005/06 in € million	Change in %
Interest income from derivatives	729.7	478.3	52.6
Interest income from financial instruments accounted for under the fair value option	172.0	112.2	53.3
Interest income from securities held for trading	35.4	11.9	>100.0
Total interest income from financial assets at fair value through profit or loss	**937.1**	**602.4**	**55.6**
Interest income from lending and money market transactions	1 513.8	1 218.6	24.2
Interest income from fixed-income and floating-rate securities	1 064.5	632.0	68.4
Current income from equity investments	10.5	6.3	66.7
Dividends	2.1	0.5	>100.0
Current income from shares in associated companies	1.7	0.3	>100.0
Current income from leasing transactions	228.8	221.8	3.2
Total interest income from other categories	**2 821.4**	**2 079.5**	**35.7**
Total interest income	**3 758.5**	**2 681.9**	**40.1**
Interest expenses for derivatives	663.2	344.3	92.6
Interest expenses for financial liabilities accounted for under the fair value option	275.2	202.8	35.7
Total interest expenses from financial liabilities at fair value through profit or loss	**938.4**	**547.1**	**71.5**
Interest expenses for securitised liabilities	1 239.7	767.9	61.4
Interest expenses for other liabilities	636.0	477.5	33.2
Interest expenses for subordinated capital	72.5	66.1	9.7
Expenses for leasing transactions	134.1	134.4	–0.2
Expenses similar to interest expenses, incl. interest expenses for pension obligations	59.9	78.4	–23.6
Total interest expense from other categories	**2 142.2**	**1 524.3**	**40.5**
Total interest expense	**3 080.6**	**2 071.4**	**48.7**
Net interest income	**677.9**	**610.5**	**11.0**

No current interest income is recognised for impaired loans and advances. Instead, the increase in the present value of future payments as a result of the passage of time is recognised as interest income (unwinding).

(22) Provision for possible loan losses

	2006/07 in € million	2005/06 in € million	Change in %
Additions to specific valuation allowances/provisions	457.0	354.6	28.9
Additions to specific valuation allowances	415.8	319.4	30.2
Additions to provisions	21.9	35.2	–37.8
Additions to investment securities (loans and receivables)	19.3	–	–
Direct write-offs	12.7	13.1	–3.1
Recoveries on loans and advances previously written off	3.1	2.6	19.2
Additions to/reversals of portfolio impairment	–121.1	0.2	
Reversals of specific valuation allowances/provisions	86.5	46.7	85.2
Reversals of specific valuation allowances	72.1	44.0	63.9
Reversals of provisions	14.4	2.7	>100.0
Provision for possible loan losses	**259.0**	**318.6**	**–18.7**

(23) Net fee and commission income

	2006/07 in € million	2005/06 in € million	Change in %
Net fee and commission income from lending business	41.3	35.0	18.0
Net fee and commission income from securitisation	3.1	–12.1	
Other	7.6	7.5	1.3
Total	**52.0**	**30.4**	**71.1**

(24) Net income from financial instruments at fair value

	2006/07 in € million	2005/06 in € million	Change in %
Net trading result	65.8	–22.0	
Net result from fair value option*	–103.4	54.9	
Amortisation of discontinued hedging relationships	–3.3	–44.1	–92.5
of which from cash flow hedges	74.8	74.8	–
of which from fair value hedges	–77.9	–118.9	–34.5
Total	**–40.9**	**–11.2**	**>100.0**

*) In the financial year 2006/07, the results from the equity investments of IKB Private Equity GmbH, IKB Capital Fund I GmbH & Co. KG, and IKB Erste Equity Suporta GmbH are included in net income from financial instruments at fair value; the prior-year figure was adjusted accordingly.

The net trading result includes the net foreign exchange gain/loss in the amount of € 4.0 million (previous year: € 2.0 million).

The application of the fair value option relates to a part of the investments in international loan portfolios as well as financial instruments that include embedded derivatives required to be separated. In addition, we use this category within the scope of risk-mitigating hedging strategies in accordance with IAS 39. The changes in the fair value from swaps for hedging purposes are recognised in this item, together with the changes in the fair value of the hedged items.

In the previous financial year, there were no changes in market value resulting from changes in credit risks with regard to investment securities accounted for under the fair value option. Since the first-time application of IFRS in the financial year 2005/06, the cumulative changes in the market value of liabilities amounts to € 0.6 million. This change in the fair value is attributable to liabilities which are part of an economic hedging relationship with an interest rate swap.

Both the adjustment resulting from the first-time adoption of IFRS related to fair value hedges and the amounts from the cash flow hedges to be discontinued are amortised over the remaining term of the hedged items.

(25) Net income from investment securities

	2006/07 in € million	2005/06 in € million	Change in %
Net result from securities	7.7	12.8	–39.8
Net result from equity investments, shares in associated companies and shares in affiliated companies	–0.8	0.3	
Total	**6.9**	**13.1**	**–47.3**

In the previous financial year, impairment losses for equity investments amounted to € 0.9 million.

In the financial year 2006/07, the results from the equity investments of IKB Private Equity GmbH, IKB Capital Fund I GmbH & Co. KG, and IKB Erste Equity Suporta GmbH are included in net income from financial instruments at fair value; the prior-year figure was adjusted accordingly.

(26) Administrative expenses

	2006/07 in € million	2005/06 in € million	Change in %
Personnel expenses	185.8	162.8	14.1
Other administrative expenses	111.8	83.9	33.3
Depreciation and write-downs of operating and office equipment and property, and amortisation and write-downs of intangible assets	18.6	22.3	–16.6
Total	**316.2**	**269.0**	**17.5**

The individual expense categories are as follows:

Personnel expenses

	2006/07 in € million	2005/06 in € million	Change in %
Wages and salaries	155.7	138.0	12.8
Social security contributions	19.5	17.2	13.4
Expenses for pensions and other employee benefits	10.6	7.6	39.5
Total	**185.8**	**162.8**	**14.1**

The increase in personnel expenses is attributable to the higher average number of employees, and to salary increases.

Other administrative expenses

	2006/07 in € million	2005/06 in € million	Change in %
Advisory expenses, mandatory contributions, miscellaneous other administrative expenses, and expenses required under company law	25.7	16.2	58.6
IT costs	24.1	19.0	26.8
Occupancy expenses	17.4	8.0	>100.0
Travel expenses and vehicle costs	12.7	11.3	12.4
Workstation costs	12.3	13.0	–5.4
Advertising, marketing and representation costs	8.0	7.2	11.1
Other administrative expenses	11.6	9.2	26.1
Total	**111.8**	**83.9**	**33.3**

The following items of the audit expenses included in other administrative expenses relate to expenses for the German auditor:

	2006/07 in € million	2005/06 in € million	Change in %
Audit services	2.1	2.6	–19.2
Other testation and valuation services	0.5	0.2	> 100.0
Tax advisory services	0.4	0.1	> 100.0
Other services	0.2	0.4	–50.0
Total	**3.2**	**3.3**	**–3.0**

The administrative expenses also include depreciation and write-downs of operating and office equipment and property, and amortisation and write-downs of intangible assets:

	2006/07 in € million	2005/06 in € million	Change in %
Operating and office equipment	7.2	6.7	7.5
Property	1.7	6.7	–74.6
Intangible assets	9.7	8.9	9.0
Total	**18.6**	**22.3**	**–16.6**

(27) Net other operating income / expenses

	2006/07 in € million	2005/06 in € million	Change in %
Material other operating income	17.9	18.8	–4.8
Cost allocations	10.9	5.7	91.2
Reversals of provisions/valuation allowances for other receivables	4.2	8.9	–52.8
Income from buildings not used for banking purposes	2.8	4.2	–33.3
Material other operating expenses	16.5	11.0	50.0
Expenses for buildings not used for banking purposes (incl. depreciation)	8.1	4.9	65.3
Additions to provisions/valuation allowances for other receivables	5.1	3.5	45.7
Voluntary social benefits (incl. donations)	3.3	2.6	26.9
Results from the sale of non-financial assets	–1.9	116.2	
Miscellaneous other operating income and expenses (net)	–5.7	–8.2	–30.5
Total	**–6.2**	**115.8**	

(28) Income taxes

	2006/07 in € million	2005/06 in € million	Change in %
Current income taxes	39.6	49.7	–20.3
for the current year	57.3	67.5	–15.1
for prior years	–17.7	–17.8	–0.6
Deferred taxes	35.1	10.4	> 100.0
Total	**74.7**	**60.1**	**24.3**

On the basis of the Group's operating result in 2006/07, a tax expense of € 45.0 million (previous year: € 67.6 million) would have been expected, using the applicable German corporate income tax rate including solidarity surcharge, and taking trade taxes into account. The following table shows a reconciliation of expected to actually reported tax expense:

	2006/07 in € million	2005/06 in € million	Change in %
Profit/loss before income taxes	112.6	168.9	–33.3
Applicable tax rate	40%	40%	–
Expected income taxes	45.0	67.6	–33.4
Tax effects			
from previous years and tax rate changes	–19.7	–11.5	71.3
from differences between tax rates in Germany and abroad	18.4	–0.4	
from tax-free income	15.7	–6.6	
from non-deductible expenses	17.8	6.7	> 100.0
from other differences	–2.5	4.3	
Income taxes	**74.7**	**60.1**	**24.3**

The income tax rate used as the basis for the reconciliation is composed of the corporate income tax rate of 25.0% currently applicable in Germany, plus a solidarity surcharge of 5.5% on corporate income tax and an average trade tax rate of 18.4%. Under consideration of the deductibility of the trade income tax rate, the domestic income tax amounts to 40.0%.

Income tax effects due to differences in tax rates result from differences between domestic income tax rates and foreign income tax rates applicable to foreign Group companies and entities, which continue to range from 16.0% to 47.6%, as well as from different trade tax rates of assessment (*Gewerbesteuerhebesatz*) in Germany.

To the extent permitted under IAS 12, deferred taxes have been recognised for temporary differences resulting from investments in subsidiaries, foreign branches and associates, as well as interests in joint ventures.

Notes to Assets

(29) Cash reserve

	31 Mar 2007 in € million	31 Mar 2006 in € million	Change in %
Cash on hand	0.1	0.1	0.0
Balance with central banks	28.3	47.2	–40.0
Other	0.3	0.3	0.0
Total	**28.7**	**47.6**	**–39.7**

Balances with central banks relate to balances at Deutsche Bundesbank, in an amount of € 28.1 million (prior year: € 43.9 million) as at the balance sheet date.

(30) Loans and advances to banks

	Total			Germany		Foreign countries	
	31 Mar 2007 in € million	31 Mar 2006 in € million	Change in %	31 Mar 2007 in € million	31 Mar 2006 in € million	31 Mar 2007 in € million	31 Mar 2006 in € million
Loans and advances to banks payable on demand	692.2	881.4	–21.5	174.2	157.9	518.0	723.5
Loans and advances to banks (initial maturity < 4 years)	3 568.5	1 262.9	> 100.0	779.9	64.9	2 788.6	1 198.0
Loans and advances to banks (initial maturity ≥ 4 years)	181.2	52.8	> 100.0	10.7	17.7	170.5	35.1
Total	**4 441.9**	**2 197.1**	**>100.0**	**964.8**	**240.5**	**3 477.1**	**1 956.6**

(31) Loans and advances to customers

	Total			Germany		Foreign countries	
	31 Mar 2007 in € million	31 Mar 2006 in € million	Change in %	31 Mar 2007 in € million	31 Mar 2006 in € million	31 Mar 2007 in € million	31 Mar 2006 in € million
Loans and advances to customers (initial maturity < 4 years)	4 107.8	4 135.8	–0.7	3 297.5	3 793.6	810.3	342.2
Loans and advances to customers (initial maturity ≥ 4 years)	24 038.8	22 542.4	6.6	18 515.8	18 767.4	5 523.0	3 775.0
Receivables from finance leases	1 538.4	1 339.5	14.8	1 432.5	1 034.0	105.9	305.5
Total	**29 685.0**	**28 017.7**	**6.0**	**23 245.8**	**23 595.0**	**6 439.2**	**4 422.7**

Loans and advances to customers include reversals of impairment losses not yet amortised related to hedges in accordance with IFRS 1 in the amount of € 365.1 million (prior year: € 443.0 million).

(32) Total credit extended

	31 Mar 2007 in € million	31 Mar 2006 in € million	Change in %
Credit extended to banks	45.9	45.8	0.2
Credit extended to customers	27 790.8	26 235.2	5.9
Securitisation business	19 242.0	15 337.2	25.5
Operating and finance leases	1 642.3	1 468.3	11.9
Contingent liabilities (gross) and credit default swaps	2 477.4	2 741.9	–9.6
Total	**51 198.4**	**45 828.4**	**11.7**

(33) Provision for possible loan losses

IKB recognises specific valuation allowances in order to take account of all identifiable risks from the lending business.

in € million	Specific valuation allowances	Provisions	Investment securities (loans and advances)	Portfolio impairment	Total
Opening balance at 1 Apr 2006	1 186.5	42.8	0.0	225.2	1 454.5
Utilisations	507.6	10.4	0.0	0.0	518.0
Reversals	72.1	14.4	0.0	126.3	212.8
Unwinding	42.4	0.8	0.0	0.0	43.2
Additions	415.8	21.9	19.3	5.2	462.2
Reclassification	10.9	–10.9	0.0	0.0	0.0
Currency translation adjustments	0.0	0.0	0.0	–0.5	–0.5
Closing balance at 31 Mar 2007	**991.1**	**28.2**	**19.3**	**103.6**	**1 142.2**
Less provisions					28.2
Less investment securities (loans and advances)					19.3
Recognised provision for possible loan losses as at 31 Mar 2007					**1 094.7**

Provisions for possible loan losses consisting of specific valuation allowances, provisions and investment securities (loans and advances) amount to a total of € 1,038.6 million (previous year: € 1,229.3 million).

In addition, any further risks which cannot be clearly identified and which have not been covered by specific valuation allowances are accounted for by means of portfolio impairments. As at 31 March 2007, portfolio impairment decreased to € 103.6 million (previous year: € 225.2 million).

Specific valuation allowances and provisions for credit risks, by customer groups, are as follows:

Provisions for credit risks according to customer groups	Specific valuation allowances and provisions for the lending business		Utilisation of specific valuation allowances and provisions for the lending business		Net additions to risk provisioning for the lending business (income statement)	
in € million	2006/07	2005/06	2006/07	2005/06	2006/07	2005/06
German customers	976.7	1 174.8	484.2	205.7	334.7	295.0
Production	254.9	335.2	160.2	60.9	89.4	75.2
Trade	65.4	102.8	58.1	16.8	25.0	28.7
Services	609.0	716.9	255.5	126.8	183.9	188.6
Transport	20.8	6.7	2.1	0.9	14.1	1.4
Other	26.6	13.2	8.3	0.3	22.3	1.1
Foreign customers	40.6	54.5	33.8	13.5	24.1	23.4
Production	22.1	14.2	6.4	8.5	15.3	6.0
Trade	0.1	0.2	0.1	0.2	0.3	0.2
Services	12.7	18.9	22.4	4.1	7.6	6.6
Transport	4.3	8.8	4.9	0.7	0.9	4.9
Other	1.4	12.4	0.0	0.0	0.0	5.7
Securitisation	21.3	0.0	0.0	0.0	21.3	0.0
Portfolio impairment					–121.1	0.2
Total	**1 038.6**	**1 229.3**	**518.0**	**219.2**	**259.0**	**318.6**

Key figures related to the allowance for losses on loans and advances:

	2006/07 in %	2005/06 in %	Change absolut
Additions	0.5	0.7	–0.2
Utilisations	1.0	0.5	0.5
Balance	2.2	3.2	–0.9

The above-mentioned key figures are defined as follows:

- Addition = Net additions to valuation allowances and provisions, in relation to total credit extended
- Utilisation = Credit defaults in relation to total credit extended
- Total = Total amount of valuation allowances and provisions, in relation to total credit extended

(34) Assets held for trading

	31 Mar 2007 in € million	31 Mar 2006 in € million	Change in %
Bonds and other fixed-income securities	1 201.4	79.5	>100.0
Equities and other non-fixed-income securities	1.9	1.1	72.7
Promissory notes carried as trading assets	419.2	43.1	>100.0
Positive fair values of derivative financial instruments	586.0	462.3	26.8
Total	**2 208.5**	**586.0**	**>100.0**

The increase in bonds and other fixed-income securities mainly relates to securities purchased in the context of the introduction of the structured investment vehicle Rhinebridge plc, Dublin, and now held on a temporary basis. These securities were simultaneously sold through a forward sale to the Structured Investment Vehicle.

An amount of € 269.4 million (previous year: € 0.0 million) of the bonds and other fixed-income securities as well as € 58.4 million (previous year: € 0.0 million) of the promissory notes carried as trading assets relate to public-sector issuers.

The securities carried under assets held for trading are fully marketable and listed.

(35) Investment securities

Investment securities include the following items:

	31 Mar 2007 in € million	31 Mar 2006 in € million	Change in %
Bonds and other fixed-income securities	26 975.3	22 899.5	17.8
Equities and other non-fixed-income securities	18.5	19.3	–4.1
Equity investments	264.7	250.2	5.8
of which to banks	78.5	96.0	–18.2
Investments in associates	6.4	5.1	25.5
of which to banks	–	–	–
Shares in affiliated companies	0.1	0.1	0.0
of which to banks	–	–	–
Total	**27 265.0**	**23 174.2**	**17.7**

The investment securities can be broken down into the categories specified in IAS 39:

	31 Mar 2007 in € million	31 Mar 2006 in € million	Change in %
Investment securities accounted for under the fair value option	16 040.8	12 342.1	30.0
Bonds and other fixed-income securities	15 884.0	12 196.7	30.2
Equity investments	156.8	145.4	7.8
Financial assets available for sale	2 106.1	2 394.4	–12.0
Bonds and other fixed-income securities	1 979.6	2 270.2	–12.8
Equities and other non-fixed-income securities	18.5	19.3	–4.1
Shares in affiliated companies	0.1	0.1	0.0
Equity investments	107.9	104.8	3.0
Loans and advances	9 111.7	8 432.6	8.1
Bonds and other fixed-income securities	9 111.7	8 432.6	8.1
Investments in associates	6.4	5.1	25.5
Total	**27 265.0**	**23 174.2**	**17.7**

The carrying amount of all negotiable securities reported under investment securities is broken down as follows:

31 Mar 2007 – € million	Total marketable	listed	unlisted
Bonds and other fixed-income securities	26 713.7	13 948.5	12 765.2
Equities and other non-fixed-income securities	5.8	0.1	5.7
Equity investments	91.2	78.3	12.9

As at 31 March 2007, the Company did not hold any marketable shares in associated companies or shares in subsidiaries.

(36) Intangible assets

No goodwill is included in intangible assets.

Intangible assets include internally generated software in the amount of € 9.0 million (prior year: € 8.5 million).

(37) Property and equipment

	31 Mar 2007 in € million	31 Mar 2006 in € million	Change in %
Operating leases	104.0	128.7	–19.2
Land and buildings	84.5	81.1	4.2
Operating and office equipment	21.4	19.1	12.0
Properties held for sale	2.2	2.2	0.0
Total	**212.1**	**231.1**	**–8.2**

(38) Income tax assets

	31 Mar 2007 in € million	31 Mar 2006 in € million	Change in %
Germany	12.2	27.9	–56.3
Foreign countries	1.5	1.0	50.0
Total	**13.7**	**28.9**	**–52.6**

(39) Other assets

	31 Mar 2007 in € million	31 Mar 2006 in € million	Change in %
Documents for collection	333.3	–	–
Deferred taxes	150.2	170.7	–12.0
Receivables from leasing transactions	93.2	47.2	97.5
Trade receivables	82.9	45.4	82.6
Deferred expenses	39.9	47.9	–16.7
Other loans and advances	40.1	52.8	–24.1
Total	**739.6**	**364.0**	**> 100.0**

Other assets include deferred tax assets which were recognised in connection with the balance sheet items set out below, as well as for unused tax loss carryforwards/tax credits.

Deferred tax assets represent potential income tax benefits resulting from temporary differences between the carrying amounts of assets and liabilities in the consolidated balance sheet under IFRS and the related tax base in accordance with local tax regulations of Group companies.

	31 Mar 2007 in € million	31 Mar 2006 in € million	Change in %
Loans and advances to customers/ provision for possible loan losses	132.9	247.1	–46.2
Assets held for trading	45.6	47.8	–4.6
Investment securities	22.0	22.8	–3.5
Property and equipment	8.7	18.0	–51.7
Loss carryforwards	126.2	5.7	> 100.0
Liabilities to banks	1.3	1.2	8.3
Liabilities held for trading	356.8	351.6	1.5
Pension provisions	21.2	31.1	–31.8
Subordinated capital	–	–	–
Other balance sheet items	21.8	23.9	–8.8
Subtotal	**736.5**	**749.2**	**–1.7**
Set-off against deferred tax liabilities	–586.3	–578.5	1.3
Total	**150.2**	**170.7**	**–12.0**

Deferred tax assets and deferred tax liabilities were offset in accordance with IAS 12.

No deferred taxes were recognised for the following tax loss carryforwards, since the utilisation of these carryforwards is not reasonably probable.

	2006/07 in € million	2005/06 in € million	Change in %
Corporate income tax – loss carryforwards unrecognised as at the reporting date	0.0	2.3	–100.0
of which expire in 2009/10	0.0	0.7	–100.0
of which expire in 2010/11	0.0	1.6	–100.0
of which expire in 2011/12	–	–	–
of which may be carried forward for an unlimited period	–	–	–
Trade tax – loss carryforwards unrecognised as at the reporting date	3.4	3.3	3.0
of which may be carried forward for an unlimited period	3.4	3.3	3.0

Notes to Equity and Liabilities

(40) Liabilities to banks

	Total			Germany		Foreign countries	
	31 Mar 2007 in € million	31 Mar 2006 in € million	Change in %	31 Mar 2007 in € million	31 Mar 2006 in € million	31 Mar 2007 in € million	31 Mar 2006 in € million
Liabilities to banks payable on demand	1 278.2	443.2	> 100.0	1 245.2	434.9	33.0	8.3
Liabilities to banks (initial maturity < 4 years)	4 499.9	6 472.6	–30.5	2 649.3	5 161.8	1 850.6	1 310.8
Liabilities to banks (initial maturity ≥ 4 years)	8 134.4	7 144.7	13.9	7 790.9	6 789.8	343.5	354.9
Total	**13 912.5**	**14 060.5**	**–1.1**	**11 685.4**	**12 386.5**	**2 227.1**	**1 674.0**

Fixed-rate liabilities are hedged against interest rate risks by using derivatives (interest rate swaps). In order to achieve an appropriate recognition in the balance sheet and the income statement, corresponding fixed rate liabilities are accounted for under the fair value option upon initial recognition.

€ 660.7 million (prior year: € 525.6 million) of the liabilities to banks were allocated to the category *Financial liabilities at fair value through profit or loss* under the fair value option.

(41) Liabilities to customers

	Total			Germany		Foreign countries	
	31 Mar 2007 in € million	31 Mar 2006 in € million	Change in %	31 Mar 2007 in € million	31 Mar 2006 in € million	31 Mar 2007 in € million	31 Mar 2006 in € million
Liabilities to customers payable on demand	204.8	203.7	0.5	204.8	203.7	0.0	0.0
Liabilities to customers (initial maturity < 4 years)	978.0	255.1	> 100.0	758.8	254.4	219.2	0.7
Liabilities to customers (initial maturity ≥ 4 years)	3 095.0	2 087.2	48.3	3 074.3	2 064.6	20.7	22.6
Total	**4 277.8**	**2 546.0**	**68.0**	**4 037.9**	**2 522.7**	**239.9**	**23.3**

€ 1,872.4 million (prior year: € 1,153.6 million) of the liabilities to customers were allocated to the category *Financial liabilities at fair value through profit or loss* under the fair value option.

(42) Securitised liabilities

	31 Mar 2007 in € million	31 Mar 2006 in € million	Change in %
Bonds issued (initial maturity < 4 years)	30 713.3	22 719.3	35.2
less own bonds (initial maturity < 4 years)	18.1	18.9	–4.2
Subtotal (initial maturity < 4 years)	30 695.2	22 700.4	35.2
Bonds issued (initial maturity ≥ 4 years)	8 887.7	8 092.8	9.8
less own bonds (initial maturity ≥ 4 years)	27.4	32.3	–15.2
Subtotal (initial maturity ≥ 4 years)	8 860.3	8 060.5	9.9
Total	**39 555.5**	**30 760.9**	**28.6**

€ 3,652.8 million (prior year: € 2,903.2 million) of the securitised liabilities were allocated to the category *Financial liabilities at fair value through profit or loss* under the fair value option.

(43) Liabilities held for trading

This item exclusively includes derivatives with a negative fair value. As at 31 March 2007, liabilities held for trading amounted to € 1,164.7 million (previous year: € 1,021.4 million).

(44) Provisions for pensions and similar obligations

in € million	Opening balance at 31 Mar 2006	Pension payments	Additions			Recognition of actuarial gains(–)/ losses (+) directly in equity	Closing balance at 31 Mar 2007	Plan assets in acc. with IAS 19	Closing balance at 31 Mar 2007 (net)
			Current service cost	Interest cost	Total additions				
Defined benefit obligations	220.2	8.0	8.4	9.2	17.6	–20.0	209.8	207.4	2.4
Deferred compensation	3.4		0.8	0.1	0.9	–0.3	4.0	4.0	0.0
Early retirement plans	3.8	0.4	0.9	0.2	1.1		4.5	4.5	0.0
Deferred income accounts	0.0		0.3		0.3		0.3	0.0	0.3
Total	**227.4**	**8.4**	**10.4**	**9.5**	**19.9**	**–20.3**	**218.6**	**215.9**	**2.7**

The nature and the amount of pension payments to eligible employees are governed by the applicable pension rules (see also Note 17).

As at 31 March 2007, the present value of the pension obligations amounted to € 218.6 million (previous year: € 227.4 million). The decrease by € 8.8 million compared to the previous year is primarily attributable to actuarial gains of € 20.3 million (previous year: actuarial losses in the amount of € 19.0 million); of which € 21.9 million (previous year: € 14.0 million) are changes in actuarial parameters and bases of calculation and € -1.6 million (previous year: € 5.0 million) relate to changes in the number of beneficiaries. Taking into account the previous year amount

(€ 35.6 million), the actuarial losses total € 15.3 million as at the balance sheet date. They were recognised directly in equity as a component of the total obligations. Adjustments of the measurement parameters made during the reporting period mainly relate to the increase of the discount rate from 4.25% to 4.75%. In addition, minor changes occurred with respect to future salary increases and employee turnover.

Additions to provisions for defined benefit plans are composed of as follows:

in € million	2006/07	2005/06
Service cost	8.4	6.4
Interest cost	9.2	8.6
Other expenses from deferred compensation, early retirement plans, and deferred income accounts scheme	2.3	1.1
Subtotal	**19.9**	**16.1**
Amortisation of actuarial gains (-)/ losses (+)	–20.3	19.0
Total	**–0.4**	**35.1**

The calculation was based on the following actuarial assumptions:

in %	31 Mar 2007	31 Mar 2006
Discount rate	4.75	4.25
Expected increase of pensionable remuneration	3.0	2.0–3.0
Expected rates of pension increases (incl. inflation rate)	1.5	1.5
Employee turnover (by age groups)	1.0–5.5	0.9–5.4

The total value of the pension obligations as at the reporting date amounts to € 218.6 million. Spinning off assets used to cover pension obligations within the scope of the CTA involved cash funds in the amount of € 215.9 million. The corresponding pension obligations are fully covered by assets included in the CTA as at the reporting date. In accordance with IAS 19, the amount reported for pension obligations only includes those pension obligations not covered by corresponding assets. As at 31 March 2007, the reported pension obligations amount to € 2.7 million, corresponding to the pension obligations of IKB International S.A., the obligations under the 2006 Deferred Compensation Rules and the obligations under the deferred income accounts scheme.

The amounts will be invested in funds during the financial year 2007/08, since the trust agreements were signed only at the end of March 2007. Therefore, the development of the related plan assets in the financial year 2006/07 is not presented here. Accordingly, the income statement is impacted only in the financial year 2007/08.

The expected return on plan assets for the next financial year is based on the target allocation and the expected long-term return for each asset class (mainly fixed-income and equity funds). The expected contributions to plan assets are based on the future changes in the present value of the pension obligations. In general, the Company (as before) intends to achieve a full cover of the obligations by plan assets.

The obligations from the deferred income accounts scheme are matched by a fund investment in the amount of € 0.3 million entered into in November 2006. The changes in value and the resulting effects on the income statement until the balance sheet date are therefore of minor significance.

(45) Other provisions

in € million	Opening balance at 31 Mar 2006	Utilisation	Reversals	Additions	Reclassification	Currency translation adjustments	Closing balance at 31 Mar 2007	Change in %
Provisions for credit risks	42.8	10.4	15.2	21.9	–10.9	0.0	28.2	–34.1
Provisions for interests on taxes	11.5	0.0	0.0	3.0	0.0	0.0	14.5	26.1
Provisions for jubilee payments	4.1	0.1	0.0	0.7	0.0	0.0	4.7	14.6
Provisions for taxes (excl. income taxes)	2.5	1.9	0.0	0.6	0.1	0.0	1.3	–48.0
Litigation and recourse claims	0.6	0.0	0.3	0.0	0.0	0.0	0.3	–50.0
Other	14.5	8.2	0.8	3.4	–0.6	0.0	8.3	–42.8
Total	**76.0**	**20.6**	**16.3**	**29.6**	**–11.4**	**0.0**	**57.3**	**–24.6**

Provisions for jubilee payments were calculated by analogy with the procedure used for pension obligations on the basis of actuarial opinions prepared by independent actuaries, using the interest rate disclosed in Note 44.

Provisions for credit risks include provisions for risks related to off-balance sheet items such as guarantees.

At the time of the preparation of the financial statements, no information is available to us indicating that there will be an accumulation of maturities.

(46) Income tax liabilities

	31 Mar 2007 in € million	31 Mar 2006 in € million	Change in %
Germany	78.4	101.9	–23.1
Foreign countries	0.8	1.0	–20.0
Total	**79.2**	**102.9**	**–23.0**

(47) Other liabilities

	31 Mar 2007 in € million	31 Mar 2006 in € million	Change in %
Trade payables	107.2	82.9	29.3
Interest payable from subordinated capital	81.6	84.5	–3.4
Deferred taxes	16.7	36.8	–54.6
Deferred income	12.2	11.5	6.1
Remaining liabilities	53.3	48.1	10.8
Total	**271.0**	**263.8**	**2.7**

Other liabilities include deferred tax liabilities which were recognised in connection with the balance sheet items set out below.

Deferred tax liabilities represent potential income tax liabilities resulting from temporary differences between the carrying amounts of assets and liabilities in the consolidated balance sheet under IFRS and the related tax base in accordance with local tax regulations of Group companies.

	31 Mar 2007 in € million	31 Mar 2006 in € million	Change in %
Loans and advances to customers / provision for possible loan losses	231.7	309.0	–25.0
Assets held for trading	143.8	135.6	6.0
Investment securities	51.0	40.9	24.7
Property and equipment	0.4	8.8	–95.5
Liabilities	51.1	23.8	> 100.0
Liabilities held for trading	39.8	40.9	–2.7
Pension provisions	6.5	–	–
Other liabilities	42.9	31.9	34.5
Subordinated capital	24.6	11.6	> 100.0
Other balance sheet items	11.2	12.8	–12.5
Subtotal	**603.0**	**615.3**	**–2.0**
Set-off against deferred tax assets	–586.3	–578.5	1.3
Total	**16.7**	**36.8**	**–54.6**

Deferred tax assets and deferred tax liabilities were offset in accordance with IAS 12.

(48) Subordinated capital

	31 Mar 2007 in € million	31 Mar 2006 in € million	Change in %
Subordinated liabilities	1 444.9	1 265.1	14.2
Profit-participation certificates	590.4	643.3	–8.2
Silent partnership contributions / preferred shares	991.1	1 002.0	–1.1
Total	**3 026.4**	**2 910.4**	**4.0**

Subordinated liabilities

€ 350.0 million (prior year: € 125.0 million) of the subordinated liabilities mature after less than two years. As in the prior year, there is no tier 3 capital as defined in Section 10 of the KWG.

As at 31 March 2007, the Company had the following material subordinated liabilities (> € 100.0 million):

Start of term	Nominal amount in € million	Currency	Interest rate in %	Maturity
1999/2000	125.0	EUR	7.50	28 Dec 2007
2000/2001	150.0	EUR	6.00	27 Feb 2009
2003/2004	310.0	EUR	4.50	9 Jul 2013
2006/2007	160.0	EUR	4.00	23 Jan 2017

In the financial year 2006/07, interest expenses for subordinated liabilities amounted to € 62.9 million (prior year: € 58.1 million).

€ 580.2 million (prior year: € 600.2 million) of the subordinated liabilities were allocated to the category *Financial liabilities at fair value through profit or loss* under the fair value option.

Profit-participation certificates

	31 Mar 2007 in € million	31 Mar 2006 in € million	Change in %
Total	590.4	643.3	–8.2
of which: requirements of section 10 KWG	508.6	474.4	7.2
of which: due in less than 2 years	81.8	173.3	–52.8

Profit-participation certificates can be broken down as follows:

Year of issue	Nominal amount in € million	Currency of issue	Interest rate in %	Maturity
1995/1996	81.8	DM	8.40	31 Mar 2007
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

For the financial year 2006/07, interest on profit-participation certificates in the amount of € 37.3 million (prior year: € 41.7 million) was recognised as interest expenses.

€ 286.9 million (prior year: € 247.9 million) of the profit-participation certificates were allocated to the category *Financial liabilities at fair value through profit or loss* under the fair value option.

The Board of Managing Directors was authorised at the Annual General Meeting on 30 August 2002 to issue profit-participation certificates – also with embedded conversion or options rights – on one or more occasions until 30 August 2007, for a total nominal value of up to € 300 million and with a maximum maturity of 15 years. The Board used this authorisation to issue profit-participation certificates in a total amount of € 230 million in the financial years 2004/05 and 2005/06, as well as in the year under review. The holders of such profit-participation certificates may be granted conversion or options rights for an interest in the Company's share capital of up to € 22.5 million. No use has been made of this authorisation to date.

Silent partnership contributions / preferred shares

As at 31 March 2007, the carrying amount of silent partnership contributions was € 991.1 million (prior year: € 1,002.0 million). This includes preferred shares with a carrying amount of € 433.4 million (prior year: € 434.8 million) which were issued by two US subsidiaries exclusively formed for this purpose.

Silent partnership contributions are allocated to regulatory capital in accordance with Section 10 of the KWG. Under IFRS, they are classified as liabilities.

The interest expenses for silent partnership contributions / preferred shares amount to € 61.5 million (prior year: € 62.2 million) in the Group.

€ 746.0 million (prior year: € 757.0 million) of the silent partnership contributions / preferred shares were allocated to the category *Financial liabilities at fair value through profit or loss* under the fair value option.

(49) Shareholders' equity

	31 Mar 2007 in € million	31 Mar 2006 in € million	Change in %
Subscribed capital	225.3	225.3	–
Capital reserve	568.2	568.2	0.0
Retained earnings	323.7	273.0	18.6
Legal reserves	2.4	2.4	–
Other revenue reserves	321.3	270.6	18.7
Currency translation reserve	–15.2	–7.5	>100.0
Revaluation reserve	88.4	159.1	–44.4
Minority interests	0.2	0.2	0.0
Consolidated profit	–	74.8	–100.0
Total	**1 190.6**	**1 293.1**	**–7.9**

Subscribed capital

As at the balance sheet date, the subscribed capital (share capital) amounts to € 225,280,000.00 and is divided into 88,000,000 no-par value bearer shares. There are no preferences or restrictions with regard to the distribution of dividends.

At the Annual General Meeting on 31 August 2006, the Company was authorised to purchase treasury shares for the purposes of securities trading (up to 5% of the share capital). In addition, we were authorised to purchase treasury shares in an amount of up to 10% of the share capital until 31 January 2008 for purposes other than securities trading. At the option of the Board of Managing Directors, the shares may be purchased either via the stock market or through a public purchase offer directed to all shareholders of the Company. The purchased shares may be sold via the stock exchange or otherwise, or redeemed in whole or in part. No use has been made of this authorisation during the 2006/07 financial year.

During the financial year 2006/07, a total of 1,928,170 treasury shares were purchased at an average price of € 29.65 per share, and the same quantity was sold at an average price of € 29.68 per share. The net gains from these transactions total € 65,000 and have been recognised directly in equity under capital reserves. The largest amount of treasury shares held on any one day totalled 0.21% of the Company's share capital. Our affiliated companies did not sell or purchase IKB shares. No treasury shares were held by the Bank as at the reporting date.

In order to allow employees to purchase employee shares, 13,683 shares were purchased at an average price of € 27.60 in the year under review. 9,910 shares were resold to employees of IKB Deutsche Industriebank AG at a preferred price of € 13.20. A further 4,300 shares were acquired by employees of the Group, at the same conditions. The resulting expenses are offset against capital reserves.

Statement of changes in equity

2006/07 in € million	Opening balance as at 1 Apr 2006	Issue/ redemption of shares	Dividends paid	Changes in the scope of consoli-dation	Net income for the year	Currency translation differences	Actuarial gains and losses	Changes in the revaluation reserve	Closing balance as at 31 Mar 2007
Subscribed capital	225.3								225.3
Capital reserve	568.2	0.0							568.2
Retained earnings	273.0			1.0	37.8		11.9		323.7
Legal reserve	2.4								2.4
Other retained earnings	270.6			1.0	37.8		11.9		321.3
Currency translation reserve	–7.5					–7.7			–15.2
Revaluation reserve	159.1							–70.7	88.4
Minority interests	0.2				0.1			–0.1	0.2
Consolidated profit	74.8		–74.8		–				–
Total	**1 293.1**	**0.0**	**–74.8**	**1.0**	**37.9**	**–7.7**	**11.9**	**–70.8**	**1 190.6**

2005/06 in € million	Opening balance as at 1 Apr 2005	Issue/ redemption of shares	Dividends paid	Changes in the scope of consoli-dation	Net income for the year	Currency translation differences	Actuarial gains and losses	Changes in the revaluation reserve	Closing balance as at 31 Mar 2006
Subscribed capital	225.3								225.3
Capital reserve	568.0	0.2							568.2
Retained earnings	265.0			–4.7	34.0		–21.3		273.0
Legal reserve	2.4								2.4
Other retained earnings	262.6			–4.7	34.0		–21.3		270.6
Currency translation reserve	–11.0					3.5			–7.5
Revaluation reserve	191.6						10.0	–42.5	159.1
Minority interests	0.2				0.0				0.2
Consolidated profit	70.4		–70.4		74.8				74.8
Total	**1 309.5**	**0.2**	**–70.4**	**–4.7**	**108.8**	**3.5**	**–11.3**	**–42.5**	**1 293.1**

Revaluation reserve

in € million	
Opening balance at 31 Mar 2006	**159.1**
Unrealised gains/losses from investment securities available for sale	–32.6
Reclassification into income statement due to investment securities available for sale	–6.4
Changes in value due to discontinued hedging relationships recognised in income, in accordance with IFRS 1	–74.8
Deferred taxes on changes recognised directly in equity	43.1
Closing balance at 31 Mar 2007	**88.4**

In accordance with IFRS 1, the revaluation reserve includes a cash flow hedge reserve from the transition from HGB to IFRS totalling € 112.2 million (prior year: € 187.0 million).

Conditional capital / authorised capital

There is conditional capital totalling € 22.5 million for the purpose of granting conversion or option rights to the bearers of convertible bonds or bonds with warrants to be issued until 8 September 2009 with an aggregate nominal value of € 300 million. In addition, there is conditional capital totalling € 22.5 million for the purpose of granting conversion or option rights to the bearers of profit-participation certificates with conversion or option rights to be issued until 30 August 2007. Furthermore, an authorised capital totalling € 76.8 million was created. This authorisation expires on 30 August 2007.

No use has been made of these authorisations to date.

Regulatory indicators

As at the balance sheet date, the risk-weighted assets as well as capital ratios in the Group (including the capital ratio in accordance with the KWG – "Grundsatz I") are as follows:

	Weighting in %				
31 Mar 2007 in € million	100	50	20	10	Total
Balance sheet transactions	26 640	102	1 284	527	28 553
Off-balance sheet transactions	2 204	1 644	18	0	3 866
Derivative transactions in the banking book	0	143	185	0	328
Total risk-weighted assets	**28 844**	**1 889**	**1 487**	**527**	**32 747**
Amount attributable for market risk					750
Aggregate items for mandatory inclusion					**33 497**
Tier 1 capital					2 434
Tier 2 capital					1 726
Deductible items					–88
Liable capital [1]					**4 072**
Tier 3 capital					9
Unused but eligible Tier 3 capital					0
Eligible capital [2]					**4 081**
Tier 1 capital ratio (in %)					**7.1**
Capital ratio (in %)					**12.2**

[1] in accordance with Section 2 (1) in connection with Section 3 of principle I (Grundsatz I)
[2] in accordance with Section 2 (2 and 3) in connection with Section 3 of principle I (Grundsatz I)

IKB applies the transitional regulation in accordance with Section 339 (9) of the German Solvability Ordinance (Solvabilitätsverordnung; SolvV) and will continue to calculate regulatory indicators in accordance with principle I (Grundsatz I) of the KWG.

Notes to the Cash Flow Statement

In accordance with IAS 7, the cash flow statement analyses the changes in cash and cash equivalents classified by operating, investing and financing activities.

Cash flow from operating activities

This item includes payments related to loans and advances to banks and customers, as well as payments arising from securities of the trading portfolio and other assets attributable to operating activities. This item also includes changes in liabilities to banks and customers, securitised liabilities, and other liabilities attributable to operating activities as well as interest and dividend payments resulting from operating activities.

In addition, the cash flow from operating activities also reflects all other cash inflows and outflows which are not reported under cash flows from investing activities or cash flows from financing activities.

Cash flow from investing activities

The cash flow from investing activities includes cash payments or receipts for acquisitions and disposals of investments or securities as well as property and equipment. In addition, this item includes effects due to changes in the scope of consolidation.

Cash flow from financing activities

The cash flow from financing activities includes cash inflows and outflows from capital increases, dividend distributions and subordinated liabilities, as well as changes in reserves and minority interests.

Cash and cash equivalents in the reporting period are mainly composed of balances at central banks.

Segment Reporting

Segment reporting is based on the internal divisional accounting system, which is focused on financial control and forms part of IKB's management information system. The presentation of the primary reporting format is based on the internal organisational structure and the relevant management responsibilities.

In the primary reporting format, segment reporting is geared towards the Bank's divisions. Segment information is presented to show the divisions as independent enterprises responsible for their own earnings and costs, and with their own capital resources.

The operating divisions are:

- Corporate Clients
- Real Estate Clients
- Structured Finance and
- Securitisation.

In the Corporate Clients segment, we report income and expenses resulting from our activities with corporate customers. In addition to the traditional lending business with domestic corporate customers, this segment includes the activities in the areas of leasing moveable assets, private equity and capital market products for customers (ABS securitisation, promissory note loans and corporate bonds).

The Real Estate Clients segment comprises all components of our financing and service portfolio in the field of real estate, including all traditional real estate financings as well as the activities of our subsidiaries IKB Immobilien Management GmbH and IKB Projektentwicklung GmbH & Co. KG.

Our activities in the area of acquisition and project financing for domestic and foreign customers are subsumed in the Structured Finance segment, which also includes our subsidiary IKB Capital Corporation, New York.

In the Securitisation segment, we report the results from the Bank's activities in the fields of investments in international loan portfolios, advisory services to Group-external investors, and securitisation and outplacement of credit risks. This includes the results and volume components from the first-time consolidation of Rhineland Funding Capital Corporation. The previous year's figures have been restated accordingly.

In the column Head Office/Consolidation, we report the portion of the results attributable to the Treasury's investment decisions within the scope of asset-liability management. This includes investments in bonds and promissory note loans which are not attributable to the responsibility of operating business units as well as ELAN transactions. In addition, this segment includes the results from credit exposures which are no longer part of the strategic portfolio as well as the consolidation figures resulting from the reconciliation of the results of our operating divisions to the earnings measures used in external financial reporting.

Income and costs are allocated to the divisions in accordance with their respective profit responsibility. Net interest income from lending business is calculated using the market interest method and is allocated to the divisions on a calculatory basis. Since the divisions are regarded as independent entities equipped with their own capital resources, net interest income also comprises the investment income from this economic capital. Accordingly, an equity ratio of 4% based on the risk-weighted assets in accordance with the German Banking Act (Grundsatz I) is allocated to the divisions.

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

To the extent assignable to the divisions responsible, head office personnel and non-personnel administrative expenses are allocated to the divisions. Project costs are allocated to the divisions to the extent that the projects were directly attributable to them. Administrative expenses related to projects and corporate functions incurred for regulatory reasons are allocated to the Head Office/ Consolidation segment.

Each segment's earnings are represented by the operating result of the individual divisions. In addition, the results are recorded for the divisions using their return on equity and cost/income ratio. The return on equity is the ratio of the operating result to the average allocated equity. The cost/ income ratio is the ratio of administrative expenses to income.

	Corporate Clients		Real Estate Clients		Structured Finance		Securitisation		Head Office/ Consolidation		Total	
in € million	2006/07	2005/06	2006/07	2005/06	2006/07	2005/06	2006/07	2005/06	2006/07	2005/06	2006/07	2005/06
Net interest income	279.2	280.2	79.2	77.7	172.3	123.2	135.8	144.0	11.4	–14.6	677.9	610.5
Provision for possible loan losses	37.5	44.1	15.4	20.3	35.4	17.1	19.3	0.0	151.4	237.1	259.0	318.6
Net interest income after provision for possible loan losses	**241.7**	**236.1**	**63.8**	**57.4**	**136.9**	**106.1**	**116.5**	**144.0**	**–140.0**	**–251.7**	**418.9**	**291.9**
Net fee and commission income	12.9	14.3	8.0	8.0	36.1	23.9	0.6	–20.4	–5.6	4.6	52.0	30.4
Net income from financial instruments at fair value	23.2	19.7	3.4	1.2	1.9	0.3	–49.4	42.4	–20.0	–74.8	–40.9	–11.2
Net income from investment securities	2.4	0.0	0.0	0.0	0.0	0.0	0.4	6.0	4.1	7.1	6.9	13.1
General administrative expenses	150.8	139.4	41.5	34.4	65.8	52.4	30.2	22.9	27.9	19.9	316.2	269.0
Net other operating income	5.3	–0.4	1.4	0.0	1.6	0.3	–4.4	–3.8	–10.1	119.7	–6.2	115.8
Operating result	**134.7**	**130.3**	**35.1**	**32.2**	**110.7**	**78.2**	**33.5**	**145.3**	**–199.5**	**–215.0**	**114.5**	**171.0**
Cost/income ratio in %	46.7	44.4	45.1	39.6	31.1	35.5	36.4	21.0			45.8	41.9
Return on equity in %	21.0	21.6	18.2	17.0	33.9	35.2	63.2	96.9			9.4	13.8
Average allocated equity	640	602	193	189	327	222	53	51	5	175	1 218	1 239
Total loan volume	16 835	15 720	4 889	4 819	7 870	5 786	18 413	15 906	3 191	3 597	51 198	45 828
Volume of new business	4 756	4 168	1 299	1 007	5 270	3 468	1 175	2 108	312	556	12 812	11 307

The secondary reporting format is prepared according to the regional distribution of the locations of our branches or Group companies. Results and volumes from the first-time consolidation of Rhineland Funding Capital Corporation are shown under "America". Previous years' figures have been adjusted accordingly.

	Germany		Rest of Europe		Americas		Head Office/ Consolidation		Total	
in € million	2006/07	2005/06	2006/07	2005/06	2006/07	2005/06	2006/07	2005/06	2006/07	2005/06
Net interest income	411.7	403.0	181.6	147.7	73.2	74.4	11.4	–14.6	677.9	610.5
Provision for possible loan losses	85.2	65.5	22.4	14.8	0.0	1.2	151.4	237.1	259.0	318.6
Net interest income after provision for possible loan losses	**326.5**	**337.5**	**159.2**	**132.9**	**73.2**	**73.2**	**–140.0**	**–251.7**	**418.9**	**291.9**
Net fee and commission income	111.0	73.5	0.6	12.4	–54.0	–60.1	–5.6	4.6	52.0	30.4
Net income from financial instruments at fair value	32.7	3.5	10.1	17.8	–63.7	42.3	–20.0	–74.8	–40.9	–11.2
Net income from investment securities	2.6	6.0	0.2	0.0	0.0	0.0	4.1	7.1	6.9	13.1
General administrative expenses	242.7	212.5	40.6	32.6	5.0	4.0	27.9	19.9	316.2	269.0
Net other operating income	3.5	–1.1	4.5	0.7	–4.1	–3.5	–10.1	119.7	–6.2	115.8
Operating result	**233.6**	**206.9**	**134.0**	**131.2**	**–53.6**	**47.9**	**–199.5**	**–215.0**	**114.5**	**171.0**
Cost/income ratio in %	43.2	43.8	20.6	18.3	n. a.	7.5			45.8	41.9
Total loan volume	24 414	23 716	10 992	8 684	12 601	9 831	3 191	3 597	51 198	45 828

Notes to Financial Instruments

(50) Derivatives

IKB enters into forward transactions, which are mainly used to control and limit interest rate, credit and currency risks. These instruments are used for trading purposes only to a limited extent.

	Nominal amount			Fair value						
				Positive		Negative		Total		
	31 Mar 2007 in € million	31 Mar 2006 in € million	Change in %	31 Mar 2007 in € million	31 Mar 2006 in € million	31 Mar 2007 in € million	31 Mar 2006 in € million	31 Mar 2007 in € million	31 Mar 2006 in € million	Change in %
Interest rate derivatives	**30 679.7**	**30 322.2**	**1.2**	**305.7**	**325.9**	**894.9**	**895.5**	**–589.2**	**–569.6**	**3.4**
Remaining term of up to 1 year				134.7	149.5	104.1	68.5	30.6	81.0	–62.2
Remaining term of between 1 and 5 years				52.4	67.1	176.6	151.4	–124.2	–84.3	47.3
Remaining term of more than 5 years				118.6	109.3	614.2	675.6	–495.6	–566.3	–12.5
Credit derivatives	**10 167.1**	**2 418.6**	**320.4**	**125.3**	**33.9**	**124.8**	**24.1**	**0.5**	**9.8**	**–94.9**
Remaining term of up to 1 year				1.5	4.8	0.0	15.9	1.5	–11.1	
Remaining term of between 1 and 5 years				120.7	24.1	123.0	6.0	–2.3	18.1	
Remaining term of more than 5 years				3.1	5.0	1.8	2.2	1.3	2.8	–53.6
Currency derivatives	**8 200.4**	**6 694.7**	**22.5**	**155.0**	**102.0**	**145.0**	**98.8**	**10.0**	**3.2**	**>100.0**
Remaining term of up to 1 year				113.1	62.7	53.6	32.2	59.5	30.5	95.1
Remaining term of between 1 and 5 years				41.7	32.3	70.9	41.2	–29.2	–8.9	>100.0
Remaining term of more than 5 years				0.2	7.0	20.5	25.4	–20.3	–18.4	10.3
Equity derivatives	**0.0**	**0.0**	**–**	**0.0**	**0.5**	**0.0**	**3.0**	**0.0**	**–2.5**	**–100.0**
Remaining term of up to 1 year				0.0	0.0	0.0	0.0	0.0	0.0	
Remaining term of between 1 and 5 years				0.0	0.0	0.0	3.0	0.0	–3.0	–100.0
Remaining term of more than 5 years				0.0	0.5	0.0	0.0	0.0	0.5	–100.0
Total	**49 047.2**	**39 435.5**	**24.4**	**586.0**	**462.3**	**1 164.7**	**1 021.4**	**–578.7**	**–559.1**	**3.5**

The fair values are determined, as far as possible, on the basis of quoted market prices. If quoted market prices are not available, the fair values are determined using the discounted cash flow method, on the basis of a comparison with similar market transactions or other valuation models (e.g. option pricing model). The discounted cash flow method is based on the estimated future cash flows and applicable discount rates. The valuation models take into account parameters such as yield curves, spread curves and volatility factors. The fair values include interest accrued, in accordance with market practice.

The breakdown of derivatives by counterparties is as follows:

	Fair value 31 Mar 2007		Fair value 31 Mar 2006	
in € million	Positive	Negative	Positive	Negative
OECD banks	466.3	1 054.8	369.5	978.1
Other OECD companies and OECD private individuals	119.2	105.8	91.7	27.5
Non-OECD	0.5	4.1	1.1	15.8
Total	**586.0**	**1 164.7**	**462.3**	**1 021.4**

(51) Market price risks arising from trading activities

IKB's market price risks result from the positions of both the trading book and the banking book. The value at risk takes into account interest rate, volatility and share price risks, with only the maturity structure contribution being used as the basis in the credit and credit substitute business. 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 quantification of market price risks is based on mathematical-statistical methods in the form of value at risk, using a confidence level of 95% and a holding period of ten days. For the measurement of market price risks within the scope of own-account trading, we use a variance-covariance approach, extended by scenarios for derivatives.

The underlying statistical parameters are based on an observation period of the last 50 and 500 trading days.

Market price risks in the banking book are also measured pursuant to the historical simulation method on the basis of a present value concept. The underlying parameters correspond to a observation period of 250 trading days.

The amount of the market price risk of the Bank is limited by a limit system adopted by the Board of Managing Directors and is continuously monitored by our risk management function. Limits exist for the risk potential of the interest rate and volatility exposure and are monitored by risk controlling on a daily basis.

	Risk potential at confidence level of 95 %		
Portfolio	31 Mar 2007 in € million	31 Mar 2006 in € million	Change in %
Trading book	2.0	0.1	> 100.0
Banking book	50.9	163.2	–68.8
Group	**52.9**	**163.3**	**–67.6**

The calculation of market price risks arising from trading activities was changed during the financial year due to a change in the strategy to invest own funds. Taking this into account, the risk potential now amounts to € 101.1 million as at 31 March 2006.

In the past financial year, the limit for the risk potential was reduced, as was the utilisation of this limit.

(52) Credit risk concentration

Credit risk as at 31 March 2007 compared to the prior year is as follows:

	Total loan volume		
	31 Mar 2007 in € million	31 Mar 2006 in € million	Change in %
German customers	24 534.5	24 360.7	0.7
Production	12 414.1	12 251.1	1.3
Trade	2 404.3	2 557.7	–6.0
Services	6 951.0	7 372.1	–5.7
Transport	716.0	677.7	5.7
Other	2 049.1	1 502.1	36.4
Foreign customers	8 250.3	5 783.4	42.7
Production	3 752.8	2 973.2	26.2
Trade	565.6	488.2	15.9
Services	2 566.4	1 493.0	71.9
Transport	649.8	270.4	> 100.0
Other	715.7	558.6	28.1
Securitisation	18 413.6	15 684.3	17.4
Total	**51 198.4**	**45 828.4**	**11.7**

Detailed information about the risks associated with the Bank's activities can be found in the risk report, which is included in this Annual Report.

(53) Fair value of financial assets and liabilities

In accordance with IAS 32, the fair value (market value) of a financial asset or a financial liability is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable and willing parties in an arm's length transaction.

The fair value for financial instruments traded in an active market can be derived from the (quoted) market price as at the balance sheet date. The fair value was not separately calculated for cash reserves, as well as for current loans and advances and current liabilities where the carrying amount represents a reasonable approximation of fair value. The applicable carrying amount was used in these cases. Loans were measured taking into account current ratings, probabilities of default and collateral developments. The amortised carrying amounts were used for equity investments measured at equity. For all other financial assets and liabilities for which there is no liquid market, we used appropriate measurement models (amongst others, discounted cash flow method and option pricing models).

The following table is a comparison of the fair values and the corresponding carrying amounts.

	Fair value		Book value		Difference	
in € million	31 Mar 2007	31 Mar 2006	31 Mar 2007	31 Mar 2006	31 Mar 2007	31 Mar 2006
Assets						
Loans and advances to banks	4 441.7	2 195.4	4 441.9	2 197.1	–0.2	–1.7
Loans and advances to customers	29 293.7	27 797.7	29 685.0	28 017.7	–391.3	–220.0
Assets held for trading	2 208.5	586.0	2 208.5	586.0	–	–
Investment securities	27 113.5	23 085.4	27 265.0	23 174.2	–151.5	–88.8
Shareholders' equity and liabilities						
Liabilities to banks	13 810.6	13 945.9	13 912.5	14 060.5	–101.9	–114.6
Liabilities to customers	4 275.6	2 567.1	4 277.8	2 546.0	–2.2	21.1
Securitised liabilities	39 484.2	30 714.6	39 555.5	30 760.9	–71.3	–46.3
Liabilities held for trading	1 164.7	1 021.4	1 164.7	1 021.4	–	–
Subordinated capital	3 048.8	2 966.0	3 026.4	2 910.4	22.4	55.6
Sum of unrealised losses before risk shield					–390.0	–226.3

The difference between the carrying amount of the financial liabilities measured at fair value and the repayment amount is € 42.5 million (prior year: € 45.6 million).

Other Disclosures

(54) Subordinated assets

Assets have to be classified as subordinated assets when – in the case of the winding-up or the insolvency of the obligor – they may be repaid only after the receivables of other creditors.

Subordinated assets mainly comprise the following items:

	31 Mar 2007 in € million	31 Mar 2006 in € million	Change in %
Loans and advances to customers	505.2	394.9	27.9
Assets held for trading	0.4	–	–
Investment securities	423.7	191.9	> 100.0
Total	**929.3**	**586.8**	**58.4**

(55) Contingent assets/liabilities and commitments

Contingent liabilities include, amongst others, potential future liabilities of the Group which result from term credit facilities granted to customers that have not been utilised.

Income from guarantees and similar transactions are recognised in net fee and commission income. The amount to be recognised is determined on the basis of agreed rates from the nominal value of the guarantees.

Contingent liabilities and commitments of IKB can be broken down as follows:

	31 Mar 2007 in € million	31 Mar 2006 in € million	Change in %
Contingent liabilities	1 012.5	934.7	8.3
Guarantees, warranties, other	842.9	714.7	17.9
Assumptions of liability	169.6	220.0	–22.9
Other commitments	5 776.8	3 719.4	55.3
Commitments for up to one year	3 201.8	1 712.1	87.0
Commitments for more than one year	2 575.0	2 007.3	28.3
Total	**6 789.3**	**4 654.1**	**45.9**

Contingent liabilities are generally matched with contingent assets in the same amount.

Other commitments comprise loan commitments to special purpose entities for a total equivalent of € 933.3 million (previous year: € 810.9 million). These commitments can only be drawn upon by these entities in the case of short-term liquidity bottlenecks, or upon events of default (as defined in agreements entered into).

The figures presented reflect the amounts which would have to be paid out in case the customer fully draws on the relevant credit facility.

(56) Other financial commitments

In the Group, funding commitments arising from shares in public (AG) or private (GmbH) limited companies, and shares in affiliated companies which have not been fully paid up as well as from the shareholdings of IKB Private Equity and the subordinated loans, amount to € 46.8 million (previous year: € 35.7 million) as at the balance sheet date.

The Bank has a pro rata additional funding obligation for the investment in Liquiditäts-Konsortialbank GmbH, Frankfurt am Main, Germany. 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.

(57) Leases

Finance leases

Receivables from leasing transactions	31 Mar 2007 in € million	31 Mar 2006 in € million	Change in %
Gross investment value (maturities)			
up to 1 year	532.3	467.1	14.0
more than 1 year up to 5 years	1 124.3	974.3	15.4
more than 5 years	77.7	53.0	46.6
Gross investment value (total)	**1 734.3**	**1 494.4**	**16.1**
of which:			
Non-guaranteed residual values	55.9	35.8	56.1
Unearned finance income (maturities)			
up to 1 year	79.1	65.3	21.1
more than 1 year up to 5 years	111.2	86.4	28.7
more than 5 years	5.6	3.2	75.0
Unearned finance income (total)	**195.9**	**154.9**	**26.5**
Net investment value (maturities)			
up to 1 year	453.2	401.8	12.8
more than 1 year up to 5 years	1 012.8	887.9	14.1
more than 5 years	72.4	49.8	45.4
Net investment value (total)	**1 538.4**	**1 339.5**	**14.8**
Contingent rent recognised in income	6.4	5.7	12.3
Accumulated allowances for uncollectable minimum lease payments	–0.6	–5.4	–88.9

Future minimum lease payments from non-cancellable finance leases can be broken down by maturities as follows:

	31 Mar 2007 in € million	31 Mar 2006 in € million	Change in %
up to 1 year	486.1	426.6	13.9
more than 1 year up to 5 years	997.1	879.1	13.4
more than 5 years	75.0	50.7	47.9
Total	**1 558.2**	**1 356.4**	**14.9**

Operating leases

Future minimum lease payments to be received under non-cancellable operating leases can be broken down by maturities as follows:

	31 Mar 2007 in € million	31 Mar 2006 in € million	Change in %
up to 1 year	37.6	50.8	–26.0
more than 1 year up to 5 years	48.8	67.2	–27.4
more than 5 years	0.3	0.6	–50.0
Total	**86.7**	**118.6**	**–26.9**

As in the prior year, no contingent rents were recognised in profit or loss in the year under review.

IKB Leasing GmbH, Hamburg, has commitments from sale and leaseback transactions totalling € 7.4 million (prior year: € 18.5 million). The commitments are offset with corresponding claims against lessees.

The two administrative buildings in Düsseldorf were leased for a fixed lease term of 20 years under an operating lease agreement. The lease may be renewed on two occasions, each time for five years, at then applicable market conditions. In addition, IKB was granted a preferential purchase right and a preferential lease right. For the first three years of the lease agreement, a price escalation clause with a rate of 1% p.a. was agreed. As from the fourth year, a provision applies with regard to contingent rents pursuant to which the increase of the rents will be linked to changes in the consumer price index.

Future minimum lease payments to be paid by IKB from non-cancellable operating leases can be broken down as follows:

	31 Mar 2007 in € million	31 Mar 2006 in € million	Change in %
up to 1 year	14.7	12.7	15.7
more than 1 year up to 5 years	55.3	52.1	6.1
more than 5 years	185.5	196.7	–5.7
Total	**255.5**	**261.5**	**–2.3**

As before, IKB expects to receive rental payments of at least € 1.7 million p.a. from the sub-lease of parts of the administrative buildings to Group-external tenants.

(58) Letter of comfort

IKB ensures, excluding political risk, that its subsidiaries included in the list of shareholdings of IKB Deutsche Industriebank AG, and marked as being covered by the letter of comfort, will be able to meet their contractual obligations.

IKB Leasing GmbH, Hamburg, has issued letters of comfort on behalf of the subsidiaries IKB Leasing Hungaria Kft., Budapest, and IKB Penzüdyi Lizing Hungaria Rt., Budapest, to Commerzbank Rt., Budapest. A letter of comfort has also been issued to Bankhaus Carl Spängler & Co., Salzburg on behalf of IKB Leasing Austria GmbH, Salzburg.

(59) Disclosures related to collateral

Disclosures related to collateral provided for own liabilities and contingent liabilities

IKB has assigned or transferred assets and accepted collateral for the following liabilities:

	31 Mar 2007 in € million	31 Mar 2006 in € million	Change in %
Liabilities to banks	6 146.7	5 488.7	12.0
Liabilities to customers	18.3	20.0	–8.5
Total	**6 165.0**	**5 508.7**	**11.9**

We provide collateral above all for loans granted by KfW Banking Group and other development banks. These institutes have made the issue of such loans contingent upon the provision of collateral.

Fixed-income securities totalling € 6.0 billion (previous year: € 5.3 billion) have been pledged with Deutsche Bundesbank as collateral for the European Central Bank's repurchase agreement process (collateral pool). As at the balance sheet date, credit facilities amounting to € 0.8 billion (previous year: € 3.3 billion) had been drawn upon.

We have provided banks with cash collateral in connection with credit derivative transactions, in the amount of € 290.0 million (previous year: € 540.0 million).

We have provided cash collateral for interest rate derivatives as part of the Company's collateral management, in the amount of € 262.3 million (previous year: € 271.7 million).

In order to fulfil payment obligations for securities transactions, securities with a market value of € 3.5 million (previous year: € 3.5 million) have been deposited as collateral at Clearstream Banking AG, Frankfurt, and a security with a market value of € 7.0 million (previous year: € 7.0 million) has been deposited as collateral at Clearstream Banking S.A., Luxembourg. As part of futures trading at EUREX Deutschland, securities with a market value of € 20.0 million (previous year: € 5.0 million) have been pledged with BHF-Bank AG, Frankfurt/Main and Berlin, as well as to Citigroup, London, to cover margin requirements.

In addition, securities with an unchanged nominal amount of USD 67.0 million have been pledged with WestLB AG, London branch, as collateral within the scope of an issue. USD 390.1 million in securities have been pledged to KfW Banking Group as additional cover supporting joint business concepts.

Disclosures related to collateral received

IKB has received government bonds with a fair value of € 74.1 million as collateral. These securities may be re-sold or re-pledged. The securities are subject to a redemption obligation in the same amount, in accordance with normal conditions under securities repurchase agreements. These securities were re-pledged under repurchase agreements.

(60) Securities repurchase agreements

In the financial year 2006/07, the Bank entered into securities repurchase transactions for the first time. As at the balance sheet date, IKB as lender in genuine repurchase transactions (reverse repo transactions), had receivables from banks in the amount of € 75.1 million and, as borrower (repo transactions), liabilities to banks in the amount of € 75.2 million.

(61) Statement of changes in non-current assets

Non-current assets changed during the year under review as follows:

in € million	Property and equipment				Intangible assets	Equity investments/ associates/ affiliated companies	Total
	Leased assets from operating leases	Land and buildings and buildings under construction, excluding investment property held for sale	Operating and office equipment incl. low value assets	Investment property held for sale			
Cost							
Balance at 31 Mar 2006	216.1	110.7	55.0	10.1	55.7	278.2	**725.8**
Changes in the scope of consolidation	0.0	0.0	–1.2	0.0	0.0	0.0	**–1.2**
Exchange differences	0.1	0.0	0.0	0.0	0.0	0.0	**0.1**
Additions	61.4	16.8	10.7	0.0	20.1	170.8	**279.8**
Reclassifications	–34.7	0.0	0.1	0.0	0.0	0.0	**–34.6**
Disposals	67.2	28.3	4.1	0.0	0.6	148.9	**249.1**
Balance at 31 Mar 2007	175.7	99.2	60.5	10.1	75.2	300.1	**720.8**
Cumulative changes from the application of the equity method	0.0	0.0	0.0	0.0	0.0	4.6	**4.6**
Depreciation, amortisation, impairment and write-ups							
Balance at 31 Mar 2006	87.4	29.6	35.9	7.9	28.2	9.7	**198.7**
Changes in the scope of consolidation	0.0	0.0	–0.6	0.0	0.0	0.0	**–0.6**
Exchange differences	0.0	0.0	–0.1	0.0	0.0	0.0	**–0.1**
Depreciation and amortisation	32.0	1.7	7.2	0.0	9.7	0.0	**50.6**
Impairment	0.1	0.0	0.0	0.0	0.0	0.9	**1.0**
Write-ups	0.0	0.0	0.0	0.0	0.0	0.0	**0.0**
Reclassifications	–7.3	0.0	0.2	0.0	0.0	0.0	**–7.1**
Disposals	40.5	16.6	3.5	0.0	0.6	0.0	**61.2**
Balance at 31 Mar 2007	71.7	14.7	39.1	7.9	37.3	10.6	**181.3**
Cumulative fair value changes	0.0	0.0	0.0	0.0	0.0	–22.9	**–22.9**
Carrying amounts							
Balance at 31 Mar 2006	128.7	81.1	19.1	2.2	27.5	255.4	**514.0**
Balance at 31 Mar 2007	104.0	84.5	21.4	2.2	37.9	271.2	**521.2**

(62) Maturity groupings

The table below shows the structure of the maturities of assets and liabilities:

31 Mar 2007 in € million	up to 3 months	more than 3 months up to 1 year	more than 1 year up to 5 years	more than 5 years	Total
Loans and advances to banks	4 239.0	44.0	59.1	99.8	4 441.9
Loans and advances to customers	3 075.6	3 816.8	14 088.8	8 703.8	29 685.0
Assets held for trading	193.1	125.1	319.5	1 570.8	2 208.5
Investment securities	240.5	897.7	11 108.6	15 018.2	27 265.0
Total	**7 748.2**	**4 883.6**	**25 576.0**	**25 392.6**	**63 600.4**
Liabilities to banks	5 132.2	1 272.2	3 808.1	3 700.0	13 912.5
Liabilities to customers	996.1	117.1	1 047.1	2 117.5	4 277.8
Securitised liabilities	12 462.3	8 583.7	18 013.8	495.7	39 555.5
Liabilities held for trading	56.5	97.0	371.3	639.9	1 164.7
Subordinated capital	2.5	231.2	693.5	2 099.2	3 026.4
Total	**18 649.6**	**10 301.2**	**23 933.8**	**9 052.3**	**61 936.9**

31 Mar 2006 in € million	up to 3 months	more than 3 months up to 1 year	more than 1 year up to 5 years	more than 5 years	Total
Loans and advances to banks	2 147.6	9.0	34.2	6.3	2 197.1
Loans and advances to customers	3 735.2	3 242.0	13 001.7	8 038.8	28 017.7
Assets held for trading	164.3	44.5	217.9	159.3	586.0
Investment securities	372.9	873.5	8 273.8	13 654.0	23 174.2
Total	**6 420.0**	**4 169.0**	**21 527.6**	**21 858.4**	**53 975.0**
Liabilities to banks	6 618.2	1 083.7	3 203.9	3 154.7	14 060.5
Liabilities to customers	526.1	182.1	901.1	936.7	2 546.0
Securitised liabilities	9 738.5	5 839.7	14 676.9	505.8	30 760.9
Liabilities held for trading	39.6	58.3	200.5	723.0	1 021.4
Subordinated capital	92.0	0.0	871.3	1 947.1	2 910.4
Total	**17 014.4**	**7 163.8**	**19 853.7**	**7 267.3**	**51 299.2**

The maturity results from the period of time between the balance sheet date and the due date of each partial amount of an asset or a liability. If a repricing date occurs before the actual due date, this repricing date has been used as the due date.

(63) Foreign currency balances

The recognised foreign currency balances, translated into Euro, are shown in the following overview.

	31 Mar 2007 in € million	31 Mar 2006 in € million	Change in %
Foreign currency assets	18 652.4	8 275.2	>100.0
Foreign currency liabilities	18 393.7	8 310.9	>100.0

The exchange rates for the material currencies of IKB are presented in the following table.

Exchange rates (for € 1)	31 Mar 2007	31 Mar 2006	Change in %
USD	1.3318	1.2104	10.0
CHF	1.6247	1.5801	2.8

(64) Average number of employees during the financial year

	2006/07	2005/06	Change in %
Men	1 056	996	6.0
Women	672	630	6.7
Total	**1 728**	**1 626**	**6.3**

The average increase of 102 employees mainly results from further recruitment at subsidiaries, as well as market and central functions.

(65) Related party disclosures

KfW Banking Group continues to hold an interest of 37.8% in IKB. Accordingly, it is a related party within the meaning of IAS 24. The credit and refinancing transactions of IKB as well as its subsidiaries with KfW Banking Group were exclusively carried out on an arm's length basis and within the scope of development programmes of the KfW Banking Group generally available for all banks.

As at 31 March 2007, liabilities to banks include individual refinancing transactions of € 4.0 billion (prior year: € 3.6 billion) and global loans of € 1.7 billion (prior year: € 1.5 billion).

As at 31 March 2007, KfW Bankengruppe had provided to IKB Private Equity GmbH 10 (prior year: 23) guarantees, in a volume of € 13.2 million (prior year: € 23.0 million), and to IKB Equity Capital Fund I GmbH & Co. KG, a subsidiary of IKB Private Equity GmbH, seven guarantees in a volume of € 9.2 million (prior year: € 0.0 million). The guarantees of IKB Equity Capital Fund I GmbH & Co. KG were transferred by IKB Private Equity GmbH upon the spin-off as at 1 January 2007.

These guarantees exclusively relate to guarantee credits from different development programmes of KfW Bankengruppe for providers of equity. These development programmes are available at identical conditions for all providers of equity approved by KfW Banking Group. These terms and conditions vary depending on the relevant programme and the risk inherent to the investments. IKB Private Equity GmbH and IKB Equity Capital Fund I GmbH & Co. KG paid guarantee commissions for these guarantee credits to KfW Bankengruppe in the amount of € 2.1 million (prior year: € 1.2 million).

In addition, there is an individual investor's indemnity granted by KfW Banking Group in favour of IKB Private Equity GmbH amounting to € 5.9 million (prior year: € 13.0 million). The conditions of this agreement on the provision of equity capital were structured in line with the mezzanine fund jointly initiated in 2001 and reflect the fund's economic substance. The fund was dissolved in the financial year 2005/06. In the year under review, IKB paid guarantee commissions for these guarantee credits to KfW Bankengruppe in the amount of € 0.8 million (prior year: € 0.1 million).

The following overview shows related party transactions with the Bank's executive bodies in the corporate lending business:

Group of persons incl. close members of the family	Total loan volume (utilisation or amount of commitment) in € thousand		Average maturity in years		Average interest rate in %	
	31 Mar 2007	31 Mar 2006	31 Mar 2007	31 Mar 2006	31 Mar 2007	31 Mar 2006
Board of Managing Directors	–	–	–	–	–	–
Employee representatives on the Supervisory Board	177	57	6.2	4.8	4.1	4.0
Shareholder representatives on the Supervisory Board	400	700	1.3	2.3	5.3	4.1
Companies controlled by shareholder representatives	116 609	151 081	11.5	7.0	4.5	4.8
Total	**117 186**	**151 838**	**11.5**	**7.0**	**4.5**	**4.8**

All loans were granted at normal market conditions on the basis of IKB's standard principles of business and were secured either with real property liens or other collateral instruments. These exposures represent 0.3% (prior year: 0.4%) of total credit extended by the Group. No specific valuation allowances were recognised for these exposures.

The following table illustrates the remaining related party transactions which were also carried out at normal market conditions:

Group of persons	Type of transaction	Volume in € thousand		Average maturity in years		Average interest rate in %	
		31 Mar 2007	31 Mar 2006	31 Mar 2007	31 Mar 2006	31 Mar 2007	31 Mar 2006
Companies controlled by shareholders' representatives	Securities holding with IKB	11 900	11 900	3.0	4.0	8.0	8.0
Companies controlled by shareholders' representatives	Interest swaps	11 500	1 250	3.1	4.1	Variable payer, between 3m Euribor and 6m Euribor; receives 3.25 to 6m Euribor +/- basis points	Variable payer, between 3m Euribor and 6m Euribor; receives 3.25 and 3.68m as well as 6m Euribor + basis points

IKB has prepared a subordinate status report in accordance with Section 312 of the AktG. This report is not published. According to the final declaration of the Board of Managing Directors within the subordinate status report, "IKB received appropriate consideration for transactions identified in the report entered into with affiliated companies. This assessment was based on the conditions known to us at the time such reportable transactions were undertaken. We did neither take nor omit to take any measures within the meaning of Section 312 of the German Stock Corporation Act (AktG)."

Directors' dealings within the meaning of Section 15a of the German Securities Trading Act (*Wertpapierhandelsgesetz – WpHG*)

Below, we will provide an overview of directors' dealings as well as of transactions involving shares or related financial instruments of IKB Deutsche Industriebank AG, which were carried out with persons or companies classified as related parties to such directors.

Company	Position/relationship	Trading day/ exchange	Description of security	Trade type	Quantity	Share price in €
Hella KGaA Hueck & Co.	Dr. Jürgen Behrend, General Partner of Hella KGaA Hueck & Co. and a member of the Supervisory Board of IKB Deutsche Industriebank AG	22 Sep 2006 Frankfurt	IKB shares (unit shares)	Sale	17 850	27.23

As at 31 March 2007, there were no shareholdings required to be reported in accordance with Section 6.6 of the German Corporate Governance Code.

Loans and advances from, and liabilities to, subsidiaries, associates and other investees

The loans and advances from unconsolidated subsidiaries, associates and other investees can be broken down as follows:

	31 Mar 2007 in € million	31 Mar 2006 in € million	Change in %
Loans and advances to banks	**1.9**	**5.6**	**–66.1**
Subsidiaries	0.2	0.1	100.0
Associates and other investees	1.7	5.5	–69.1
Loans and advances to customers	**242.0**	**80.0**	**> 100.0**
Subsidiaries	0.0	–	–
Associates and other investees	242.0	80.0	> 100.0
Total	**243.9**	**85.6**	**> 100.0**

The liabilities to unconsolidated subsidiaries, associates and other investees can be broken down as follows:

	31 Mar 2007 in € million	31 Mar 2006 in € million	Change in %
Liabilities to banks	**5 848.0**	**5 095.3**	**14.8**
Subsidiaries	0.0	0.1	–100.0
Associates and other investees	5 848.0	5 095.2	14.8
Liabilities to customers	**6.7**	**0.3**	**> 100.0**
Subsidiaries	0.3	0.3	0.0
Associates and other investees	6.4	–	–
Total	**5 854.7**	**5 095.6**	**14.9**

(66) Remuneration and loans to 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.

The remuneration for the members of the Board of Managing Directors

For the financial year 2006/07, the remuneration of the entire Board of Managing Directors amounted to € 7,424 thousand, of which € 6,837 thousand related to annual remuneration, and € 587 thousand to additions to pension provisions (service costs).

Former and retired members of the Board of Managing Directors

The total remuneration for former and retired Board members and their surviving dependents amounted to € 5,622 thousand (prior year: € 3,147 thousand) in form of cash payments or additions to provisions. A total amount of € 37,227 thousand was provided for pension obligations to former members of the Board of Managing Directors and their surviving dependents.

The remuneration for the members of the Supervisory Board

For the financial year 2006/07, the remuneration of the entire Supervisory Board amounted to € 693 thousand, including € 183 thousand related to travel expenses and VAT.

Remuneration of the Advisory Board

The members of the Advisory Board received € 403 thousand (prior year: € 390 thousand), including VAT.

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

As at 31 March 2007, the Bank had extended loans to members of the Supervisory Board and of the Advisory Board in an aggregate amount of € 1.4 million (prior year: € 2.4 million).

(67) Corporate Governance Code

On 28 June 2006, the Board of Managing Directors and the Supervisory Board submitted the annual Declaration of Compliance within the meaning of Section 161 of the AktG and made it permanently available to shareholders on the Company's website.

(68) Events after 31 March 2007

We refer to the Group Management Report for information on events after the balance sheet date.

In addition, we would like to draw your attention to the following facts:

At the end of July 2007, IKB transferred the liquidity facilities granted to RFCC and to their affiliated purchasing entities, as well as its authority to issue instructions and its decision-making power, to KfW. These companies were deconsolidated as of that date due to the fact that control of these companies no longer existed, resulting in a decrease of the Group's restated total assets and total equity and liabilities by approx. € 13 billion compared to 31 March 2007. Almost the full amount of this decrease relates to investment securities and securitised liabilities.

The special purpose vehicle Rhinebridge plc, Dublin, which was brought to the capital market at the end of June 2007 and had to be consolidated originally, no longer fulfilled the eligibility criteria for treatment as a special purpose vehicle in mid-October. Subsequently, the Dublin stock exchange transferred the management of the Rhinebridge assets to a trustee for liquidation purposes. IKB has to assume that no interest and principal payments will be made for IKB's own exposure to the extent the payments exceed the KfW risk shield.

As a result of the current crisis in the market environment, indicators of market value may not be reliably used to determine fair transaction prices and loss estimates for securities and derivatives that directly or indirectly securitise risks from credit portfolios (in particular CLN, CDO, etc.); therefore, we cannot rule out that IKB will incur losses exceeding the risk shield for direct investments.

IKB issues are currently traded at significant discounts in the market. Since these liabilities are measured at fair value through profit or loss in the IFRS financial statements, they have a positive effect on earnings for the financial year 2007/08 currently in the amount of approx. € 0.8. billion (as at 31 December 2007). Until the scheduled repayment of these financial instruments, measurement gains will result in a charge of the same amount to be recognised in net income from financial instruments at fair value.

Early in 2008, IKB issued a mandatory convertible bond that may be converted during the term of the bond into IKB shares up to the equivalent of 10% of IKB's issued share capital. Shareholders' pre-emptive subscription rights have been excluded: the convertible bond will be subscribed in full by KfW Banking Group. After conversion, IKB's issued share capital will increase from € 225 million to a maximum of € 247.5 million, and will be divided into 96,800,000 (previously: 88,000,000) notional no-par value shares (Stückaktien – "unit shares"). As a result of the conversion, the stake held by KfW in IKB's issued share capital will increase to a maximum of 43.4% (up from 37.8% prior to conversion).

(69) 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

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

b) Henkel KGaA

Deputy Chairman

Hans W. Reich, Frankfurt (Main)
Chairman of the Board of Managing Directors of
KfW Bankengruppe (retired)
(until 31 August 2006)

a) Aareal Bank AG (Chairman)
HUK-COBURG Haftpflicht-Unterstützungs-Kasse kraftfahrender Beamter Deutschlands a.G.
HUK-COBURG-Holding AG
ThyssenKrupp Steel AG

b) Citigroup Inc.
DePfa Bank plc.

Detlef Leinberger, Frankfurt (Main)
Member of the Board of Managing Directors of
KfW Banking Group
(from 31 August 2006)

b) Europäische Investitionsbank (EIB)

Dr. Alexander v. Tippelskirch, Düsseldorf
Deputy Chairman of the Supervisory Board
IKB Deutsche Industriebank AG

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
Meyra GmbH & Co. KG
nobilia-Werke J. Stickling GmbH & Co.
Schmolz & Bickenbach KG
Schmolz & Bickenbach AG
Hans Martin Wälzholz-Junius Familienstiftung
Eckart Wälzholz-Junius Familienstiftung
Dietrich Wälzholz Familienstiftung

Members

Dieter Ammer, Hamburg
Chairman of the Board of Managing Directors of
Conergy AG

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

Jörg Asmussen, Berlin
Ministry Director in the
German Federal Ministry of Finance

a) Euler Hermes Kreditversicherungs-AG
Postbank AG

b) Bundesanstalt für Finanzdienstleistungsaufsicht
(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 (until April 2007 traded under
GfW Gesellschaft für Wirtschaftsförderung
Nordrhein-Westfalen 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.

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)
IDUNA Vereinigte Lebensversicherung aG
SIGNAL IDUNA Holding AG

b) BBE Unternehmensberatung GmbH (Chairman)
(until March 2007)

Dr.-Ing. Mathias Kammüller, Ditzingen
Chairman of the Management of
TRUMPF Werkzeugmaschinen GmbH + Co. KG

a) Carl Zeiss AG

b) Bürkert GmbH & Co. (until 31 December 2008)
HUBER VERPACKUNGEN GmbH & Co. KG
Viessmann Werke GmbH & Co. KG
Freudenberg & Co. Kommanditgesellschaft

Wilhelm Lohscheidt, Düsseldorf
(until 31 August 2006)
Employee representative

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, Munich
Managing Partner of
Optische Werke G. Rodenstock 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) European Aeronautic Defence and
Space Company EADS N.V. (until December 2007)
Freudenberg & Co.

Jochen Schametat, Düsseldorf
(from 31 August 2006)
Employee representative

Dr. Carola Steingräber, Berlin
Employee representative

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

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

Ulrich Wernecke, Düsseldorf
Employee representative

Andreas Wittmann, Munich
Employee representative

Board of Managing Directors

Dr. Günther Bräunig
(from 29 July 2007)

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

Frank Braunsfeld
(from 1 March 2007 until 15 October 2007)

b) IKB Credit Asset Management GmbH
IKB Capital Corporation
IKB Immobilien Management GmbH

Dr. Volker Doberanzke
(from 1 June 2006 until 7 August 2007)

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

Dr. Dieter Glüder
(from 29 July 2007)

b) IKB Credit Asset Management GmbH (Chairman)
IKB International S.A. (Chairman)
IKB Autoleasing GmbH
IKB Capital Corporation
IKB Leasing Berlin GmbH
IKB Leasing GmbH

Dr. Reinhard Grzesik
(from 15 October 2007)

b) IKB Immobilien Management GmbH (Chairman)
IKB Data GmbH
Movesta Lease and Finance GmbH

Dr. Markus Guthoff
(until 15 October 2007)

a) Carl Zeiss Meditec AG

b) IKB Capital Corporation (Chairman)
IKB Credit Asset Management GmbH (Deputy Chairman)
IKB Private Equity GmbH (Chairman until 31 March 2007)
IKB International S. A. (from 1 April 2007)
Movesta Lease and Finance GmbH
Poppe & Potthoff GmbH

Claus Momburg

b) IKB Autoleasing GmbH (Chairman)
IKB Credit Asset Management GmbH
(Deputy Chairman from 26 October 2007)
IKB International S. A. (Deputy Chairman)
IKB Leasing Berlin GmbH (Chairman)
IKB Leasing GmbH (Chairman)
IKB Private Equity GmbH (Chairman from 1 April 2007)
Movesta Lease and Finance GmbH (Deputy Chairman)
Argantis GmbH

Joachim Neupel
(until 31 December 2006)

a) Aareal Bank AG

b) IKB Immobilien Management GmbH (Chairman)
Movesta Lease and Finance GmbH (Chairman)
IKB Leasing GmbH
IKB Leasing Berlin GmbH
IKB Autoleasing GmbH
IKB Private Equity GmbH

Stefan Ortseifen
(until 29 July 2007)

a) Coface Deutschland AG
Coface Holding AG

b) IKB International S. A. (Chairman)
IKB Credit Asset Management GmbH (Chairman)
DEG – Deutsche Investitions- und Entwicklungsgesellschaft mbH (Deputy Chairman)
IKB Autoleasing GmbH (Deputy Chairman)
IKB Capital Corporation (Vice Chairman)
IKB Leasing Berlin GmbH (Deputy Chairman)
IKB Leasing GmbH (Deputy Chairman)
IKB Private Equity GmbH (Deputy Chairman)
Kreditanstalt für Wiederaufbau

Frank Schönherr
(until 30 November 2006)

b) IKB Capital Corporation (Chairman)
IKB Financière France S.A.
(Président Directeur Général)

Offices held by employees

As at 31 March 2007, the following employees were represented in statutory supervisory boards of large corporations:

Rolf Brodbeck
Spiele Max AG

Roland Eschmann
Oechsler AG
ODS Optical Disc Service GmbH

Stefan Haneberg
MASA AG

Klaus Reineke
(until 30 September 2007)
GKD Gebr. Kufferath AG

(69) Shareholdings

	Letter of comfort	Equity interest in %	Financial year	Equity in € thousand
A. Consolidated subsidiaries				
1. Foreign banks				
IKB International S.A., Luxemburg	x	100[1)]	1 Apr - 31 Mar	530 652[2)]
2. Other German companies				
AIVG Allgemeine Verwaltungsgesellschaft mbH, Düsseldorf	x	100	1 Jan - 31 Dec	5 811
ICCO Grundstücks-Vermietungsgesellschaft mbH & Co. KG, Düsseldorf [3)]	x	100[1)]	1 Apr - 31 Mar	60
ICCO Grundstücks-Vermietungsgesellschaft mbH, Düsseldorf	x	100[1)]	1 Apr - 31 Mar	42
IKB Autoleasing GmbH, Hamburg	x	100[1)]	1 Apr - 31 Mar	4 000
IKB Beteiligungen GmbH, Düsseldorf	x	100	1 Apr - 31 Mar	401 515
IKB Credit Asset Management GmbH, Düsseldorf	x	100	1 Apr - 31 Mar	8 000
IKB Data GmbH, Düsseldorf	x	100	1 Apr - 31 Mar	20 000
IKB Equity Capital Fund I GmbH & Co. KG, Düsseldorf	x	100[1)]	1 Apr - 31 Mar	98 046
IKB Equity Finance GmbH, Düsseldorf		100[1)]	1 Apr - 31 Mar	25
IKB Erste Equity Suporta GmbH, Düsseldorf		100[1)]	1 Apr - 31 Mar	6 017
IKB Grundstücks GmbH & Co. Objekt Degerloch KG, Düsseldorf [3)]	x	100	1 Jan - 31 Dec	6 663
IKB Grundstücks GmbH & Co. Objekt Hamburg KG, Düsseldorf [3)]	x	100	1 Jan - 31 Dec	2 715
IKB Grundstücks GmbH & Co. Objekt Holzhausen KG, Düsseldorf [3)]	x	100	1 Jan - 31 Dec	9 734
IKB Grundstücks GmbH & Co Objekt Uerdinger Straße KG, Düsseldorf [3)]	x	100	1 Jan - 31 Dec	8 620
IKB Grundstücks GmbH, Düsseldorf	x	100	1 Jan - 31 Dec	89
IKB Immobilien Management GmbH, Düsseldorf	x	75	1 Jan - 31 Dec	948
IKB Leasing Berlin GmbH, Erkner	x	100[1)]	1 Apr - 31 Mar	8 000
IKB Leasing GmbH, Hamburg	x	100[1)]	1 Apr - 31 Mar	30 000
IKB Private Equity GmbH, Düsseldorf	x	100[1)]	1 Apr - 31 Mar	90 000
IKB Projektentwicklung GmbH & Co. KG, Düsseldorf[3)]	x	100	1 Jan - 31 Dec	20 040
IKB Projektentwicklungsverwaltungsges. mbH, Düsseldorf	x	100	1 Jan - 31 Dec	22
IMAS Grundstücks-Vermietungsges. mbH, Düsseldorf	x	100	1 Apr - 31 Mar	268
ISOS Grundstücks-Vermietungsgesellschaft mbH & Co. KG, Düsseldorf [3)]	x	100[1)]	1 Apr - 31 Mar	310
ISOS Grundstücks-Vermietungsgesellschaft mbH, Düsseldorf	x	100[1)]	1 Apr - 31 Mar	42
ISTOS Beteiligungsverwaltungs- und Grundstücks-vermietungsges. mbH, Düsseldorf	x	100	1 Jan - 31 Dec	34
ISTOS Erste Beteiligungsverwaltungs- und Grundstücks-vermietungsges. mbH & Co. KG, Düsseldorf [3)]	x	100	1 Jan - 31 Dec	2 485

	Letter of comfort	Equity interest in %	Financial year	Equity in € thousand
3. Other foreign companies				
IKB Capital Corporation, New York		100	1 Jan - 31 Dec	48 508
IKB Finance B. V., Amsterdam	x	100	1 Apr - 31 Mar	11 060
IKB Financière France S.A., Paris	x	100	1 Jan - 31 Dec	72 083
IKB Funding LLC I, Wilmington, Delaware	x[4)]	100	1 Apr - 31 Mar	75 057
IKB Funding LLC II, Wilmington, Delaware	x[4)]	100	1 Apr - 31 Mar	400 064
IKB Leasing Austria GmbH, Salzburg	x	100[1)]	1 Jan - 31 Dec	1 276
IKB Leasing ČR s.r.o., Prag	x	100[1)]	1 Jan - 31 Dec	2 215
IKB Leasing France S.A.R.L., Marne	x	100[1)]	1 Jan - 31 Dec	1 130
IKB Leasing Hungária Kft., Budapest	x	100[1)]	1 Jan - 31 Dec	1 844
IKB Leasing Polska Sp.z o.o., Posen	x	100[1)]	1 Jan - 31 Dec	4 579
IKB Leasing SR s.r.o., Bratislava	x	100[1)]	1 Jan - 31 Dec	798
IKB Lux Beteiligungen S. á.r.l., Luxemburg	x	100	1 Apr - 31 Mar	428 878
IKB Penzüdyi Lizing Hungária Rt., Budapest	x	100[1)]	1 Jan - 31 Dec	1 267
Still Location S.A.R.L., Marne	x	100[1)]	1 Jan - 31 Dec	9 527
B. Joint ventures / associates				
Linde Leasing GmbH, Wiesbaden		30[1)]	1 Jan - 31 Dec	21 318
Movesta Lease and Finance GmbH, Düsseldorf		50[1)]	1 Jan - 31 Dec	10 335

[1)] Indirect interest
[2)] Incl. silent partnership contributions/preferred shares
[3)] Company did not prepare separate notes to its financial statements in accordance with Section 264b of the HGB
[4)] Subordinated letter of comfort

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

The following list is an overview of the assets and liabilities of associated companies:

Name of associates in € million	Assets	Liabilities
Linde Leasing GmbH, Wiesbaden	398	377
Movesta Lease and Finance GmbH, Düsseldorf	23	13

Düsseldorf, 15 February 2008
IKB Deutsche Industriebank AG
Düsseldorf
The Board of Managing Directors

Auditors' Report

We have audited the consolidated financial statements prepared by IKB Deutsche Industriebank AG, Düsseldorf, comprising the balance sheet and the income statement, the preparation of the recorded income and expenses, capital flow statement and notes, and the group management report for the business year from April 1, 2006 to March 31, 2007. The preparation of the consolidated financial statements and of the group management report in accordance with IFRS as applicable in the EU and the supplementary provisions to be applied under § 213a, para. 1 of HGB (German Commercial Code) is the responsibility of the company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report, based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (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 consolidated financial statements in accordance with principles of proper accounting and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group 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 consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the group 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 consolidated financial statements comply with the IFRS applicable in the EU and the supplementary provisions to be applied under § 315a, para. 1 of HGB (German Commercial Code) and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

We issue our auditor' s report on the basis of our proper audit completed on June 4, 2007 and on our supplementary audit which related to changes in the items of the consolidated balance sheet and consolidated income statement (cf. section "changes under IAS 8") and to the change of the management report. In the changed notes reference is made to the reasons given by the company for these changes. The supplementary audit did not result in any objections.

Without qualifying this opinion we refer to the comments made by the company in the group management report (section 2 of the forecast report) in which it has been pointed out that the continued existence of the company is dependent on its ability to achieve greater access to the capital market again in the next business year also for unsecured longer-term refunding. For this purpose, it is particularly necessary that

- the planned capital increase is approved in the required amount, entered in the Commercial Register and carried out promptly;
- the measures planned to generate liquidity, especially new borrowing necessary on a short term basis and the extension of secured money market refunding, are implemented;
- a significant portion of portfolio investments is disposed of, and
- no legal action is taken against the measures set out above, or against the entire risk shield, this applies in particular to any action taken by the EU.

Düsseldorf, June 4, 2007/February 15, 2008

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Wohlmannstetter
Wirtschaftsprüfer

Ufer
Wirtschaftsprüfer

Development of Key Financial Indicators

Development of key items of the Consolidated Income Statement of IKB Deutsche Industriebank AG in accordance with IFRS

Consolidated Income Statement in € million	2006/07	2005/06	2004/05*
Interest income	3 758.5	2 681.9	2 664.5
Interest expenses	3 080.6	2 071.4	2 142.9
Net interest income	677.9	610.5	521.6
Provision for possible loan losses	–259.0	–318.6	–313.8
Net interest income after provision for possible loan losses	418.9	291.9	207.8
Net fee and commission income	52.0	30.4	83.6
Net income from financial instruments at fair value	–40.9	–11.2	–
Net income from investment securities	6.9	13.1	135.7
Personnel expenses	185.8	162.8	139.6
Other administrative expenses	130.4	106.2	96.3
Net other operating income	–6.2	115.8	9.3
Operating result	114.5	171.0	200.5
Taxes	76.6	62.2	45.1
Net income for the year	37.9	108.8	155.4
Minority interests	–0.1	0.0	–0.3
Net income after minority interests	37.8	108.8	155.1
Earnings per share €	0.43	1.24	1.76

* The consolidated income statement for the financial year 2004/05 was prepared without applying IAS 32 and IAS 39.

Development of key items of the Consolidated Income Statement of IKB Deutsche Industriebank AG in accordance with the German Commercial Code (HGB)

Consolidated Income Statement in € million	2003/04	2002/03	2001/02	2000/01	1999/2000	1998/99	1997/98	1996/97
Interest income, income from leasing transactions	3 251.6	3 223.2	3 215.2	3 097.6	2 524.3	2 334.3	2 138.9	2 093.6
Current income from securities, investments and profit transfer agreements	2.0	1.8	4.8	2.7	36.7	12.9	20.0	11.0
Interest expenses, expenses and scheduled depreciation from leasing transactions	2 728.2	2 740.0	2 748.7	2 661.6	2 141.3	1 953.6	1 793.7	1 753.9
Net interest income	525.4	485.0	471.3	438.7	419.7	393.6	365.2	350.7
Net commission income	84.7	64.1	39.5	12.3	7.7	8.8	7.6	5.6
Net result from financial operations	3.2	0.8	1.9	2.5	–2.6	6.6	8.1	4.9
Personnel expenses	146.8	137.8	133.4	117.2	107.2	87.4	82.5	78.6
Other administrative expenses including depreciation of tangible fixed assets	85.4	82.1	73.1	66.0	59.1	51.3	49.6	41.4
Net other operating income/expenses	11.2	20.2	29.3	91.8	77.8	–3.5	–8.1	–12.0
Risk provisioning balance	–211.7	–183.4	–175.2	–187.2	–165.5	–88.4	–78.7	–80.6
Result from ordinary activities	180.6	166.8	160.3	174.9	170.8	178.4	162.0	148.6
Other income/expenses	–	–	–	–1.5	–10.0	–3.1	–7.7	–
Taxes	75.8	81.0	77.2	87.5	85.3	84.3	77.9	74.6
Net income	104.8	85.8	83.1	85.9	75.5	91.0	76.4	74.0
Earnings per share €	1.19	0.98	0.94	0.98	0.86	1.03	0.87	0.84

Development of key items of the Consolidated Balance Sheet of IKB Deutsche Industriebank AG in accordance with IFRS

Consolidated Balance Sheet in € million	31 Mar 2007	31 Mar 2006	31 Mar 2005*
Loans and advances to banks	4 442	2 197	1 381
Loans and advances to customers	29 685	28 018	26 628
Provision for possible loan losses	–1 095	–1 412	–1 378
Assets held for trading	2 209	586	766
Investment securities	27 265	23 174	10 757
Property and equipment	212	231	338
Remaining assets	820	468	1 011
Liabilities to banks	13 912	14 060	12 170
Liabilities to customers	4 278	2 546	1 982
Securitised liabilities	39 556	30 761	18 861
Liabilities held for trading	1 165	1 021	1 100
Provisions	60	303	254
Income tax liabilities	79	103	142
Other liabilites	271	264	850
Subordinated capital	3 026	2 910	2 834
Shareholders' equity	1 191	1 293	1 310
Subscribed capital	225	225	225
Capital reserve	568	568	568
Retained earnings	324	273	265
Currency translation reserve	–15	–7	–11
Revaluation reserve	89	159	192
Minority interests	0	0	0
Consolidated profit	0	75	71
Total	**63 538**	**53 262**	**39 503**

* For the sake of a better comparability with the consolidated balance sheet as at 31 March 2006, the comparative prior year figures as at 31 March 2005 were adjusted by the effects from the first-time adoption of IAS 32 and IAS 39 as at 31 March 2005.

Development of key items of the Consolidated Balance Sheet of IKB Deutsche Industriebank AG in accordance with the German Commercial Code (HGB)

Consolidated Balance Sheet in € million	31 Mar 2004	31 Mar 2003	31 Mar 2002	31 Mar 2001	31 Mar 2000	31 Mar 1999	31 Mar 1998
Loans and advances to banks	1 238	2 140	1 605	804	1 650	2 273	1 641
Loans and advances to customers	24 116	24 803	24 600	24 276	22 635	22 188	20 771
Bonds, notes and other fixed-income securities	8 211	5 927	4 928	3 814	2 652	1 629	1 364
Equities and other non-fixed income securities	87	38	38	36	13	153	139
Investments, interests in affiliated companies	78	45	47	44	91	176	174
Tangible fixed assets	262	245	215	212	214	223	223
Leased assets	2 231	2 466	2 346	2 239	2 114	462	451
Deferred items	108	136	139	153	164	158	166
Other assets including cash reserve	625	610	956	862	408	399	240
Liabilities to banks	15 112	16 223	15 436	15 182	13 181	13 991	11 876
Liabilities to customers	2 228	2 019	2 250	2 411	2 414	2 501	2 482
Securitised liabilities	14 734	13 700	12 975	10 825	10 803	8 280	8 053
Provisions	310	337	301	282	266	237	235
Subordinated liabilities	1 042	632	868	803	582	472	473
Profit-participation certificates	563	614	624	439	439	419	419
Fund for general banking risks	80	80	80	80	80	77	8
Equity	1 962	1 729	1 296	1 270	1 187	1 049	1 022
Subscribed equity	225	225	225	225	225	225	225
Hybrid capital	820	620	170	170	100	–	–
Reserves	919	873	887	848	817	824	797
Minority interest	–2	11	14	27	45	–	–
Deferred items	316	456	469	514	498	297	299
Other liabilities including consolidated profit	609	620	575	634	491	338	302
Total	**36 956**	**36 410**	**34 874**	**32 440**	**29 941**	**27 661**	**25 169**

Financial Glossary

Amortised cost
The amount at which a financial asset or financial liability can be recognised in the balance sheet. Amortised cost results from the value of the asset or liability at initial recognition, minus principal repayments, plus or minus amortisation of premiums/discounts in accordance with the effective interest method, and minus any write-downs.

Assets and liabilities held for trading
Balance sheet item under which financial instruments held for trading purposes are recognised.

Associated company
Investments in companies where the investor has significant influence over the investee in accordance with IAS 28.

At equity
Cf. Equity method

Cash flow hedge
Hedges of recognised assets and liabilities, as well as of future transactions, against changes in cash flows resulting from certain risks.

Certificate of deposit
Debt instrument in bearer form, which certifies that a term deposit has been accepted. The deposit is repaid after an agreed term has expired.

Classification
Allocating financial instruments to one of the four different categories as defined in IAS 39: Financial assets or liabilities at fair value through profit or loss with the sub-category Financial assets or liabilities held for trading and the Fair value option, Financial assets held to maturity, Loans and receivables as well as Financial assets available for sale with corresponding implications on recognition and measurement.

Collateralised loan obligations (CLO)
Securitisation of loan assets, which are restructured and prepared for investors by means of securitisation structures (e.g. different risk classes of a CLO transaction). Credit-linked notes and, as another option, credit default swaps are used as risk transfer instruments.

Commercial paper (CP)
Short-term security, generally issued on a discounted basis. Commercial papers are issued by banks and large industrial companies, amongst others. A commercial paper is used as a refinancing instrument, particularly as an alternative to pure interbank business.

Conduit
A conduit is an investment company, frequently with registered offices in Delaware/USA or Jersey/UK, established for the purpose of acquiring receivables of various types. Asset-backed commercial papers (ABCP) are issued on an ongoing basis for refinancing purposes. These ABCP programmes are generally rated by one or more rating agencies, and normally have a high credit quality.

Confidence level
Probability of a potential loss being in the range defined by the VaR (see *ibidem*).

Contingent liabilities
Contingent liabilities are liabilities which may occur in future and which relate to a past event, but which give rise to an actual obligation only upon occurrence or non-occurrence of one or more uncertain future events. This includes already existing obligations which are not likely to result in an outflow of resources, or where a reliable estimate of the obligation cannot be made.

Contractual Trust Arrangement (CTA)
Separation of the assets required to meet the pension benefit claims from the remaining company assets and transfer to a trustee. Thus, the trustee becomes the legal owner of the transferred funds which it must hold and manage in accordance with the trust agreement. The funds are exclusively used in accordance with the contractual purpose.

Corporate governance
Guidelines relating to the management and supervision (governance) of companies, which are designed to increase transparency and thus to enhance confidence in responsible management of companies.

Credit default swap (CDS)
The protection provider makes a compensation payment (cash settlement) to the protection purchaser if a defined credit event on the part of the obligor of the underlying obligation occurs. The protection provider receives a corresponding premium for accepting the credit risk, whether or not the credit event actually occurs.

Credit derivative
Derivative financial instrument which allows one involved party (the risk seller or protection purchaser) to transfer the credit risk associated with a receivable or a security to another party (risk buyer or protection provider) against payment of a premium. The risk buyer consequently bears all or a part of the risk without actually acquiring the underlying transaction (see CLN, CDS, TRS).

Credit-linked note (CLN)
A debt security issued by the protection purchaser which is repaid at its nominal value on maturity only if a defined credit event on the part of the obligor of the underlying obligation has not occurred. If the defined credit event does occur, the CLN will be repaid net of any agreed compensation. In contrast to credit default swaps, the protection provider of a credit-linked note pays his cash settlement amount in advance.

Cross-currency swap
Interest rate and currency swaps, which include a swap of (fixed or variable) interest and, for the same period, a swap of the underlying amount to which the relevant interest rate relates, at the spot exchange rate. This rate may, but does not necessarily have to be equal to, the forward rate used for the re-exchange upon maturity.

Deferred compensation
Obligations resulting from retirement benefit obligations related to deferred salary or bonuses.

Deferred tax liabilities
Deferred taxes are recognised for differences between the carrying amounts of assets and liabilities in the consolidated financial statements and their related tax base, to the extent that such deferred taxes are likely to be reversed in future periods with an effect on taxes (the so-called temporary concept).

Derivatives
Financial instruments which are based on traditional securities such as bonds, shares, currencies and indices. Derivatives can be used either to hedge fluctuations of market prices, or to optimise results from operations.

In accordance with IAS 39, derivatives are characterised as follows: a) their value changes depending on a certain variable or underlying; b) compared to other contracts with a similar responsiveness to changes in market conditions, derivatives are associated with a small or even no initial net investment; and c) they will be closed out in future. Derivatives include swaps, options, futures and forward rate agreements in particular.

Direct shareholdings
Direct interest in equity of another company. Depending on the type of investment, the interest has to be either consolidated or recognised as an equity investment.

Discount
The difference between the (lower) issue or purchase price, and the redemption amount or nominal value.

Effective interest method
Method to determine amortised cost, through amortisation of premiums and discounts using the effective interest rate. The effective interest rate is the rate that exactly discounts estimated future cash flows through the expected life of the financial instrument or, when appropriate, over a shorter period to the net carrying amount of the financial asset or financial liability.

Embedded derivatives
In accordance with IAS 39, an embedded derivative is a derivative financial instrument that is embedded in another contract, and that cannot be traded separately from the host contract, but which is an integral component of this host contract.

Equity method
Method of consolidation which may be adopted for interests in joint ventures, or which is required to be adopted for interests in associates (except for interests held by venture capital companies or similar companies).

Expected loss
Statistically-expected loss of one or more loans (portfolio) on the basis of the statistically- determined expectations of the occurrence of an insolvency depending on the borrower's credit quality as well as the statistically-expected realisation rate (ratio between the exposure and the proceeds from the realisation of the collateral).

Exposure
The positive fair value of a transaction that is subject to credit risks, or the expected exposure with regard to a credit facility at potential default.

Fair value
The amount for which a financial instrument could be exchanged between knowledgeable and willing business partners, in an arm's length transaction. For measurement purposes, fair values (e.g. quoted market prices) or, if unavailable or non-existent, internal measurement models are generally used.

Fair value hedge
Hedge of financial instruments against potential changes in fair value.

Fair value option
Option specified in IAS 39 to allocate financial assets and liabilities which are not originally classified as held for trading to the category *Financial assets or liabilities at fair value through profit or loss* if certain criteria are met.

Finance leases
A lease that transfers substantially all the risks and rewards incidental to ownership of a leased asset to the lessee.

Financial assets available for sale
Category which includes all financial instruments which are not allocated to the other categories defined in IAS 39 (*Fair value option, Financial assets held for trading, Loans and receivables, Financial assets held to maturity*).

Financial assets held to maturity
Category specified in IAS 39 for financial instruments which are held to their maturity.

Financial assets or financial liabilities at fair value through profit or loss
Category specified in IAS 39 for financial assets and financial liabilities which are classified originally as held for trading purposes, or were designated upon initial recognition as at fair value through profit or loss.

Financial assets or liabilities held for trading
Sub-category of the category Financial assets or liabilities at fair value through profit or loss as defined in IAS 39 for financial instruments classified as originally held for trading purposes.

Financial instrument
Financial instruments are contracts that give rise to a financial asset of one company and a financial liability or an equity instrument of another.

Forward transactions
In contrast to spot transactions, forward transactions are characterised by differing dates of conclusion and settlement of the contract. An agreement is made between the parties, pursuant to which financial products are purchased or sold at a fixed date (in the future), at a fixed price.

Framework
The Framework of the IASB is the theoretical foundation of the IFRS financial reporting principles, and sets out the principles of accounting.

Future
Standardised forward contract which requires the counterparty to buy or sell a certain trading instrument (e.g. shares, currencies, etc.) at an agreed future date, at a price/rate determined on an exchange.

Goodwill
Goodwill arises from the acquisition of investments and companies and is defined as the difference between the purchase price and the value of the net assets acquired, net of identified hidden reserves.

Guarantee credit
Bank loans in form of guarantees, indemnities or other warranties.

Guarantees
Unilateral contract pursuant to which the guarantor is obliged to accept responsibility for liabilities of the obligor.

Hedging
Strategy to hedge an open interest position (hedged item) with a risk-compensating position (hedging transaction); sometimes a hedge against unfavourable price developments.

Hidden reserves
Reserves not explicitly reported in the financial statements, resulting from the undervaluation of assets and the overvaluation of liabilities.

Host contract
⟼ Embedded derivatives

Impairment
Extraordinary write-downs of assets, due to permanent impairment of the assets concerned.

Indemnity
Credit collateral with no formal requirements, similar to a guarantee pursuant to which the guarantor is obliged towards the guarantee to ensure a certain success, or to assume liability for damages caused by third parties.

International Accounting Standards (IAS)
International accounting standards as promulgated by the IASC. These standards are required to be adopted as from 2005 according to Regulation (EC) No. 1606/2002 for all consolidated financial statements of listed companies.

International Financial Reporting Interpretation Committee (IFRIC)
The task of the committee, which evolved from the SIC, is to issue interpretations of IFRS in order to eliminate ambiguities with regard to interpretation issues etc.

International Financial Reporting Standards (IFRS)
Within the scope of the reorganisation of the International Accounting Standards Committees, all new standards issued by the IASB will be called IFRS. The existing standards (IAS 1-41) continue to be called IAS. The IFRS encompass both existing IAS and interpretations of the SIC, as well as the new IFRS and the interpretations issued by the IFRIC.

Joint venture
Contractual agreement between two or more parties in order to undertake an economic activity that is subject to joint control.

Leases
In contrast to accounting and reporting under HGB, pursuant to which leases are classified in accordance with lease regulations under tax laws, classification of leases under IFRS is governed by the distribution of risks and rewards associated with the relevant contracts. Accordingly, a lease is classified as an operating lease if it does not transfer all the risks and rewards incidental to ownership to the lessee. The relevant leased assets are recognised by the lessor. Finance leases are contracts under which substantially all risks and rewards incidental to ownership are transferred to the lessee. Accordingly, the leased assets must be recognised in the balance sheet of the lessee.

Letter of comfort
Generally, this is an obligation of a (Group) parent company towards third parties in order to ensure that the (Group) subsidiary is able to meet its obligations.

Loans and receivables
Category, as defined in IAS 39, for non-derivative financial instruments with fixed or determinable payments that are not traded in an active market.

Market value
See Fair value

Mezzanine
Financial instruments which include debt as well as equity components, including but not limited to subordinated loans, silent partnership contributions and profit-participation certificates.

Operating leases
A lease where the lessor retains substantially all the risks and rewards incidental to ownership of the leased assets.

Option pricing models
Models to determine the fair value of options.

Options
Certify a right to buy (call option) or sell (put option) a fixed amount of a particular underlying (shares, currencies, etc.) from a counterparty at an agreed price (strike).

Over-the-counter (OTC)
Counter transactions; over-the-counter trades of non-standardised financial products, directly made between market participants.

Portfolio
The entirety of investments of a person or company which may comprise different assets, such as shares, units in funds, bonds or real estate.

Preferred shares
Shares with preferential rights.

Premium
The difference between the (higher) issue or purchase price, and the redemption amount or nominal value.

Private equity
Funds raised prior to an initial public offering, or investments in unlisted companies.

Profit-participation certificate
Securitisation of profit-participation rights. Rights of creditors to participate in a company's profits or losses. Profit-participation certificates are not specifically regulated by law, and therefore have a flexible structure.

Promissory note loans
Traditional form of securitisation of loan receivables, to make the loan receivable concerned fungible. However, this fungibility cannot be compared with that of bearer bonds.

Purchase method
Method of consolidation. Pursuant to the purchase method, the relevant company separately accounts for all assets and liabilities of the subsidiary, including all items which were previously not recognised by the subsidiary.

Rating
Assessment by independent rating agencies of the credit quality of companies and the bonds and money market instruments issued by them. The most popular rating agencies are Fitch IBCA, Moody's and Standard & Poor's. The processes used by banks to determine the credit quality of borrowers are also called ratings. In this case, they can be classified as bank-internal ratings, in contrast to external ratings established by the above-mentioned special agencies.

Revaluation reserve
See Note 6 Financial instruments.

Risk-weighted assets
Those assets in a bank's balance sheet which have to be backed by eligible capital.

Securities repurchase agreements
Combinations of spot transactions and simultaneous forward transactions with securities (sale or purchase) with the same counterparty.

Securitisation
Securitisation of loan receivables and deposits through the issue of negotiable securities.

Segment reporting
Presentation of the financial position and performance of a company by business divisions and geographical segments.

Sensitivity
Change in the value of a product in case of an interest increase by 0.01 percent.

Silent partnership contributions
Equity capital of an investor who is not entered in the commercial register. The investor does not represent the company in public and is not granted any shareholders' or partners' rights.

Spread
Difference between two prices or interest rates.

Stand-by letter of credit
Hedge of payments in international operations, similar to an indemnity. The beneficiary has the right to request payment by a bank upon presentation of certain documents when a third party does not meet its payment obligations.

Subsidiaries
If a company exercises control over another company within the meaning of IAS 27, this controlled company has to be included in the consolidated financial statements of the parent by means of full consolidation. In contrast to accounting and reporting under HGB, the decisive criteria for classification under IFRS are not legal aspects but the distribution of risks and rewards.

Subordinated liabilities
"Quasi"-equity items which are classified from an economic perspective as a mixture of equity and liabilities. In the event of default, the subordinated liabilities are subordinate to equity capital as far as liability is concerned. Generally, subordinated liabilities are characterised by a fixed interest rate and additionally include a profit-related component.

Syndicate business
Joint action with regard to extending loans by several banks within the scope of a syndicate – in order to diversify risks or due to applicable credit limits.

Swaps
Contracts relating to a future exchange of objects, rights, etc. Swaps belong to the group of derivative financial instruments.

Tier 1 capital
The core (tier 1) capital comprises the subscribed capital, the capital reserve, retained earnings and silent partnership contributions. The fund for general banking risks has to be included from a regulatory perspective, while treasury shares/bonds – as well as the carrying amounts of unconsolidated subsidiaries – are deducted.

Unwinding
The recognition (in profit or loss) of changes in the present value of collateral as at the subsequent reporting date.

Value-at-risk (VaR)
The maximum change in the value of a portfolio to be expected due to fluctuations of the measurement parameters (e.g. interest rates, share prices, exchange rates, credit quality) for a fixed period (= holding period, e.g. ten days for market price risk) and with a fixed confidence level (e.g. 95% for market price risk).

Venture capital
Liable capital, provided by an investor over a defined period and usually associated with consulting services rendered by the venture capitalist to the investee. In contrast to loans, the availability of assets eligible as collateral is not a prerequisite for the provision of venture capital. Venture capital is solely provided on the basis of the identified potential profitability of the investee.

Volatility
Range of fluctuations in prices, rates, etc.

Yield curves
Presentation of zero-coupon bond yields, depending on the term/maturity.

Financial Calendar

6-month figures for the financial year 2007/08	March 2008
9-month figures for the financial year 2007/08	March 2008
General Meeting for the financial year 2007/08	27 March 2008
Preliminary figures for the financial year 2007/08	15 May 2008
3-month figures for the financial year 2008/09	14 August 2008
General Meeting for the financial year 2007/08	28 August 2008
6-month figures for the financial year 2008/09	13 November 2008

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