# Annual Report 2007/2008

IKB Deutsche Industriebank

# Key figures – IKB Group

| Balance Sheet Figures | 31 March 2008 in € million | Change vs. previous year in % |
|---|---|---|
| Total assets | 50 245 | –20.9 |
| Loans and advances to customers | 28 869 | –2.7 |
| Liabilities to banks | 17 449 | 25.4 |
| Securitised liabilities | 18 185 | –54.0 |
| Total equity | 1 184 | –1.1 |

| Income Statement Figures | 2007/08 in € million | Change vs. previous year in % |
|---|---|---|
| Net interest income | 449.9 | –33.2 |
| Provision for possible loan losses | 255.2 | 6.5 |
| Net interest income (after provision for possible loan losses) | 194.7 | –55.1 |
| Net commission income | 54.7 | 5.2 |
| Net income from financial instruments at fair value | –1 825.4 | – |
| Income from financial instruments | –979.9 | >100.0 |
| Administrative expenses | 376.5 | 19.1 |
| Other operating income | 662.2 | |
| Result as of risk assumption | 2 401.0 | |
| Operating result | 132.5 | 15.7 |
| Consolidated profit | –31.9 | – |
| Total dividends | 0.0 | – |

| Selected Ratios | 31 March 2008 | 31 March 2007 |
|---|---|---|
| Return on equity | 11.1% | 9.4% |
| Cost/income ratio | 49.3% | 47.2% |
| Number of employees (FTE) | 1 839 | 1 788 |

| Rating of IKB as at 30 June 2008 | Long-Term | Short-Term | Outlook |
|---|---|---|---|
| Moody's | Baa3 | P-3 | „negative“ |
| Fitch IBCA | A+ | F1 | „stable“ |

| Key indicators of the IKB Share | 2007/08 | 2006/07 |
|---|---|---|
| Earnings per share | € –0.36 | € 0.43 |
| Dividend per share | € 0.0 | € 0.0 |
| Dividend yield* | 0.0% | 0.0% |
| Highest share price in the financial year | € 31.20 | € 33.55 |
| Lowest share price in the financial year | € 3.92 | € 25.38 |
| Share price | € 4.10 | € 29.85 |
| Number of shares* | 96.8 million | 88.0 million |
| Market capitalisation* | € 396.86 million | € 2.63 billion |

* as at the end of the financial year

| IKB Shareholders* | |
|---|---|
| KfW Bankengruppe | 45.5% |
| Stiftung Industrieforschung | 10.7% |
| Institutional and private shareholders | 43.8% |

* 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

Dear Shareholders,

The financial year 2007/08 will go down in the annals of IKB's history as year of crisis. As a bank for small and medium-sized enterprises with decades of tradition and an excellent reputation in its target group, IKB was catastrophically affected through its international portfolio investments by the sub-prime crisis in the USA at the end of July 2007. Virtually overnight, the Bank stood on the verge of a moratorium and only succeeded in surviving through extensive rescue measures taken by KfW with the support of the banking associations.

Since that time, IKB's operations and the public perception of the Bank have comprised two different worlds: on the one hand, coming to terms with the multi-billion losses from portfolio investment activities, and on the other, successfully carrying on with the core business, which constitutes the basis for the Bank's future development.

## Agenda for the new Board of Managing Directors

These two worlds also set the agenda for us, as the new Board of Managing Directors of IKB. We have had to establish transparency regarding the origins and correlating effects of the substantial losses; we have also had to stabilise the Bank – and in parallel – focus the Bank on being poised for a successful future.

As you know, the composition of the personnel of IKB's Board of Managing Directors underwent a fundamental change as a consequence of the crisis: at the end of July 2007, Dr Dieter Glüder and I began our work as newly appointed members of the Board of Managing Directors of IKB. Since 15 October 2007, Dr Reinhard Grzesik has held the position of Chief Financial Officer, and effective 1 April 2008, Dr Andreas Leimbach was appointed as new Managing Director with responsibility for the Corporate Clients business in Germany.

## Transparency about origins and correlating effects

The first important step in establishing transparency was to engage the auditing firm PricewaterhouseCoopers (PwC) to perform agreed upon procedures. We commissioned PwC to carry out this task immediately after we assumed our positions at IKB, and the auditors presented their findings on 16 October 2007.

Implementing PwC's recommendations – including restating the 2006/07 annual financial statements – was particularly time and resource intensive.

We believe that investing this time has paid off. We have thoroughly examined the origins of IKB's crisis and have followed up the consequences with appropriate action – particularly in the Bank's risk management. We were engaged in the process of accounting for the events in the restated 2006/07 single entity and group consolidated financial statements, management reports and annual report until mid-February 2008. Only once this process was complete could we prepare our quarterly results for the financial year 2007/08. We are aware that many of our shareholders and investors would have liked to see reporting on a more timely basis, so we are especially pleased to return to a scheduled reporting process with the presentation of this report.

## The crisis has left its mark

The extent of the crisis was underscored once again by the results of the financial year. Fair value losses on financial instruments of € 1.8 billion as well as a net loss from investment securities amounting to € 1.0 billion are of a dimension that far exceeds the traditional scope of individual positions on IKB's income statements. These fair value losses are net of fair value gains on liabilities, including hybrid capital instruments, amounting to a total of € 1.7 billion.

Against this we report income of € 2.4 billion which reflects the risks assumed by the KfW Bankengruppe with the support of the banking pool.

In the end, we closed out the financial year 2007/08 at the Group level with an annual loss after taxes of € 32 million surpassing our expectations which we presented together with the 2007/08 Six-Month Report at the end of April. However, the IFRS consolidated results include numerous one time valuation effects. IKB's crisis is much more clearly reflected in IKB AG's single entity financial statements prepared according to the German Commercial Code (Handelsgesetzbuch, HGB), in which we post a balance sheet loss after loss participation in the hybrid capital provider of roughly € 1.3 billion.

Consequently – as we already reported on several occasions – investors in IKB's hybrid securities were severely affected as well. IKB's share price lost roughly 90% of its value in the course of last year, and again, no dividend will be paid. As painful as these losses are, at the same time we should take into consideration that, in rescuing the Bank, the members of the banking pool have assumed burdens and guarantees amounting to billions of euros on behalf of IKB. Indeed, this made the Bank's survival possible.

## Stability for IKB

Stabilisation of the Bank therefore particularly proved to be a significant challenge because the global financial markets continued to steadily deteriorate in the second half of the financial year 2007/08 – and there is still no end in sight. This market turbulence, together with the fear of stagflation amid high interest rates and an inverse interest-rate structure, affect the market valuation of numerous positions, including those of IKB. Today we can state that among the many stabilisation measures (e.g. interest rate risk, liquidity risk, operational and legal risks) the default risks are managed and currently appropriately valued.

Furthermore, starting from the outset of June 2008, we began to execute the planned sale of securities from the shielded sub-portfolio. Tranches valued at a nominal € 450 million were divested at slightly more than book value by 30 June 2008.

In order to firmly re-establish this stability on a permanent basis, we are currently working full speed ahead on implementing the capital increase approved by shareholders at the Annual General Meeting on 27 March 2008, which is absolutely necessary for restructuring the Bank. Following the capital increase, we aim to return to the capital market when it has returned to normal.

## Successful new strategic focus

Surmounting the crisis and pursuing the sale process has tied up considerable resources on the part of management as well as employees and will continue to have a noticeable impact on the current financial year as well. Nevertheless, in parallel to these issues we have forged ahead with tremendous commitment with the continued development of the Bank's core business sectors: Corporate Clients, Real Estate Clients and Structured Finance.

All in all, we succeeded in repeating the previous year's excellent result in the Corporate Clients business in Germany, with € 4.6 billion in new disbursements in the financial year 2007/08. One especially pleasing point is that we were able to realise one-third of these new disbursements with new customers. In the acquisition financing business for small and medium-sized enterprises, we managed to gain 25 arranger mandates despite a difficult market environment. Overall, all three core business segments achieved positive operating results in the financial year.

This successful achievement has confirmed our commitment to pursue IKB's new strategic focus. The Bank was able to uphold its position as a dependable and distinguished financing partner for small and medium-sized enterprises – even during the crisis. This is also evidenced by the unprecedented encouragement and strong loyalty that we have experienced on the part of our customers since the outbreak of the crisis.

## Venturing into a new future with traditional values

Our customers appreciate the cooperative partnership, the excellent know-how, high degree of flexibility and firm commitment with which IKB has successfully operated in its core business for more than 80 years. Our highly motivated employees have actively lived up to these values even amid difficult times. And for that, we wish to express our heartfelt thanks to the entire staff.

Hence, IKB has much to offer a new strategic partner. We have intensely pursued the sale process of stakes held by KfW in IKB in recent weeks and months, by providing a secure data centre with extensive information as well as conducting numerous meetings with management and experts. Following the first round of the selection process, nine bidders expressed a strong interest in IKB's core business. KfW reduced the number of bidders to three at the end of May 2008. Binding offers are expected starting from mid-July. Together with KfW, we are pursuing the goal of proving IKB's traditional strengths as a special and small and medium-sized enterprise-oriented Bank in the future as well.

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

partnership
expertise
flexibility
commitment

Why do more than 20,000 companies trust IKB? Because they find people here who reflect the Bank's values in their daily work: partnership, expertise, flexibility and commitment.

IKB employees act as skilled, creative partners for its customers. They work with them to find the best way of achieving individual goals, supported by extensive expertise and the experience gathered by the Bank since 1924 as a specialist in long-term company financing.

IKB's people not only know the markets and the trends, but also understand technological developments. They are flexible, make swift decisions and are fully committed to helping their customers with daily business operations. IKB's people are the face of the Bank.

# Supervisory Board

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

### Chairman
Werner Oerter, Frankfurt am Main
Senior Vice President of
KfW Bankengruppe

### Deputy Chairman
Detlef Leinberger, Frankfurt am Main
Member of the Management Board of
KfW Bankengruppe

### Deputy Chairman
Dieter Pfundt, Frankfurt am Main
General Partner of
Sal. Oppenheim jr. & Cie. KGaA

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

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

Wolfgang Bouché, Düsseldorf *

Hermann Franzen, Düsseldorf
General Partner of
Porzellanhaus Franzen KG

Dipl.-Kfm. Ulrich Grillo, Duisburg
Chairman of the Board of Managing Directors of
Grillo-Werke Aktiengesellschaft

Jürgen Metzger, Hamburg *

Roland Oetker, Düsseldorf
Attorney
Managing Partner of
ROI Verwaltungsgesellschaft mbH

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

# Supervisory Board Committees

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

Rita Röbel, Leipzig *

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

Jochen Schametat, Düsseldorf *

Dr Carola Steingräber, Berlin *

Dr Alfred Tacke, Essen
Member of the Board of Managing Directors of
Evonik Industries AG

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

Ulrich Wernecke, Düsseldorf *

Andreas Wittmann, München *

* employee representative

## Executive Committee

### Chairman
Werner Oerter

Detlef Leinberger

Dieter Pfundt

## Finance and Audit Committee

### Chairman
Detlef Leinberger

Wolfgang Bouché

Werner Oerter

Dieter Pfundt

## Committee for Monitoring the Sales Process (from 25 January 2008)

### Chairman
Dr Alfred Tacke

Wolfgang Bouché

Hermann Franzen

Roland Oetker

# Advisory Board

## Chairman

Jürgen R. Thumann, Berlin
President of the
Federation of German Industries
(Bundesverband der Deutschen Industrie e.V.)

## Deputy Chairman

Prof. Dr Hermut Kormann, Heidenheim
Chairman of the Board of
Managing Directors (retired) of
Voith AG

Dipl.-Ing. Norbert Basler, Ahrensburg
Chairman of the Supervisory Board of
Basler AG

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

Dipl.-Ing. Jan-Frederic Bierbaum, Borken
Managing Partner of
Bierbaum Unternehmensgruppe GmbH & Co. KG

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

Prof. Dr phil. Hans-Heinrich Driftmann, Elmshorn
General and Managing Partner of
Peter Kölln KGaA

Dr Hugo Fiege, Greven
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

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

Dipl.-Kfm. Dietmar Harting, Espelkamp
General Partner of
Harting KGaA

Dr Hannes Hesse, Frankfurt am Main
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

Dr Jochen Klein, Darmstadt
Chairman of the Advisory Board of
Döhler GmbH

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

Nicolette Kressl, Berlin
Parlamentary State Secretary at the
German Federal Minstry of Finance

Matthias Graf von Krockow, Köln
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
Chairman of the Board of Managing Directors of
SIGNAL IDUNA Gruppe

Dr Eric Schweitzer, Berlin
Member of the Board of Managing Directors of
ALBA AG

Dr-Ing. Hans-Jochem Steim, Schramberg
Managing Partner of
Hugo Kern und Liebers GmbH & Co. KG

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

Dr Martin Wansleben, Berlin
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)

Dr Andreas Leimbach (from 1 April 2008)

Claus Momburg

Stefan Ortseifen (until 29 July 2007)

# Report of the Supervisory Board

The past financial year 2007/08 was characterised by the task of surmounting the crisis that threatened the Bank's existence, a crisis which resulted from developments on the US mortgage market and the global collapse of refinancing opportunities on the commercial paper market. In the wake of the outbreak of the crisis at the end of July 2007, the Supervisory Board intensively monitored in particular the Bank's business development and the restructuring process, in the reporting period.

## Activities of the Supervisory Board in the financial year 2007/08

The Supervisory Board discussed the Group's course of business in 14 meetings during the financial year 2007/08 ended 31 March 2008.

As already presented in detail in the last annual report, the crisis that struck the Bank at the end of July 2007 also came as a surprise for the Supervisory Board and without any prior warning.

The Supervisory Board fulfilled the obligations incumbent upon it in the reporting period, in accordance with the legal requirements and in accordance with the Memorandum and Articles of Association. Shortly before the outbreak of the crisis, the Supervisory Board was still occupied with a special review conducted by KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft (KPMG), which it had commissioned following accusations made by Frank Schönherr, former member of the Board of Managing Directors, who departed in autumn 2006. The special review carried out by KPMG focused on the areas of risk provisions and interest rate risk. The report issued by KPMG was thoroughly deliberated in an extraordinary session of the Finance and Audit Committee held on 16 April 2007, in the presence of the external auditors KPMG, together with the audit report on deposit protection. The routine audit conducted by the Auditing Association of German Banks in the period from 8 May to 4 August 2006 also revealed no indications to the Supervisory Board of any potential risk for the Bank. The findings were reported to the Supervisory Board at the meeting held on 27 June 2007. In the meeting there was no indication of the sub-prime risks from portfolio investments that first emerged on 27 July 2007. The Auditors' Report on the financial statements and annual report as of 31 March 2007, which was an extensive element of the discussions that took place in the Supervisory Board meeting of 27 June 2007, also revealed no indications of any risks threatening the existence of the Bank with regard to its portfolio investments.

Furthermore, IKB's Board of Managing Directors reported in a press release on 20 July 2007 on the preliminary quarterly result as of 30 June 2007 and a provisional increase of 15% (to € 63 million) compared to the comparable period in the prior year. In addition, the Board of Managing Directors reported that the developments on the US mortgage market had practically no relevant impact for IKB. The press release was issued without the approval of the Supervisory Board.

The Chairman of the Supervisory Board at the time, Dr Ulrich Hartmann, was informed about the crisis threatening the Bank's existence by the Chairman of the Board of Managing Directors for the first time on 27 July 2007 at around noon.

On the evening of 27 July 2007, the Executive Committee held a meeting attended by members of the German Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht, BaFin), at which the Board of Managing Directors reported to the Supervisory Board for the first time regarding the Bank's sub-prime risks. In the Supervisory Board meeting held one month prior to this (on 27 June 2007) members of the Supervisory Board enquired about any investments by IKB in the sub-prime mortgage sector. At this meeting, the Board of Managing Directors conveyed the impression that investments in the sub-prime market posed no significant risks. KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft (KPMG) also expressed its opinion on the aspects of sub-prime risks at this meeting.

With the outbreak of the crisis, the Supervisory Board adjusted its monitoring and advising activities to address the situation threatening IKB's existence. In the wake of the outbreak of the crisis, intensive discussions surrounding the measures implemented by the Board of Managing Directors took place in 13 out of a total of 14 Supervisory Board meetings, as well as in numerous meetings of the Executive Committee and Finance and Audit Committee.

The Board of Managing Directors reported on the Bank's situation in the Supervisory Board meeting held on the evening of 29 July 2007, which was also attended by representatives of BaFin and the Bundesbank. The Supervisory Board, together with the Board of Managing Directors, discussed the risk shield provided by KfW Banking Group and the three banking associations. In addition, there were deliberations regarding the members of the Board of Managing Directors. The Supervisory Board decided amicably to terminate the appointment of the Chairman of the Board of Managing Directors, Mr Stefan Ortseifen, as a member of the Board with immediate effect, and to terminate his employment immediately for good cause.

On 1 August 2007, the Board of Managing Directors engaged the audit firm PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft (PwC) with the performance of agreed upon procedures. The timeframe for this work was set from 1 April 2006 to 2 August 2007. The engagement was issued by the newly appointed members of the Board, who also monitored the work.

The Supervisory Board and BaFin were notified about the review of agreed upon procedures in advance and consequently refrained from conducting their own review. However, the Supervisory Board authorised the expansion of the scope of the agreed upon procedures to also examine whether there were indications that the Board of Managing Directors insufficiently or improperly informed IKB's Supervisory Board regarding the Bank's risk situation during the relevant period. In addition, the Supervisory Board required that, despite the possibility of a more expeditious conclusion of the agreed upon procedures, any indications of critical circumstances existing prior to the review period (1 April 2006 to 2 August 2007) should be researched.

In order to competently monitor the review process and validate the findings of PwC, the Supervisory Board also engaged the law firm Shearman & Sterling LLP as consultant as well as the auditing and tax advisory company Ernst & Young AG.

On 15 October 2007, PwC reported the findings of the agreed upon procedures to the Supervisory Board. The review confirmed that prior to 27 July 2007 (Executive Committee) and 29 July 2007 (Supervisory Board) there were no indications that would have necessitated deliberations by the Supervisory Board regarding sub-prime exposure or the US mortgage market, or required any discussion of the resulting consequences or risks threatening IKB's existence. Although the Supervisory Board had been notified regarding the liquidity commitments to the special-purpose vehicles of Rhineland Funding, it was not informed about the extensive risk obligations for the liquidity lines of other liquidity line providers to the special-purpose vehicles of Rhineland Funding – as well as the complex interrelationships between the Company and Rhineland Funding – or the risks for the Bank stemming from a possible disruption in the market for asset-backed commercial paper. Furthermore, the review of agreed upon procedures confirmed that the issue of sub-prime risks was addressed at the Supervisory Board meeting held on 27 June 2007 through enquiries directed to the Board of Managing Directors by Supervisory Board members.

In view of PwC's findings regarding weaknesses in risk analysis, risk controlling and the reporting system for on and off-balance-sheet portfolio investments, the Supervisory Board, together with the Board of Managing Directors, thoroughly discussed measures for improving the Bank's risk and controlling processes. This also applied to the deficiencies presented by PwC with regard to the Board of Managing Directors' reporting to the Supervisory Board.

Since the review of agreed upon procedures by PwC commissioned on 1 August 2007 had not yet dealt with the personnel-related accounting for the circumstances which led to the Bank's crisis, following conclusion of the review by PwC, the Supervisory Board began investigating whether there had been any violations of duty with a view toward initiating possible claims for indemnification against responsible parties. At the same time, the Supervisory Board sought legal advice from the law firm Shearman & Sterling LLP (so-called forensic investigation). Shearman & Sterling LLP, in turn, commissioned PwC's forensic services department for support in clarifying the requisite facts for the legal assessment. PwC has provided Shearman & Sterling with a preliminary report that is currently being evaluated.

Besides the personnel-related accounting for the Bank's crisis, the Supervisory Board was also intensively engaged in monitoring the business development of the Bank as well as the status of the restructuring measures. In this regard, the restructuring programme provided by KfW, the federal government and private banks was also an issue for deliberations. Furthermore, other topics of regular discussion in the Supervisory Board meetings included the development of IKB's portfolio investments as well as the development of the revenue, earnings and employment situation of the Bank, its business segments and the Group, in addition to the liquidity and financial situation. The Board of Managing Directors provided regular, comprehensive reports regarding the strategic future development, the course of business and the Group's current situation.

The Bank's crisis and the work performed by PwC led to the restatement and re-audit of the Bank's single entity and consolidated financial statements and management reports for 2006/07, and the re-issue of the 2006/07 annual report. The Supervisory Board conducted extensive deliberations regarding the restated annual report and financial statements in the presence of the external auditors and approved these on 16 February 2008, so that the Annual General Meeting for the financial year 2006/07 could take place on 27 March 2008. The Annual General Meeting on 27 March 2008 did not grant final approval of the incumbent members of the Board of Managing Directors for their activities in the financial year 2006/07, although exoneration of Claus Momburg was deferred. Exoneration of the activities of members of the Supervisory Board was also deferred. In addition, the Annual General Meeting approved a special review into whether any members of the Board of Managing Directors or Supervisory Board were involved in violations of duty in connection with the circumstances that led to the Bank's crisis. In particular, the special review should examine whether the members of the Board of Managing Directors or Supervisory Board properly fulfilled legal, statutory and contractual obligations regarding monitoring, controlling and advising IKB's Board of Managing Directors on the acceptance, resumption or expansion of transactions in or with securitised or refinancing conduits – in particular, "Rhineland Funding", "Rhinebridge", "Havenrock I and II" and "Elan" – and in connection with the organisation and outsourcing of significant functions to IKB Capital Asset Management GmbH ("IKB CAM"). The special review has not yet been concluded.

At its meeting held on 14 March 2008, the Supervisory Board deliberated on the sale of portfolio investments covered by the risk shield provided by the banking pool as well as the re-integration of IKB Credit Asset Management GmbH. At its meeting of 26 March 2008, the Supervisory Board primarily discussed IKB's current business development and the upcoming Annual General Meeting. Due to the fact that the appointment of some Supervisory Board members terminated at the end of the Annual General Meeting on 27 March 2008, several internal decisions regarding personnel were made at the Supervisory Board meeting of 29 March 2008, which are presented in detail in the section titled "Personnel – Supervisory Board."

Following the close of the financial year 2007/08, the Supervisory Board conducted ongoing deliberations regarding IKB's current business development. At the meeting held on 29 April 2008, the Board of Managing Directors presented the 6-Month Report 2007/08, which was discussed by the Supervisory Board. In addition, the Supervisory Board deliberated on the consolidated interim result and Group Risk Report as of 31 December 2007 as well as on the Group Audit Report for the financial year 2007/08.

## Activities of the Supervisory Board Committees

The Supervisory Board has three sub-committees during the financial year 2007/08, which included the Executive Committee and the Finance and Audit Committee which had been formed in prior periods as well as a new Committee for monitoring the process for the sale of the shares in IKB held by the KfW Banking Group. This Committee was formed at the Supervisory Board meeting on 25 January 2008.

In the wake of the outbreak of the Bank's crisis, the Supervisory Board Committees (Executive Committee as well as Finance and Audit Committee) also re-aligned their supervising activities accordingly and stepped up their advising activities.

The Executive Committee held a total of 15 meetings in the financial year 2007/08. At the same time, the Executive Committee fulfilled the functions of a nominating committee in the sense of the Corporate Governance Code, which was clarified for the Supervisory Board at its meeting of 27 June 2007 through a revision in the Supervisory Board's procedures. The Executive Committee primarily consisted of discussions in advance of the Supervisory Board meetings. Up until the outbreak of the Bank's crisis, the Executive Committee had been primarily concerned with business developments (including any authorisation of business activities subject to approval) as well as the Group's strategic focus. Following the emergence of the crisis, the Executive Committee deliberated on the Bank's situation especially with the Board of Managing Directors (including the authorisation of business activities subject to approval) and discussed personnel decisions including proposals for selecting Supervisory Board members.

The Finance and Audit Committee held 13 meetings in the financial year 2007/08. Up until the outbreak of the Bank's crisis, the activities of the Finance and Audit Committee were focussed primarily on the financial statements and annual report, proposals for appropriation of profits and the subordinate status report, as well as on issues relating to accounting standards, risk management and cooperation with the external auditors. In an extraordinary session of the Finance and Audit Committee held on 16 April 2007, members discussed the special report prepared by KPMG covering risk provisions and interest rate risk as well as the report on deposit protection. Following the emergence of the crisis, the Committee particularly deliberated on the preparation of the restated annual report and financial statements as a consequence of the agreed upon procedures, the audit of the 2007/08 Six-Month Report and on the appointment of external auditors for the 2007/08 Six-Month Report for the period ended 30 September 2007. The Chairman of the Finance and Audit Committee also obtained the independence confirmation from the external auditors – in accordance with Section 7.2.1 of the German Corporate Governance Code – and commissioned the external auditors to carry out the audit. The Chairman and auditors also concluded an agreement on the focal points of the audit and the audit fee.

The Committee for Monitoring the Sales Process held a total of two meetings in the 2007/08 financial year, which addressed the issue of the progress of the sale process.

Furthermore, members of the committees engaged in numerous deliberations among themselves and had ongoing contact with the Board of Managing Directors and with the advisors mandated by the Supervisory Board outside of committee meetings. The Supervisory Board advisors also had direct contact with IKB's Board of Managing Directors, the Company, and its advisors. In this regard, seven additional joint sessions of the Executive Committee and Finance and Audit Committee were held, in which members discussed IKB's business development with a view toward the Bank's situation and the status of the risk shield. At the same time, the Board of Managing Directors was provided with information regarding the structure of the risk shield.

The respective Chairmen of the Supervisory Board Committees provided detailed accounts of the activities of the committees at the plenary meetings.

A list of the meetings held by the Supervisory Board and its Committees, together with the important topics for discussion, is included in this report.

## Corporate governance

The Declaration of Compliance of 11 July 2008 as well as further details on these issues can be found in the section titled "Corporate Governance" in the annual report.

There were two cases of conflict of interest that arose with regard to the Supervisory Board's advisory activities during the financial year 2007/08, which were disclosed by the relevant Supervisory Board member, who therefore abstained from participating in the corresponding vote and/or dealing with the item on the agenda.

## Examination and approval of the financial statements, annual report and subordinate status report for the financial year 2007/08

The Board of Managing Directors prepared IKB AG's single entity and consolidated financial statements and management reports for the 2007/08 financial year and the IKB Group 2007/08 annual report. The external auditors, PwC, have audited the financial statements and issued unqualified audit reports on both sets of financial statements. 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 in accordance with additional applicable provisions pursuant to section 315a (1) of the HGB. The consolidated financial statements presented, which were prepared in accordance with IFRS, exempt IKB from the preparation of consolidated financial statements in accordance with HGB. The current report on business relationships with affiliated companies during the financial year 2007/08, which was prepared by the Board of Managing Directors, was also subject to examination and certification by the external auditors. The subordinate status report has been examined and certified without qualification, 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."

The members of the Supervisory Board reviewed the relevant issues relating to the preparation of the annual financial statements at the meeting held on 11 July 2008. The auditors participated in the deliberations regarding the financial statements and consolidated financial statements with the Supervisory Board as well as Finance and Audit Committee at the meeting of 11 July 2008, where the auditors reported on the essential findings of their audit, answered further questions and provided additional information. No objections were raised by the Supervisory Board following the final examination of the audit by the Finance and Audit Committee and its own examination of the financial statements, annual report and management reports. The Supervisory Board therefore approved the audit results.

In its meeting on 11 July 2008 the Supervisory Board resolved both the 2007/08 financial statements and managment report of IKB AG as well as the 2007/08 annual report of IKB Group drawn up by the Board of Managing Directors with resolution from 2 July 2008 respectively 8 July 2008. The annual financial statements are therefore confirmed. Furthermore, no objections were raised regarding the audit of the subordinate status report, or the declaration by the Board of Managing Directors at the conclusion of the report. The Supervisory Board duly noted and approved the Auditors' Report.

## Personnel – Supervisory Board

With the end of the Annual General Meeting of 27 March 2008, the following members retired from the Supervisory Board according to rotation: Dr Ulrich Hartmann as longstanding Chairman of the Supervisory Board and Executive Committee; Dr Alexander v. Tippelskirch as longstanding Deputy Chairman of the Supervisory Board and member of the Executive Committee; Dr Jürgen Behrend and Dr Matthias Kammüller as members of the Supervisory Board. Jörg Asmussen resigned from his mandate on the Supervisory Board on 27 May 2008 because he chose not to pursue a supervisory mandate in the banking and insurance sector in light of his pending change of position in the function as State Secretary. The Supervisory Board would like to thank those retiring members for their contributions to the Board.

In the Annual General Meeting held on 27 March 2008, Dieter Ammer was re-elected to the Supervisory Board, while Ulrich Grillo, Werner Oerter, Dieter Pfundt and Dr Alfred Tacke were elected as new members of the Board.

Following the Annual General Meeting on 27 March 2008, the Supervisory Board held its constituent meeting. Subsequent to the retirement of Dr Ulrich Hartmann and Dr Alexander v. Tippelskirch, coinciding with the end of the Annual General Meeting on 27 March 2008, Werner Oerter was elected as new Chairman of the Supervisory Board on 29 March 2008 and Dieter Pfundt as new Deputy Chairman. In addition, Dr Alfred Tacke was elected as new member and Chairman of the Committee for Monitoring the Sales Process.

The Finance and Audit Committee held its constituent meeting on 29 March 2008. Following the elections of Werner Oerter and Dieter Pfundt as the new Chairman and Deputy Chairman of the Supervisory Board respectively, both will also serve as members of the Finance and Audit Committee, according to the Articles of Association of the Supervisory Board. Detlef Leinberger is acting Chairman of the Finance and Audit Committee. Furthermore, Werner Oerter also concurrently serves as Chairman of the Executive Committee and Dieter Pfundt as member of the Executive Committee, according to the Articles of Association of the Supervisory Board.

Following the close of the financial year, the Executive Committee was primarily engaged in reviewing the Bank's business situation, matters relating to the Board of Managing Directors, the Group Risk Report as of 31 December 2007 and the forensic investigation. The Finance and Audit Committee particularly addressed issues regarding the 6-Month Report 2007/08 and the Group interim result as of 31 December 2007 as well as the capital increase at IKB International S.A., Luxembourg. The Committee for Monitoring the Sales Process deliberated on the current status of the sale process.

## Personnel – Board of Managing Directors

In light of the crisis facing IKB in the summer of 2007, the Supervisory Board undertook immediate measures regarding personnel. In the extraordinary meeting held on 29 July 2007, the Board decided to amicably terminate the appointment of Stefan Ortseifen as member of the Board of Managing Directors, and terminate his employment immediately for good cause. Mr Ortseifen received no severance pay and no terminal bonus. Since then Mr Ortseifen has filed suit against the termination of his employment without notice with the District Court in Düsseldorf.

Dr Volker Doberanzke submitted his resignation from his position as member of the Board of Managing Directors in writing, with immediate effect on 7 August 2007, and the Supervisory Board approved the departure in its meeting of 7 August 2007. The Board decided to amicably terminate the employment relationship with Dr Doberanzke effective 31 December 2007. Dr Doberanzke received no severance pay and no terminal bonus.

Dr Markus Guthoff departed the Bank by mutual agreement on 15 October 2007, with the approval of the Supervisory Board. The Board decided to amicably terminate the employment relationship with Dr Guthoff effective 31 December 2007. Dr Guthoff received no severance pay and no terminal bonus.

The appointment of Frank Braunsfeld as member of the Board of Managing Directors was revoked by the Supervisory Board on 15 October 2007, with immediate effect for good cause. The Board decided to terminate the employment relationship with Mr Braunsfeld, without notice and effective immediately, after Mr Braunsfeld had rejected cancellation of the employment contract effective 31 December 2007 subject to waiver of severance pay.

Mr Claus Momburg was not involved in the securitisation business or IKB's risk management operations which triggered the crisis due to the allocation of business activities by the Board of Managing Directors. Considering this, the Supervisory Board asked Mr Momburg to continue with his work on the Board of Managing Directors – despite an overall responsibility for IKB's situation – in order to maintain the functionality of the Board with respect to the Bank's ongoing business activities.

In view of the restatement of the financial statements and management report and the re-issue of the annual report as of 31 March 2007, the amount of variable remuneration was reclaimed with the exception of the minimum agreed bonus. Messrs. Ortseifen, Doberanzke, Guthoff and Braunsfeld as well as Mr Neupel, who was also a member of the Board of Managing Directors up until 31 December 2006, rejected any repayment.

The Supervisory Board continues to review the possibility of initiating claims for indemnification on the part of IKB against members of the Board of Managing Directors, based particularly on the evaluation of the comprehensive preliminary report submitted by PwC regarding the forensic investigation.

Immediately following the outbreak of the crisis, on 29 July 2007 Dr Günther Bräunig was appointed as Member and Chairman of the Board of Managing Directors, while Dr Dieter Glüder was appointed as Member of the Board. On 15 October 2007, the Supervisory Board appointed Dr Reinhard Grzesik as Member of the Board of Managing Directors. Dr Reinhard Grzesik assumed the function of Chief Financial Officer. On 26 March 2008, the Supervisory Board appointed Dr Andreas Leimbach as additional Member of the Board of Managing Directors effective 1 April 2008.

The Supervisory Board would like to thank the incumbent members of Board of Managing Directors and all the employees for their personal commitment and contributions, especially in the wake of the emerging crisis that threatened the Bank's existence.

Düsseldorf, 11 July 2008
The Supervisory Board

Werner Oerter
Chairman

| Supervisory Board meetings in financial year 2007/08 | |
|---|---|
| **Date of meeting** | **Topics for discussion** |
| 27 June 2007 | • Overview of the financial year<br>• Report on the financial year 2006/07, with the proposal for appropriation of profits and three-year business plan<br>• Financial statements and annual report as of 31 March 2007<br>• Development of business divisions/subsidiaries<br>• Credit risk report<br>• Report by the Finance and Audit Committee regarding the results of the meeting of 16 April 2007 on critical issues: Special review of the topic areas "risk provisions" and "interest rate risk" by KPMG of 8 February 2007 as well as routine audit of security of customer deposits, conducted by the Auditing Association of German Banks of 1 March 2007<br>• Auditors' Report<br>• Report by the Finance and Audit Committee regarding preparation for the audit of the financial statements and annual report with management reports for IKB AG and IKB Group; proposal for appropriation of profits and subordinate status report for the financial year 2006/07<br>• Confirmation and approval of the financial statements and management report, IKB AG as well as the annual report and management report, IKB Group, respectively; presentation of subordinate status report for the financial year 2006/07; draft of the Report of the Supervisory Board<br>• Proposals for the items on the agenda for the Annual General Meeting on 30 August 2007<br>• Corporate governance (annual report of the Corporate Governance Officer, the IKB Corporate Governance Principles and Corporate Governance Report for the financial year, annual Declaration of Compliance)<br>• Introduction of a deductible for D&O (directors & officers) liability insurance<br>• Structure of the remuneration system for the Board of Managing Directors<br>• Revisions of the Articles of Association for the Supervisory Board and Board of Managing Directors<br>• Annual Group Audit Report |
| 29 July 2007 | • Report on IKB's situation<br>• Personnel matters (resignation of Board of Directors mandate by Mr Ortseifen; appointments of Dr Bräunig and Dr Glüder as members of the Board of Managing Directors) |
| 7 August 2007 | • Report on IKB's current situation<br>• Personnel matters (resignation of Board of Directors mandate by Dr Doberanzke) |
| 20 August 2007 | • Report on IKB's current development and business situation<br>• Review of revision of annual financial statements as of 31 March 2007<br>• Change in proposal of appropriation of profits for the financial year 2006/07 |
| 29 September 2007 | • Description and approval of finalisation of the risk shield<br>• 3-Month Report Q1 FY 2007/08 |

| Supervisory Board meetings in financial year 2007/08 | |
|---|---|
| **Date of meeting** | **Topics for discussion** |
| 15 October 2007 | • Report on the findings of the agreed upon procedures conducted by PwC<br>• Supervisory Board advisors' opinion on the PwC report<br>• Personnel matters (termination of Board of Managing Directors mandate of Dr Guthoff; revocation of appointment of Mr Braunsfeld; appointment of Dr Grzesik as member of the Board of Managing Directors)<br>• Board of Managing Directors' opinion on the PwC report and concept of a package of measures<br>• External auditors for the financial statements and annual report for the financial year 2007/08 as well as 6-Month Report 2007/08 |
| 14 November 2007 | • IKB's current business development and status of restructuring measures<br>• Information regarding permission for due-diligence audits planned by the Board of Managing Directors<br>• Credit risk report as of 30 June 2007 and preliminary credit risk report as of 30 September 2007<br>• Report on IKB's compliance concept |
| 25 January 2008 | • IKB's current business development and status of restructuring measures<br>• Sale process<br>• Status report: Restatement of annual financial statements as of 31 March 2007 as well as preparation and audit of 6-Month Report as of 30 September 2007<br>• Capital measures<br>• Status report on preparation for the Annual General Meeting |
| 11 February 2008 | • IKB's current business development and status of restructuring measures since 25 January 2008<br>• Report by the Finance and Audit Committee regarding preparation for the audit of the restated financial statements and management report, IKB AG and restated annual report and management report, IKB Group<br>• Restated financial statements and annual report as well as management reports for IKB AG and IKB Group for the financial year 2006/07<br>• Auditors' Report<br>• Proposal for the Corporate Governance Report in addition to Declaration of Compliance<br>• Proposal for Report of the Supervisory Board<br>• Discussion of proposals for the items on the agenda for the Annual General Meeting on 27 March 2008<br>• Overview of strategy documentation and related risk strategy |

| Supervisory Board meetings in financial year 2007/08 | |
|---|---|
| **Date of meeting** | **Topics for discussion** |
| 16 February 2008 | • IKB's current business development and status of restructuring measures since 11 February 2008<br>• Auditors' Report for the financial year 2006/07<br>• Report by the Finance and Audit Committee regarding preparation and audit of the restated annual report, financial statements and management reports for IKB AG and the IKB Group for the financial year 2006/07<br>• Confirmation and approval of the restated annual report, financial statements and management reports for IKB AG and the IKB Group for the financial year 2006/07; at the same time, the revocation of the previous financial statements and annual reports for the financial year 2006/07, which had been confirmed and approved in the Supervisory Board meeting of 27 June 2007<br>• Restated Report of the Supervisory Board<br>• Restated Corporate Governance Report in addition to revised Declaration of Compliance<br>• Proposals for the items on the agenda for the Annual General Meeting on 27 March 2008 |
| 14 March 2008 | • Sale of portfolio investments covered by the risk shield provided by the banking pool<br>• Reintegration of IKB Credit Asset Management GmbH<br>• Proposal for new election to the Supervisory Board at the Annual General Meeting (Mr Dieter Pfundt instead of Dr Meister)<br>• Discharge of Mr Schönherr by Annual General Meeting |
| 26 March 2008 | • IKB's current business development<br>• Appointment of Dr Leimbach to Board of Managing Directors<br>• "Revision of Memorandum and Articles of Association" – revocation of section 5 para. 4 and 5 of the Memorandum and Articles of Association due to expiry of unappropriated conditional and authorised capital<br>• Advance discussion of the Annual General Meeting |
| 27 March 2008 | • Constituent meeting following elections of new Supervisory Board members |
| 29 March 2008 | • Election of new Chairman of the Supervisory Board<br>• Election of new Deputy Chairman of the Supervisory Board<br>• Election of a new Executive Committee representative in case of hindrance of Executive Committee member<br>• Appointment of Committee for Monitoring the Sales Process |

| Executive Committee meetings in financial year 2007/08 | |
|---|---|
| **Date of meeting** | **Topics for discussion** |
| 26 June 2007 | • Advance discussion of Supervisory Board meeting<br>• Strategic development of the business divisions<br>• Loans to personnel |
| 27 July 2007 | • Report on IKB's situation<br>• Personnel matters (termination of appointment of Mr Ortseifen as member of the Board of Managing Directors; appointments of Dr Bräunig and Dr Glüder as members of the Board of Managing Directors) |
| 6 August 2007 | • Report on IKB's current situation<br>• Personnel matters (termination of employment contract with Mr Ortseifen)<br>• PwC report on agreed upon procedures |
| 20 August 2007 | • Advance discussion of Supervisory Board meeting |
| 5 October 2007 | • Personnel matters (Board of Managing Directors mandates of Mr Braunsfeld, Dr Guthoff and Momburg; appointment of Dr Grzesik) |
| 14 October 2007 | • Advance discussion of Supervisory Board meeting |
| 15 October 2007 | • Personnel matters (termination of employment contract with Dr Guthoff; termination of employment contract with Mr Braunsfeld) |
| 18 October 2007 | • Personnel matters (termination of employment contract with Dr Doberanzke) |
| 14 January 2008 | • Status report on forensic investigation for initiating possible claims for indemnification against members of the Board of Managing Directors |
| 25 January 2008 | • Current status report on preparation for the Annual General Meeting<br>• Appointments to the Supervisory Board |
| 11 February 2008 | • Election proposals for shareholder representative on the Supervisory Board at the Annual General Meeting (in function as nominating committee)<br>• Board of Managing Directors issues, status report on the forensic investigation, among other matters |
| 16 February 2008 | • Board of Managing Directors issues<br>• Election proposals for shareholder representative on the Supervisory Board at the Annual General Meeting (in function as nominating committee)<br>• Preparation for Supervisory Board meeting of 16 February 2008 |
| 13 March 2008 | • Advance discussion of Supervisory Board meeting of 14 March 2008<br>• Status report on preparation for the Annual General Meeting of 27 March 2008 |
| 25 March 2008 | • Advance discussion of Annual General Meeting<br>• Revision of resolution for discharge of Supervisory Board<br>• Board of Managing Directors issues |
| 26 March 2008 | • Advance discussion of Annual General Meeting<br>• Personnel matters (recommendation for appointment of Dr Leimbach as member of the Board of Managing Directors) |

| Finance and Audit Committee meetings in financial year 2007/08 | |
|---|---|
| **Date of meeting** | **Topics for discussion** |
| 16 April 2007 | • Report on special review conducted by KPMG of 8 February 2007<br>• Report on audit of security of customer deposits of 1 March 2007 |
| 26 June 2007 | • Overview of the financial year 2006/07 and three-year business plan<br>• Financial statements and annual report as of 31 March 2007 as well as subordinate status report (in the presence of the external auditors)<br>• Credit risk report<br>• Auditors' Report<br>• Proposal for appointment of external auditors and Group auditors for the financial year 2007/08 and authorisation for their appointment |
| 6 August 2007 | • Report on IKB's current situation<br>• KPMG report |
| 15 October 2007 | • External auditors for the financial statements and annual report for the financial year 2007/08 and external auditors for the 6-Month Report 2007/08<br>• Restatement of annual financial statements for the financial year 2006/07 |
| 7 January 2008 | • Issuance of convertible bond |
| 25 January 2008 | • Status report on restatement of annual financial statements (revisions) for the financial year 2006/07 |
| 11 February 2008 | • Financial statements and management report<br>• Opinion of external auditors |
| 16 February 2008 | • Auditors' Report<br>• Adoption of the report by the Finance and Audit Committee regarding preparation for the audit of the restated annual report, financial statements and management reports of IKB AG and the IKB Group for the financial year 2006/07<br>• Resolution on proposal by Finance and Audit Committee to Supervisory Board |
| 19 February 2008 | • Approval of proposed loan agreement with debt waiver and debtor warrant between KfW and IKB amounting to € 600 million |
| 26 February 2008 | • Capital measures for IKB International S.A. Luxembourg |
| 20 March 2008 | • Information on the development and current status of proposed restructuring measures<br>• Information on conclusion of loan agreement between KfW Banking Group and IKB AG, with debt waiver and debtor warrant<br>• Capital increase IKB International S.A., Luxembourg |
| 26 March 2008 | • IKB's current business development<br>• Appointments to Board of Managing Directors<br>• Revision of Memorandum and Articles of Association<br>• Advance discussion of the Annual General Meeting |
| 29 March 2008 | • New formation of committee<br>• Authorisation for commissioning external auditors and Group auditors for the financial year 2007/08 |

| Joint meetings of the Executive Committee and Finance and Audit Committee in the financial year 2007/08 | |
|---|---|
| **Date of meeting** | **Topics for discussion** |
| 12 September 2007 | • Report on IKB's situation<br>• Report on PwC's review of agreed upon procedures |
| 25 September 2007 | • Report on IKB's situation<br>• 3-Month Report Q1 FY 2007/08<br>• Status report on risk shield |
| 12 November 2007 | • Report on IKB's situation |
| 14 November 2007 | • Report on IKB's situation |
| 14 December 2007 | • IKB's current business development and status of restructuring measures<br>• Restatement of annual financial statements as of 31 March 2007 as well as preparations and audit of 6-Month Report as of 30 September 2007<br>• Capital increase IKB International S.A., Luxembourg<br>• Reintegration of IKB CAM<br>• Capital measures<br>• Annual General Meeting<br>• Sale process |
| 14 January 2008 | • IKB's current business development and status of restructuring measures<br>• Current status of the sale process<br>• Restatement of annual financial statements as of 31 March 2007 as well as preparations and audit of 6-Month Report as of 30 September 2007<br>• Process of implementing possible capital measures for IKB<br>• Capital increase IKB International S.A., Luxembourg |
| 11 February 2008 | • Report on IKB's situation<br>• Advance discussion of proposals for items on the agenda for the Annual General Meeting |

| Meetings of the Committee for Monitoring the Sales Process in the financial year 2007/08 | |
|---|---|
| **Date of meeting** | **Topics for discussion** |
| 12 March 2008 | • Current status of the sale process |
| 27 March 2008 | • New formation of committee |

partnership

IKB is a bank which offers its products only to companies, and has done for 84 years.

We specialise in long-term company financing and offer our customers a broad range of classic and innovative financing instruments. We design solutions which meet their individual needs and support them throughout all the phases of company development. We are their bank, their advisor and their sparring partner, and help them overcome the challenges faced by medium-sized companies.

In IKB, customers find a reliable partner who will stay by their side – for years, decades and generations.

# Corporate Governance

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

The IKB recognises that Corporate Governance is crucially important for responsible and value-orientated corporate management. Therefore the IKB's Board of Managing Directors and Supervisory Board explicitly support 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. 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 11 July 2008.

Recommendations and suggestions of the German Corporate Governance Code. Since the submission of the last Declaration of Compliance (Section 161 AktG) on 16 February 2008 IKB has complied with the recommendations of the German Corporate Governance Code (as last amended on 14 June 2007) with the exception of Section 3.8 (2) (deductible for D&O insurance policy) and 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 sentence 3 sub-sentence 2 (publication of interim reports within 45 days of the end of the reporting period). The Board of Managing Directors and the Supervisory Board have resolved that IKB will comply with the recommendations of the codex with the exception of Section 3.8 (2) and 4.2.1 sentence 2. IKB has decided to publish these exceptions in an updated Declaration as at 11 July 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). The Declarations of Compliance published for previous years can also be accessed on the website.

As a rule, IKB complies with all recommendations set out in the Code, with few exceptions: one of these is the fact that only 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 broadcast live on the IKB website (Section 2.3.4). 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 (Section 2.3.3 (3) (2)). 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 (Section 4.2.3 (2) (2)).

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's representatives are selected at the Annual General Meeting by way of individual election. The duties and responsibilities of both executive bodies are clearly defined 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 obliged to manage the business with the objective of increasing the sustainable value of the enterprise. The Board of Managing Directors manages the company in accordance with the law, the Memorandum and Articles of Association, the internal rules of procedure, the agreed distribution of responsibilities and with the respective 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 significant issues affecting business development, strategy and planning, income and profitability, compliance, risk exposure and risk management as well as risk controlling. The Board of Managing Directors informs the Supervisory Board of variances between actual trends and results compared to the Bank's plans and targets, and explains these variances. Transactions of fundamental importance require the approval of the Supervisory Board.

However, the agreed upon procedures report compiled by PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft (PwC) identified, in respect of the crisis arising in summer 2007, significant deficiencies in the Board of Managing Director's reporting to the Supervisory Board concerning the risks contained in the Bank's 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 contained in credit risk reports inadequately analysed the Bank's economic risk exposure to the Rhineland Funding special purpose vehicles. The Board of Managing Directors has countered these deficiencies with the introduction of the so-called "Group Risks Dashboard", which the Board of Managing Directors reports the Group's risks to the Supervisory Board, with particular emphasis on the Bank's risk bearing capacity, market price risk default risks, liquidity and operational risks.

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 shareholder's representatives and seven staff representatives. A number of the Supervisory Board members are associated with other companies with whom IKB has 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 the 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 to this day in five cases in relation to the Supervisory Board which were disclosed by the Supervisory Board member in question. The Supervisory Board member concerned abstained from voting at the corresponding voting process, and 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) in accordance with Section 5.3.2 sentence 1 of the Codex. In addition a committee to support the selling process has been formed. Specific tasks have been delegated to these committees. 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 (Section 5.3.3). 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 (Section 5.3.2 sentence 2). 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 crisis that developed in July 2007, the IKB Board of Managing Directors arranged for the Bank's risk management system, amongst other items, to be reviewed in the framework of a set of 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 section 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 (Section 2.3.3 sentence 3 (1) of the Codex).

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 has prepared a proposal of the Supervisory Board to the Annual General Meeting regarding the appointment of an external auditor for the financial year 2007/08. In accordance with the recommendations of the German Corporate Governance Code the Chairman of the Finance and Audit Committee obtained the auditor's declaration of independence and confirmation that there are no impediments to the auditors appointment (Section 7.2.1 (1) of the Codex) and entered into agreements to engage the auditor (section 7.2.1 (2), section 7.2.3 (1) and (2)).

The auditor of the 2006/07 consolidated financial statements and of the single entity 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 appoint 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 Düsseldorf Local Court appointed PwC as the auditor for the consolidated interim financial statements as at 30 September 2007. At the Annual General Meeting held on 27 March 2008 PwC was appointed auditor of the consolidated financial statements and single entity financial statements for 2007/2008 on the recommendation of the Supervisory Board.

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) private investors also have access to timely information on key dates and current developments (including ad-hoc disclosures) affecting 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 affected person | Position | Financial instrument | Trading day/ Stock exchange | Trade type | Quantity | Price | Transaction volume |
|---|---|---|---|---|---|---|---|
| Metzger, Jürgen | Member of management or supervisory body | IKB AG bearer shares ISIN/ WKN: DE008063306 | 2 Aug 2007/ Xetra | Sale | 792 | € 15.31 | € 12 125.52 |
| Bouché, Wolfgang | Member of management or supervisory body | IKB AG bearer shares ISIN/ WKN: DE008063306 | 3 Aug 2007/ Frankfurt | Purchase | 500 | € 11.85 | € 5 994.99* |
| | | | 6 Aug 2007/ Frankfurt | Sale | 500 | € 14.01 | € 6 923.35* |

* including transaction fees

As at 31 March 2008, 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.

The Board of Managing Directors' particular responsibility for compliance. Compliance, in the sense of ensuring compliance with the law, legal responsibilities and regulatory requirements as well as the Bank's internal guidelines is a particular management responsibility of the Board of Managing Directors. The Board of Managing Directors has introduced a Compliance Code of Conduct for employees which is regularly reviewed and updated.

## Disclosures required under section 161 of the German 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 16 February 2008, with the exception that 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 3.8 (2) 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 sentence 2: Ruling on responsibility 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 sentence 3 sub-sentence 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 was published on 29 April 2008, and the third quarter report was published on 27 May 2008. The reason for these delays was the crisis facing IKB Deutsche Industriebank AG and the resulting need to review the balance sheet amounts and valuations used in the preparation of the 2006/07 financial statements in the light of up-to-date information which required the reassessment of valuations until the date of preparation.

The Board of Managing Directors and Supervisory Board further declare that IKB Deutsche Industriebank AG will meet the recommendations of the German Corporate Governance Code issued by the Government Commission as last amended on 14 June 2007, with the exception of Sections 3.8 (2) and 4.2.1 sentence 2 as well as section 7.1.2 sentence 3 subsentence 2.

The remuneration report, as element of the Corporate Governance Report, is included in section 7 of the Group Management Report.

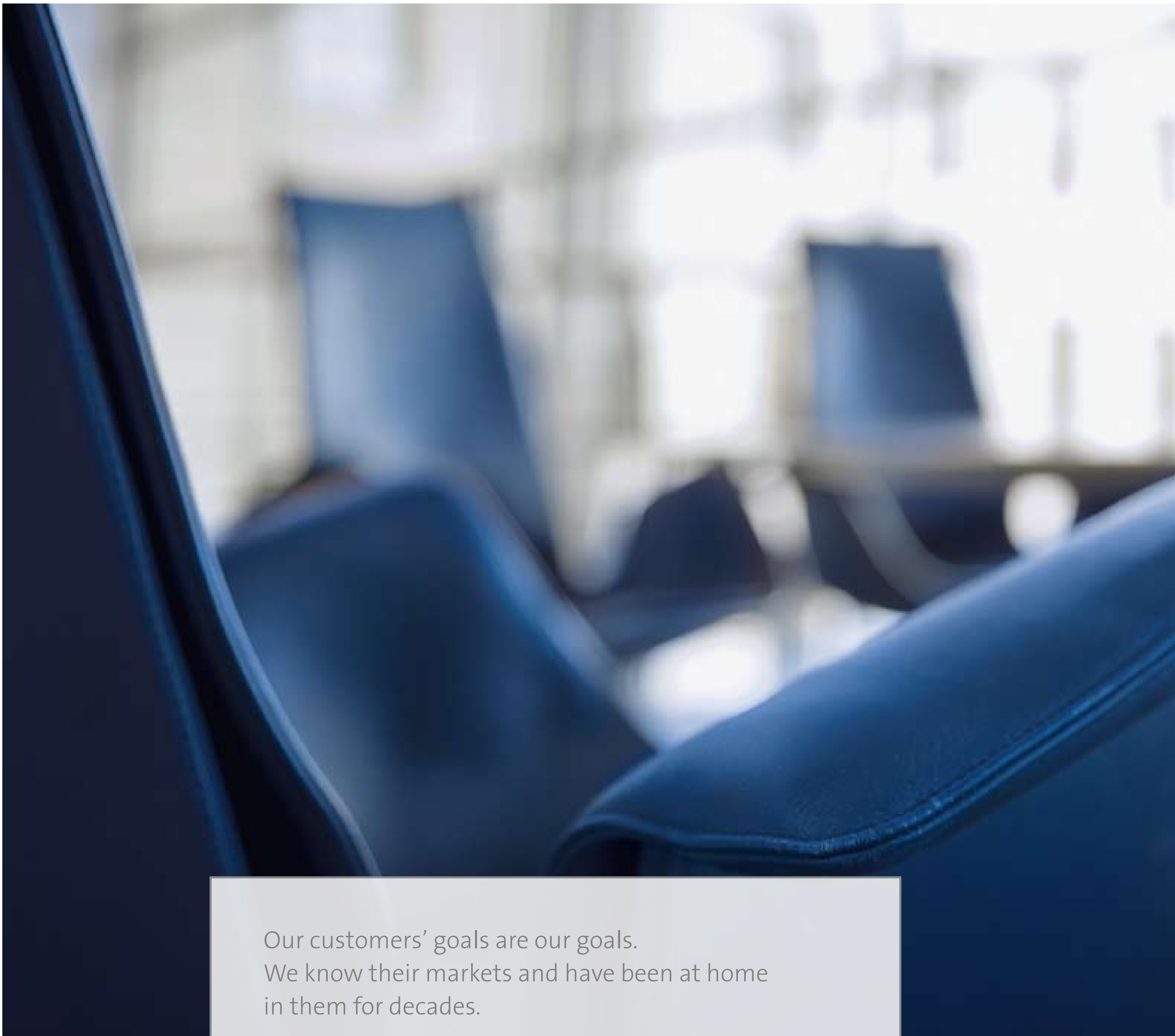
Düsseldorf, 11 July 2008

For the Supervisory Board of
IKB Deutsche Industriebank AG

Werner Oerter

For the Board of Managing Directors of
IKB Deutsche Industriebank AG

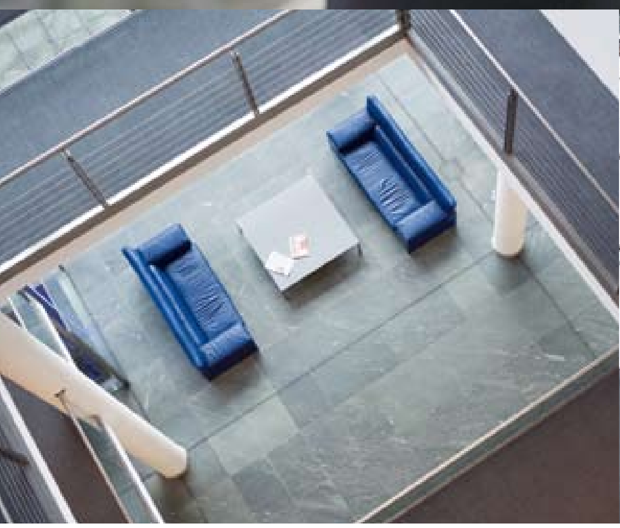
Dr Günther Bräunig



Our customers’ goals are our goals.
We know their markets and have been at home in them for decades.

By regularly monitoring 370 sectors, we understand sector trends and know how companies can position themselves in a global environment with increasing competition. We also understand how they are affected by technical advances.

We have long-standing links to more than 20,000 medium-sized companies in industry, commerce, the service sector and real estate, as well as to associations, research institutes, authorities and experts. Our customers understand the importance of such links.



expertise

# Group Management Report

# 1. General conditions

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

## Conditions for Portfolio Investments

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

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

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

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

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

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

## Conditions in IKB's core business

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

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

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

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

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

## Strategic direction of IKB

IKB is a leading German specialist bank in long-term finance for medium-sized corporate clients, estate investors, and project partners. In terms of granting long-term corporate loans to Germany's manufacturing industry, the Bank has a market share of just under 10% as at 31 March 2008. IKB's main rivals in Germany are the major universal banks, as well as selected larger credit institutions from the public banking sector. In addition, we are increasingly serving European customers from outside Germany. In the European markets we maintain our focus on the mid-cap sector.

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

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 strongly identify with the Bank. This is shown in the level of staff turnover, which although it has increased since the beginning of the crisis in July 2007, is still relatively low considering the situation.

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

### *Corporate Clients*

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

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

Via the Bank's leasing subsidiaries, IKB is engaged in equipment leasing both in the domestic market and internationally. In Germany for example, the Bank is a market leader in plant and machinery leasing. Internationally the IKB Leasing Group is engaged in Central and Eastern Europe (Poland, Romania, Russia, Slovakia, the Czech Republic and Hungary) as well as in France and Austria.

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

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

### *Real Estate Clients*

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

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

*Structured Finance*

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

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

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

*Securitisations*

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

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

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

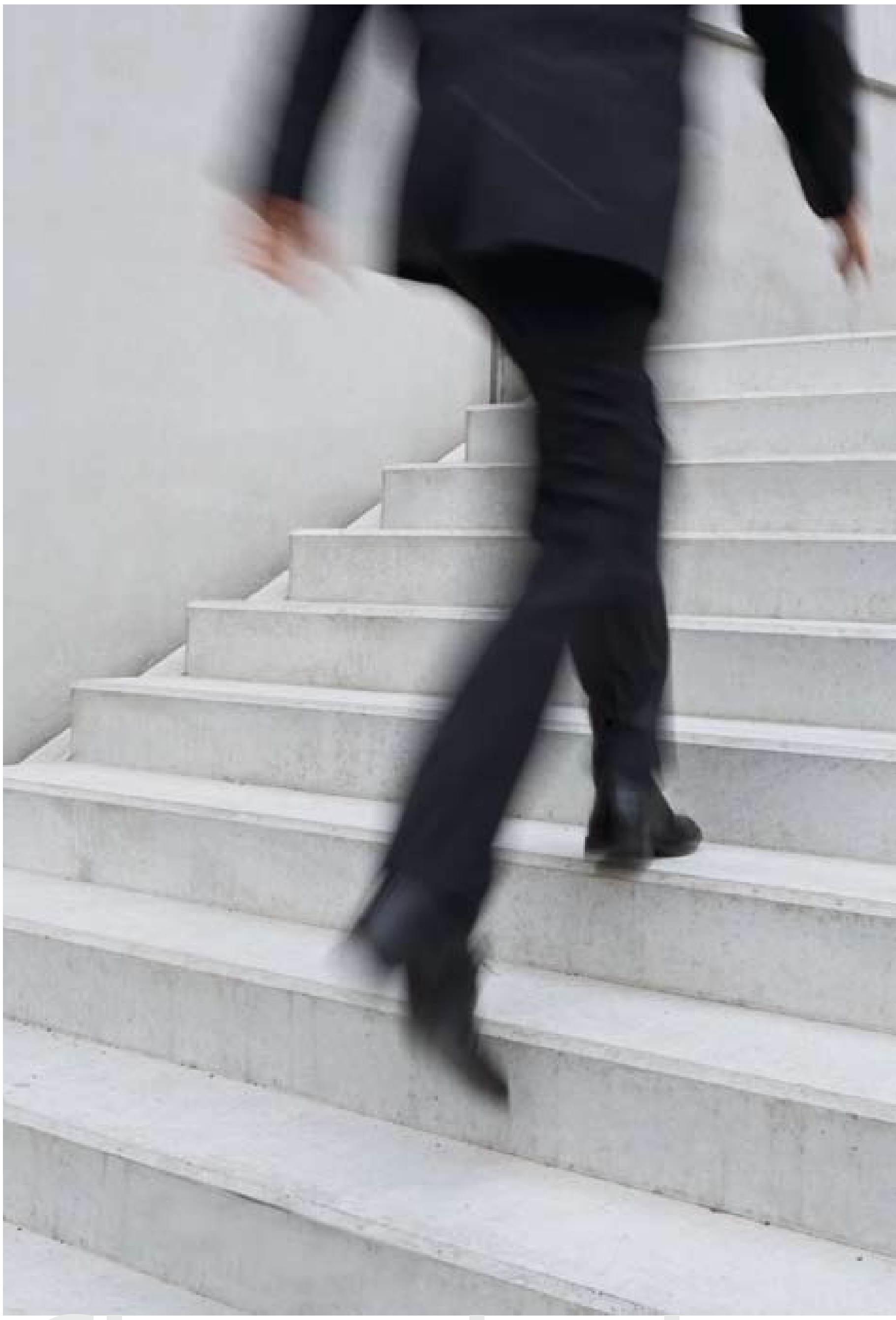
*Portfolio Investments*

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

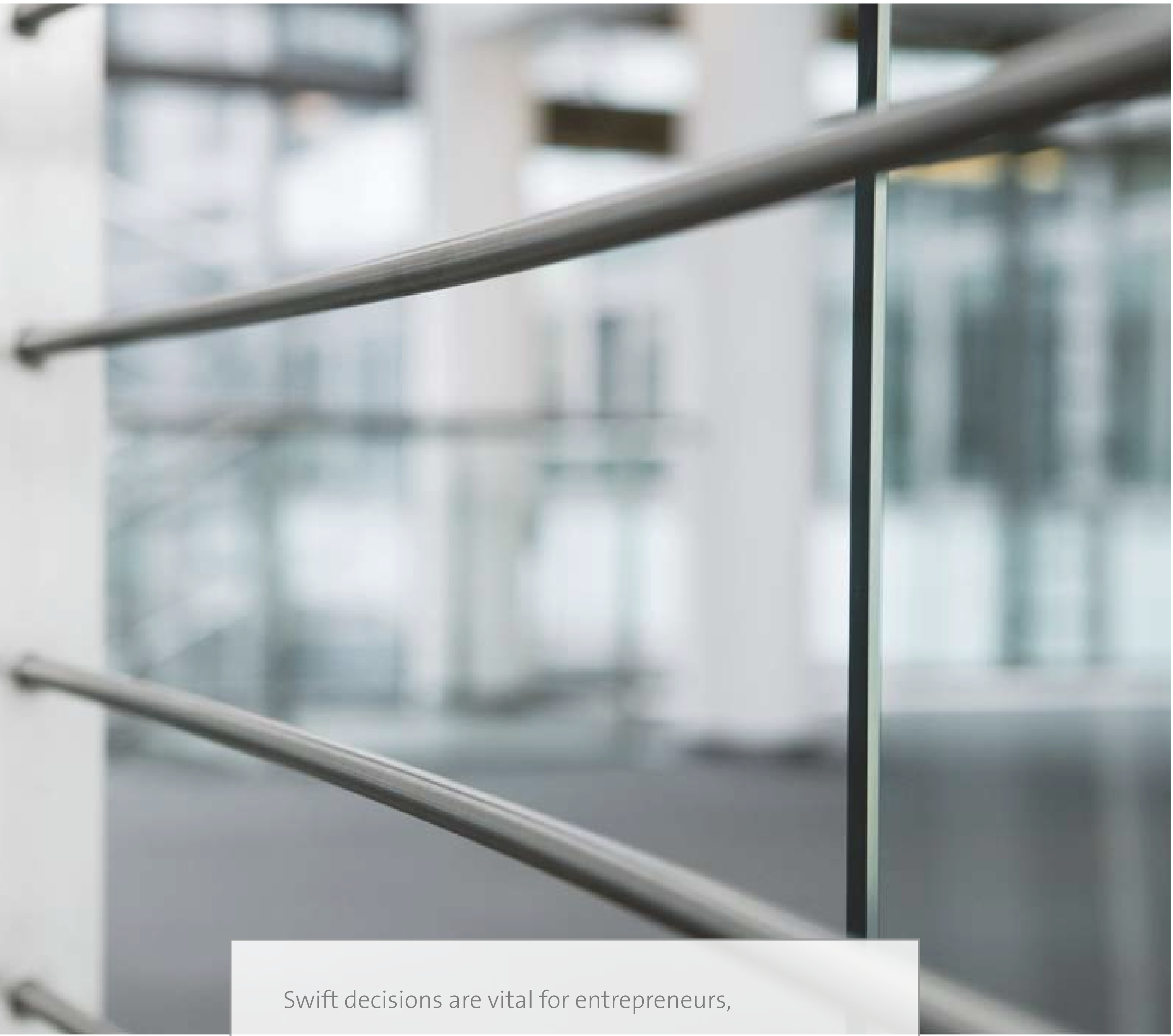
Further, in 2002, the Rhineland Funding conduit was launched (Rhineland Funding), which also invested in credit backed securities and was financed by the revolving issue of commercial papers. IKB and other banks extended considerable lines of credit as security for these commercial paper issues. The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

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

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



# flexibility



Swift decisions are vital for entrepreneurs, as are rapid responses from skilled contacts. IKB has always been just as flexible as its medium-sized customers.

We work in a solution-oriented and efficient manner. A streamlined management structure, a close-knit network in many business fields, links to experts and swift reactions to market changes help our customers achieve their goals quicker.

# 2. Important events in the reporting period

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

## Background to the crisis

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

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

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

- Portfolio investments of IKB AG and IKB International S.A., Luxemburg, of nominal € 5.0 billion and € 1.3 billion, and

- The special purpose vehicle Rhinebridge plc with a nominal investment volume of € 1.8 billion, in which IKB itself had invested € 109 million in capital notes.

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

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

## Rescue package

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

### *Rhineland Funding and Havenrock*

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

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

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

### *Portfolio investments*

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

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

- The "unshielded sub-portfolio", with a nominal volume of € 3.0 billion as at the end of July 2007, which contains in particular CDOs based on corporate loans and ABS transactions.

The nominal volumes of both sub-portfolios changed over time, as a result of repayments and changes in the €/US $ exchange rate, and have decreased over the course of the crisis and over the period to the end of the financial year (31 March 2008).

To compensate for the high amounts of losses on both portfolios and the resulting reduced liable capital, the KfW increased IKB's liable capital on 19 February 2008 by € 600 million and on 19 March 2008 by a further € 450 million. This was effected by means of a loan with immediate debt waiver, which is reflected in these consolidated financial statements as a liability and valued in accordance with IAS 39.AG8. The contractual details of these loans contain agreements on compensation out of future profits, with the following key elements:

- The compensation payments out of future profits on both of these measures total € 1,050 million (plus expenses and interest payments). Claims only accrue in a financial year if, and in so far as, IKB AG – in the HGB individual financial statement – does not incur an annual loss as a result of the compensation payments, and provided its statutory equity ratio stays at least at 9% .

- Interest payments will only be made in financial years when IKB AG does not incur an annual loss in its HGB individual financial statements as a result of the compensation payments. Should payment by the borrower result in the Bank, at the time of making payment, having a regulatory liable capital ratio of less than 9%, IKB is permitted to defer payment until payment can be made without lowering the capital ratio below 9%.

- The claims to compensation payments take commercial precedence over the claims of profit-participation certificate holders and silent participations of IKB AG.

- IKB AG is required, as far as legally permitted, to ensure the distribution of profits generated by subsidiaries held directly by it to IKB AG.

*Rhinebridge*

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

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

### *Capital increase*

On 27 March 2008, shareholders in General Meeting approved a capital increase in return for new liquid funds of up to € 1.49 billion (offered to existing shareholders at a ratio of 1:6). The KfW has committed to the BaFin that it will subscribe for sufficient shares that IKB will raise at least € 1.25 billion additional capital (before issue costs) from this issue. This commitment is subject to the BaFin offering the purchaser pre-emptive restructuring rights in accordance with Securities and Takeover legislation. Despite some legal challenges being raised thereto, the Board, based on all the available facts and circumstances, remain confident that the capital increase in August 2008 will take place, and that in addition to other shareholders, the KfW and/or a purchaser of KfW's shares will subscribe for shares in connection with the capital increase.

## Findings of the PwC agreed upon procedures

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

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

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

## Personnel changes

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

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

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

## Shareholder's meeting and dividends

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

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

As no net profits were reported in the restated Annual Financial Statements of IKB AG to 31 March 2007, no dividend is declared. Originally a dividend of € 0.85 per share was planned for the year 2006/07.

## Current rating situation

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

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

## Liquidity situation

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

## Sale process

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

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

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

The process continues after the 31 March 2008 and is discussed in more detail in the supplementary report.

# 3. Earnings, financial, and asset position

## Business developments

New business amounted to € 11.8 billion in the Financial Year 2007/08 (2006/07: € 12.8 billion), although IKB significantly reduced the volume of new business since August 2007 particularly for liquidity and capital adequacy reasons. No new portfolio investment engagements have been entered into since the crisis began. Overall, IKB disbursed € 9.8 billion in the three core business segments Corporate Clients, Real Estate Clients, and Structured Finance (2006/07: € 11.1 billion).

## Income

IKB AG's profit and loss account is significantly affected by the Bank's crisis.

The following table shows the main extraordinary factors affecting the operating results, broken down into the individual items in the income statement:

| **1 Apr 2007 to 31 Mar 2008 in € million** | Trading and other fair value result | Fair Value Option | Net income from investment securities | Result of risk assumption | Other operating result | Total 12 months | FY 2006/07 | Change in FY |
|---|---|---|---|---|---|---|---|---|
| Rhineland Funding | 647 | –1 260 | | 547 | | –66 | | |
| Havenrock | –853 | | | 912 | | 59 | | |
| Higher risk sub-portfolio | –268 | –939 | –821 | 778 | | –1 250 | | |
| Unshielded sub-portfolio | –53 | –271 | –123 | | | –447 | | |
| Rhinebridge | –2 | –242 | | 164 | | –80 | | |
| Market value losses on long term investments and derivates | –214 | –164 | | | | –378 | | |
| Changes in fair value of liabilities (rating driven) | | 1 735 | | | | 1 735 | | |
| Liability valuations in accordance with IAS 39 AG 8 | | | | | 649 | 649 | | |
| **Sub-total** | **–743** | **–1 141** | **–944** | **2 401** | **649** | **222** | | |
| Other | 60 | –1 | –36 | 0 | 13 | 36 | | |
| **Total** | **–683** | **–1 142** | **–980** | **2 401** | **662** | **258** | **–56** | **314** |
| Net interest income | | | | | | 450 | 673 | –223 |
| Thereof amortisation of released collateral | | | | | | –93 | –3 | –90 |
| Provision for possible loan losses | | | | | | 255 | 240 | 15 |
| Net commission income | | | | | | 55 | 52 | 3 |
| Result of investments accounted for at equity | | | | | | 2 | 2 | 0 |
| Administration expenses | | | | | | 377 | 316 | 61 |
| Sub-total | | | | | | –125 | 171 | –296 |
| **Operating Result** | | | | | | **132** | **115** | **17** |
| Taxes | | | | | | 164 | 77 | 87 |
| **Total** | | | | | | **–32** | **38** | **–70** |

Rounding differences may occur

Rhineland Funding. The fair value loss of € 1,260 million on the assets of the Rhineland Funding Companies compares with valuation gains among the liquidity hedges concluded for these assets by the special-purpose vehicles of Rhineland Funding, amounting to € 647 million. The Rhineland Funding entities were deconsolidated at the end of July 2007 as a result of the KfW's assumption of the liquidity lines provided by IKB and the extensive loss of IKB's influence over these entities. The resulting income of € 547 million is reported in the position "Result of risk assumption"; overall the Rhineland Funding entities have contributed a net € –66 million to the loss reported.

Havenrock. The assumption of credit risks for investments of the special-purpose vehicles of Rhineland Funding against two liquidity providers and associated gains from hedges concluded with two credit insurers resulted in net valuation losses reported in trading results of € 853 million. At the balance sheet date, this loss was covered by a shield provided by the KfW of € 912 million, shown in the results of risk assumption, which led to a net valuation gain of € 59 million. The net positive effect of € 59 million results from the fact that in the restated 2006/07 Group consolidated financial statements a valuation loss of € 108 million had been reported previously.

Higher risk sub-portfolio. The portfolio protected by the risk shield of nominal € 1 billion breaks down into two IFRS categories:

- Financial instruments valued at fair value: This includes all credit default swaps, which have resulted in a loss of € 268 million reported within trading results, and other securities which IKB has chosen to value at fair value under the fair value option. These are also valued at market value at 31 March 2008 and have resulted in a loss of € 939 million.

- For those securities that are valued at amortised cost, and taking adjusting events up to the financial statement closing date into consideration, values were applied that resulted in a loss of € 821 million.

IKB is also covered by the risk shield against losses arising from the Rhinebridge capital notes. The risk shield, with its present value at 31 March 2008 of € 778 million (excluding Rhinebridge requirements) does not cover total losses in the portfolio so that a net loss after risk assumption of € 1,250 million is reported.

Unshielded sub-portfolio. This sub-portfolio, as with the higher risk portfolio, contains three categories of financial instruments. The sub-portfolio, which contains mainly corporate risks, incurred a valuation expense totalling € 447 million in the Financial Year ended 31 March 2008 owing to the weak market environment.

Rhinebridge. The loss from Rhinebridge of € –244 million corresponds to the reduction in the value of Rhinebridge assets to the extent not absorbed by other capital providers to Rhinebridge. The net loss of € 80 million after risk absorption of € 164 million is attributable to commercial paper not covered by the risk shield.

Market value losses on long-term investments and derivatives. IKB's investment portfolio includes investments made with IKB's own equity and other financial investments and is invested in long-term investments, with a significant proportion in structured form including derivatives. The changes in market interest rates and changes in the volatility of interest rates during the period have resulted in trading losses of € 214 million on derivate financial instruments included in the investment portfolio. Other financial instruments included in the investment portfolio, for which the fair value option was exercised, have also suffered losses, amounting to € 164 million, as a result of the changes in market interest rates and changes in interest rate volatility; for these instruments wider credit spreads also contributed to the reported losses.

Instruments with a credit rating driven negative reported fair value. In the past, i.e. prior to the crisis, IKB opted for the fair value measurement under IFRS for a substantial part of its liabilities. The liabilities of IKB have lost significant market value as a result of the crisis and are therefore, in accordance with IFRS, reported in the balance sheet at a market value lower than their nominal value. The resulting valuation gain of € 1,735 million is reported in the consolidated financial statements within "Net income from financial instruments at fair value". Of this, € 752 million is attributable to profit-participation certificates and silent participations. To the extent that this valuation gain does not apply to permanent interest and capital losses on hybrid liabilities, it will require reversal by the time liabilities are repaid and accordingly result expenses being recorded.

Negative valuations in accordance with IAS 39.AG8. Further negative valuations were necessary in accordance with IAS 39.AG8 (present value of future cash flows): This applies to profit-participation certificates and silent participations not valued at fair value but which as a result of the crisis are valued at less than the amounts originally recognised in accordance with IAS 39.AG8, on which a valuation gain of € 286 million results. In addition this further applies to a valuation gain on the € 1,050 million on the KfW loan with immediate debt waiver and provisions for compensation out of future profits. These instruments are included in the IFRS Financial Statements as liabilities and valued in accordance with IAS 39.AG8. As a result of the fact that a low expected interest expense on these amounts is expected, a gain of € 363 million results.

The other income statement items can be explained as follows:

Net interest income in the Financial Year 2007/08 of € 450 million is € 223 million lower than in the previous year (€ 673 million). Of this year on year reduction, € 90 million results from the write-down of a compensating position for a hedging position (IFRS 1 IG60A) released in connection with an early loan repayments, and € 50 million reduction compared to the previous year relates to the segment Portfolio Investments which has generated little income since the begin of the crisis. The remaining reduction of € 83 million results primarily from lower income earned on interest management operations and from higher refinancing costs.

The provisions for possible loan losses of € 255 million are higher than in the same period of the previous year (€ 240 million). The increase is primarily recorded in the Group's business segments, whereby Central/Consolidation risk provisions are reduced as a result of the reduction of historical risk exposures.

Net commission income has increased slightly to € 55 million (2006/07: € 52 million). The result is mainly stable as a result of consistent levels of commission income earned in the Structured Finance segment.

General administrative expenses rose by 19.1% to € 377 million. Whereas personnel expenses were slightly (2.5%) lower, other administration expenses increased by 49.8%. The latter is a result of increased fees payable to external consultants and other costs incurred as a result of IKB's crisis. The average number of employees in the Financial Year was 1,852 (1,728); at 31 March 2008 IKB had 1,839 (1,788) employees.

On an overall basis, the risk shield implemented as part of the rescue package by the KfW and the Banking associations, the credit rating driven fair value gains recorded from the lower market value of the Group's liabilities, the income from the valuation of the hybrid liabilities in accordance with IAS 39.AG8 and the gains recorded on the KfW loan with immediate debt waiver and provisions for compensation out of future profits more than compensated for the losses on portfolio investments, including the Rhinebridge and Havenrock risk positions. The IKB Group reports an operating profit of € 133 million for the Financial Year 2007/08, after € 115 million in the previous year.

With regard to the tax position, deferred tax assets on losses carried forward from previous years were written down since they will cease to apply as a result of the anticipated change of ownership. In addition, deferred tax liabilities in the positive income effects described above were recorded on the valuation of the liabilities to the extent that the effect is not immediately included in tax income and not covered by tax losses of the next five years. The consolidated loss after allowing for the tax expense € 164 million stands at € 32 million.

Earnings per share amounts to € –0.36 (€ 0.43). In the Financial Year under report, IKB issued a convertible loan, which was converted within the period. As a result the number of shares increased from € 88.0 million to € 96.8 million.

## Segment reporting

IKB's segment reporting has been amended compared to the restated consolidated financial statements for the period ended 31 March 2007. The details of these changes are included in the segment reporting disclosure notes. The changes affect the segment "Securitisation" reporting in previous periods, now known as "Portfolio Investments", and the "Head Office" element within the segment reporting. The comparative values have been adjusted accordingly.

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

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

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

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

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

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

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

In the Financial Year 2007/08 the Corporate Clients segment achieved an operating result of € 21 million (2006/7: € 93 million). With net interest income of € 233 million almost at the same level as in the previous year (€ 235 million), the operating result is affected by a significant increase in risk provisions made in the Financial Year which increased by € 29 million to € 66 million and by valuation losses included in fair value results following a failed private equity investment. The negative financial investment result of € 6 million resulted from write-downs made on a Private Equity investment in first loss pieces of one of the Bank's own mezzanine securitsation transactions. Overall the private equity business reported a loss of € 23 million (€ +16 million). It was possible to reduce costs further. General administrative expenses in the reporting period stood at € 141 million (previous year: € 150 million). The return on equity was 3.1% (14.4%), the cost-income ratio 61.7% (53.5%).

In the *Real Estate Clients* segment, in which national and international real estate financing business is reported, new business of € 1.4 billion (previous year € 1.3 billion) was achieved in the Financial Year 2007/08, whereby the bank deliberately limited itself to business with its existing customers. International financing new business (€ 0.3 billion) was at a similar level to last year, IKB limited the scope of this business in the light of the Bank's problems and did not pursue the original plan of forcing growth. The margin on new business fell to 1.07% (1.32%).

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

In addition, as at year end, there are 18 joint ventures in progress, in which IKB is working on complex projects together with medium-sized project developers.

The Real Estate Clients segment reports an operating result of € 11 million (2006/7: € 23 million). At € 62 million, net interest income was slightly lower than in the previous year (€ 67 million). The decrease reflected almost exclusively lower income from handling fees and early repayment fees, interest income was however almost unchanged compared to the previous year. Risk provisions increased by € 8 million to € 23 million. The return on equity was 5.1% (11.4%), the cost-income ratio 55.3% (51.8%).

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

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

IKB complements its own original acquisition financing with an active portfolio management, which means that a systematic securitisation strategy is employed. In April 2007 IKB placed "Bacchus 2007-1" with a volume of € 450 million. This transaction, comprising of over 80 mid-cap acquisition finance assets, attracted much interest from investors due to its high level of diversification.

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

The Structured Financing segment reported a negative operating result of € –3 million (€ 91 million). Despite a small improvement in new business margin, net interest income fell by 17.9% to € 125 million as a result of a lower loan volume – including a reduction resulting from asset sales – of approximately € 0.5 billion and as a result of higher refinancing costs for existing business. A negative € 5 million effect as a result of a changed interest rate limit is included. Net provision income remained stable despite a lower volume of new business as the commission per transaction could be increased; commission on securitisation transactions remained stable.

Risk provisions increased by € 28 million to € 63 million (2006/07: € 35 million) as a result of higher individual loan loss provisions against acquisition financing arrangements and a net increase in portfolio provisions. Provisions of € 34 million were made against investments in first loss pieces in the Bank's own securitisation transactions in line with the general market trend to wider spreads affecting subordinated tranches in particular. Additional investments in personnel and in non-financial assets at IKB's European foreign locations led to a rise in general administrative expenses to € 69 million (€ 66 million).

Return on equity in this segment was –0.9% (26.1%), the cost-income ratio stood at 53.5% (34.3%).

Securitisations for our own assets were spun off to the Head office/Consolidation division and the segment was therefore renamed *Portfolio Investments*. The segment reports an operating result of € –1,679 million (2006/07: € 11 million) and reflects, in particular, IKB's losses due to the credit crisis.

Specifically, the fair value result fell to € –3,241 million, and net income from investment securities to € –904 million. This stood in contrast to the positive result from risk assumption by the KfW/banking pool of € 2,401 million.

General administrative expenses rose to € 43 million (€ 27 million) as a result of project costs and costs incurred in respect of the risk shield.

## Balance sheet

At € 50.2 billion, the balance sheet total at 31 March 2008 was € 13.2 billion, or 20.9% less than that as at 31 March 2007. This is in essence due to the deconsolidation of Rhineland Funding after KfW entered into the liquidity lines granted by IKB to Rhineland Funding on 30 July 2007. Rhineland Funding had a balance sheet volume of € 11.6 billion at 31 March 2007.

Loans and advances to customers decreased by € 0.8 billion compared with 31 March 2007, to € 28.9 billion. The reduction is a result of lower levels of new business and to sales in the Structured Financing segment.

Loans and advances to banks fell by € 1.6 billion to € 2.9 billion, as IKB reduced inter-bank market deposits significantly during the crisis.

The levels of loan provision in the lending business fell by € 0.2 billion to € 0.9 billion as a result of provisions being utilised, released as well as final write offs totalling € 0.6 billion, whereas new provisions made totalled € 0.4 billion.

Total trading assets increased by € 1.4 billion to € 3.6 billion. On one hand the positive values of derivative financial instruments increased by € 2.9 billion as a result of higher market values for Havenrock entity credit derivatives (see trading liabilities for information on the corresponding economic opposite position). On the other hand, assets held for trading fell because bonds and other fixed-interest securities with a volume of € 1.2 billion are shown in the investment securities after completion of the build-up of the Rhinebridge portfolios.

Investment securities fell by € 14.4 billion to € 12.8 billion, due, in particular, to the deconsolidation of Rhineland Funding as previously explained, and depreciation on portfolio investments.

Receivables from the KfW arising from the risk shield of € 1.8 billion were recorded and largely explain the increase in other assets to € 2.1 billion.

On the liabilities side of the balance sheet, liabilities to banks increased by € 3.5 billion to € 17.4 billion. Within this total, amounts payable on demand (i.e. short term borrowings in the inter-bank market) fell by € 1.2 billion to € 0.1 billion. This reduction clearly reflects the difficult inter-bank lending situation on the money markets. Liabilities with an agreed term or notice period increased to € 17.3 billion (€ 12.6 billion). The increase reflects a heavy increase in collateralised borrowings drawn from the ECB and other banks as well as higher individual refinancing arrangements in connection with state support schemes promoted by the KfW and other state agencies.

Liabilities to customers increased by € 1.5 billion to € 5.8 billion, particularly as a result of higher levels of promissory note loans.

Securitised liabilities, on the other hand, fell sharply (€ –21.4 billion to € 18.2 billion). This decrease reflects primarily the deconsolidation of Rhineland Funding, as commercial papers issued by Rhineland Funding was reported in this position in the previous year's financial statements, as well as own emissions and the credit rating driven reduction of financial instruments valued at fair value. The Bank's ability to emit new own bonds was limited as a result of the financial crisis. Emissions totalled € 1.8 billion, scheduled repayments € 10.2 billion and early repayments amounted to € 1.0 billion.

Liabilities held for trading rose significantly by € 4.2 billion to € 5.4 billion. The increase was primarily as a result of hedging positions entered into by the Havenrock entities.

Subordinated capital fell by a total of € 1.3 billion to € 1.8 billion as a result of credit rating driven fair value reductions for subordinated liabilities valued at fair value, reductions in the valuated of profit-participation certificates, silent participations and valuation discounts applied in accordance with IAS 39AG8 to instruments not valued at fair value. Equity of € 1.2 billion remained broadly consistent with the previous year.

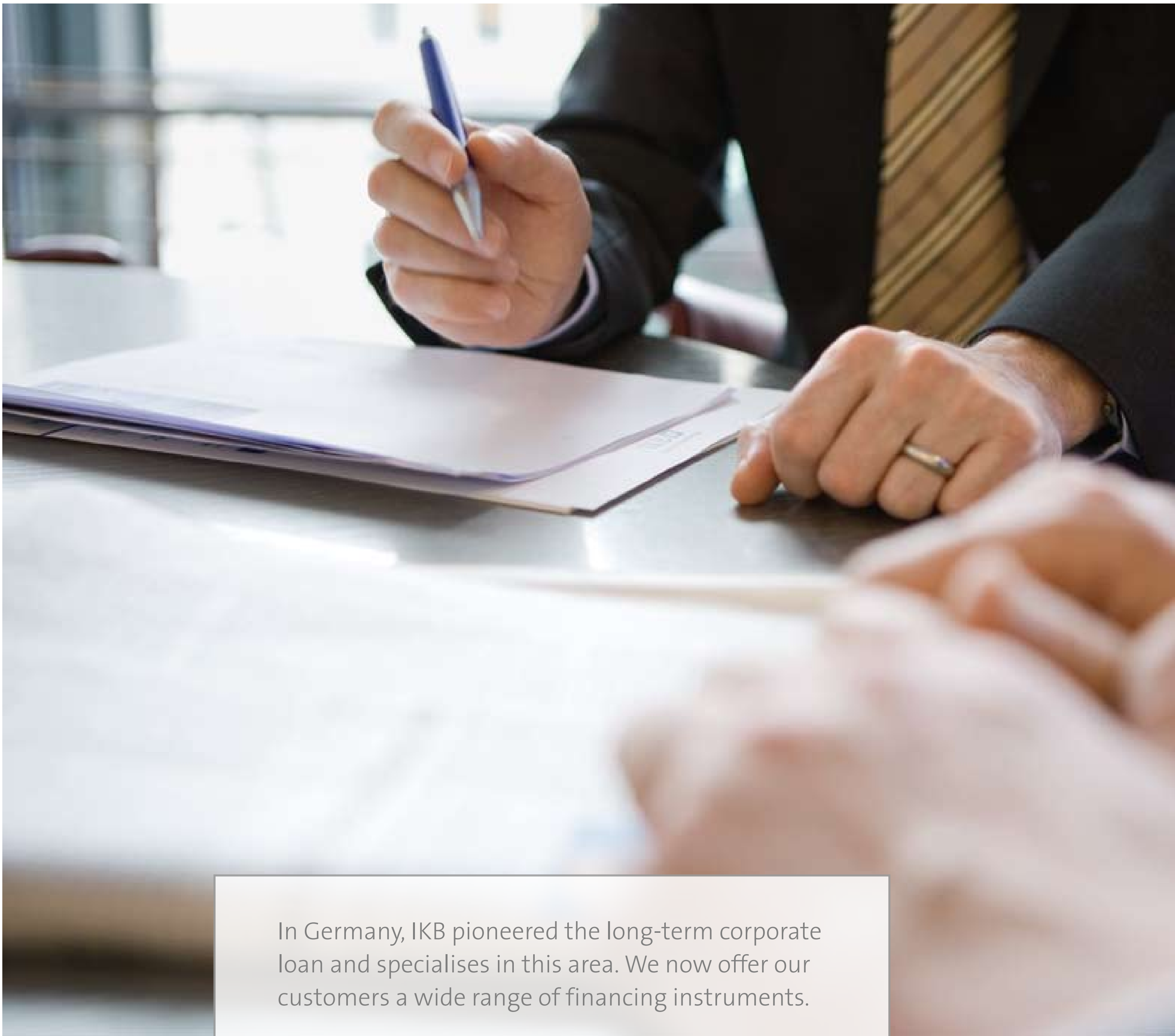
As at 31 March 2008, IKB held no treasury shares.

## Financial position

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

## Overall view

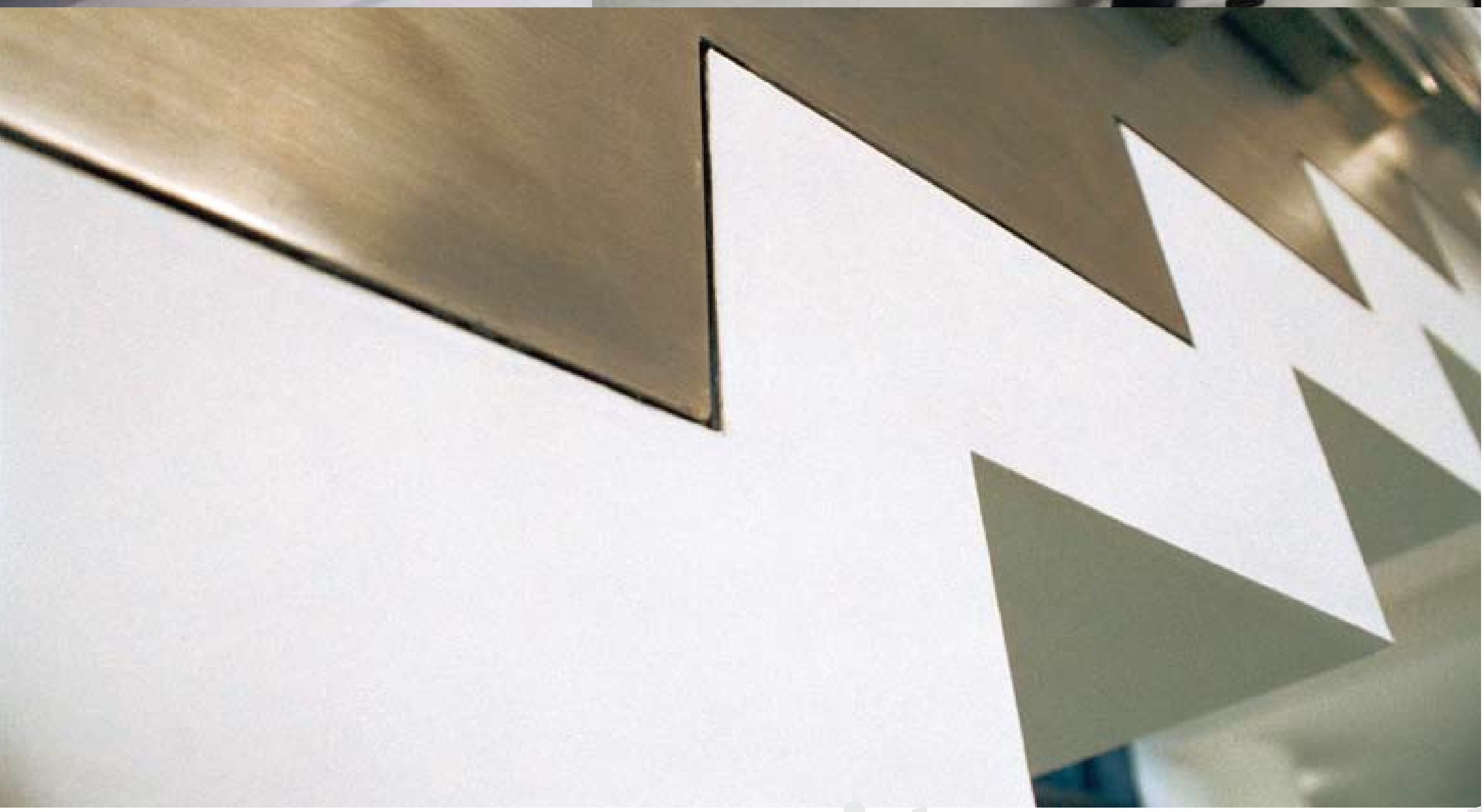
Overall, the Bank's business performance and its position in 2007/08 were strongly impacted by the crisis that it faced at the end of July 2007. Ultimately, IKB's survival could only be ensured by the comprehensive rescue measures put together by KfW with support from the banking pool.



In Germany, IKB pioneered the long-term corporate loan and specialises in this area. We now offer our customers a wide range of financing instruments.

With high levels of commitment and a continual focus on our customers' goals, we offer multiple financing options, such as equipment and real estate leasing, low interest development loans or variable financing structures.

We know how to promote good, entrepreneurial ideas and set the scene for our customers' success.



commitment

# 4. Risk report

## Risk management organisation

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

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

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

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

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

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

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

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

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

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

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

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

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

## Risk bearing capacity and regulatory capital

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

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

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

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

### Group (section 10 a KWG)

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

[1] The increase from 2006 to 2007 is due to the increase in open currency positions of foreign subsidiaries
[2] The deductions at 31 March 2007 included first loss pieces from securitisation transactions, which under the new Solvency Regulations (SolvV) are included in risk weighted assets with a risk weighting of 1,250%.

At 6.0%, the reported Tier I ratio at Group level is above the regulatory minimum of 4.0%. The reported total capital ratio of 9.8% is above the regulatory minimum total capital ratio of 8.0%. Given the capital injections made by KfW and the approved capital increase, the Board of Managing Directors anticipates that minimum regulatory requirements will continue to be met in the future.

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

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

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

The following table shows the proportion of the economic capital tied up in risk exposures by type, excluding portfolio investments on the basis of stressed variables (in particular high levels of default risk, loss expectancies and correlation assumptions). Comparative figures on the basis of unstressed and stressed variables for 31 March 2007 are provided.

| | 31 Mar 2008 | | 31 Mar 2007 | | | |
|---|---|---|---|---|---|---|
| | Stressed variables | | Stressed variables | | Unstressed variables | |
| **Economic capital** | in € million | in % | in € million | in % | in € million | in % |
| Counterparty and credit risk* | 1 206 | 67 | 1 573 | 72 | 473 | 62 |
| Market price risk* | 169 | 9 | 274 | 13 | 108 | 14 |
| Operational risk | 277 | 15 | 246 | 11 | 82 | 11 |
| Business risk | 156 | 9 | 94 | 4 | 94 | 13 |
| **Total** | **1 808** | **100** | **2 187** | **100** | **757** | **100** |

* excluding Portfolio Investments

In comparision with the previous year the economic capital for credit risk, despite a slight increase in the lending volume, has fallen from € 1.57 billion to € 1.2 billion. This is primarily a result of transfer of risks to third parties and an improvement in the rating structure of the exposures. At the same time measures to reduce market price risk are continually progressed, also when this involves accepting the realisation of losses. The increase in business risk to € 156 million results from increased risk arising as a consequence of the crisis. This also applies to operational risk.

As a result of the widening of portfolio investments spreads in 2007 and 2008 the risk for portfolio investments is represented by means of a scenario analysis, whereby due to the limited scope for management of these investments in comparison to other investment classes (low market liquidity, low transparency, less collateralisable) no explicit limit for the credit rating risk is set. Instead, in supervising the risk bearing capacity of the Bank, the risk, as measured, is deducted from the available risk cover. The result is that for the remaining risk categories which are managed on the basis of limits, a less risk cover is available. This approach was adopted at 31 December 2007 for the first time. In this way all aspects of credit rating and default risk (including spread and migration risk) should be addressed. The economic capital requirement for portfolio investments at 31 March 2008 was € 858 million (of which € 65 million was for CDOs of ABS, € 554 million for CDOs of corporates and € 239 million for ABS bonds).

## Counterparty and credit risk

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Credit risk structure. The Bank's internal reporting of credit volumes at 31 March 2008 (for comparison purposes excluding Rhineland Funding assets) compared to 31 March 2007 showed the following:

| | 31 Mar 2008 in € million | 31 Mar 2007 in € million | Change in € million |
|---|---|---|---|
| Loans to banks | 30 | 46 | –16 |
| Loans to customers | 26 844 | 27 791 | –947 |
| Portfolio investments, corporate and government bonds | 5 717 | 7 783 | –2 066 |
| Operating- und finance leasing arrangements | 1 951 | 1 642 | +309 |
| Contingent liabilities, CDSs and guarantees | 3 100 | 2 477 | +623 |
| **Total** | **37 642** | **39 739** | **–2 097** |

**Analysis of loans by volume of transaction**

| | 31 Mar 2008 | | | 31 Mar 2007 | |
|---|---|---|---|---|---|
| **Analysis by size[1] in € million** | Credit volume* | | Number [1] | Credit volume* | |
| Under € 5 million | 6 059 | 16% | 19 394 | 6 619 | 17% |
| Over € 5 million and less than € 10 million | 3 840 | 10% | 534 | 3 962 | 10% |
| Over € 10 million and less than € 20 million | 5 077 | 13% | 371 | 5 753 | 14% |
| Over € 20 million and less than € 50 million | 4 635 | 12% | 162 | 5 271 | 13% |
| Over € 50 million | 3 700 | 10% | 35 | 3 227 | 8% |
| **Core segments** | **23 311** | **62%** | **20 496** | **24 832** | **62%** |
| Risk transferred to third parties[2] | 9 965 | 26% | | 8 105 | 20% |
| **Core business total** | **33 276** | **88%** | | **32 937** | **83%** |
| Under € 50 million | 2 198 | 6% | | 3 786 | 10% |
| Over € 50 million and less than € 100 million | 594 | 2% | | 1 091 | 3% |
| Over € 100 million | 1 574 | 4% | | 1 925 | 5% |
| **Segment Portfolio Investments** | **4 366** | **12%** | | **6 802** | **17%** |
| **Group Total** | **37 642** | **100%** | | **39 739** | **100%** |

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

Transferred risks of almost € 10 billion include loans for which the default risk has been accepted by banks or public authorities as well as synthetic placing of lending risks.

The average size of engagements in the category € 50 million and above is € 105.7 million.

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

| Collateral (in € million) | 31 Mar 2008 Loan volume* | | 31 Mar 2007 Loan volume* | |
|---|---|---|---|---|
| Property liens and charges | 8 245 | 22% | 10 510 | 26% |
| Ownership assignment rights | 2 460 | 7% | 2 163 | 5% |
| Other collateral[1] | 6 753 | 18% | 7 292 | 18% |
| Without collateral | 5 853 | 16% | 4 867 | 12% |
| **Core segments** | **23 311** | **62%** | **24 832** | **62%** |
| Risk transferred to third parties[2] | 9 965 | 26% | 8 105 | 20% |
| **Core business total** | **33 276** | **88%** | **32 937** | **83%** |
| Segment Portfolio Investments | 4 366 | 12% | 6 802 | 17% |
| **Group Total** | **37 642** | **100%** | **39 739** | **100%** |

[1] E.g. Assignment of receivables, participation rights, ownership rights, subordinations, fixed and floating charges, mortgage over shares
[2] Hermes guarantees, indemnifications, risks transferred
* Rounding differences may occur

Risk limitation is supported by collateral provided by portfolio orientated risk transfer, using consortial engagements and risk transfer by securitisation. Lending exposures are generally placed in the capital market synthetically; which means that whilst these remain in the IKB balance sheet, the counterparty risk exposure has been neutralised. We have used securitisation to place a total of € 22 billion using synthetic securitisation to date. The total volume of loans and advances placed through securitisation totalled € 7 billion at the reporting date. IKB has purchased securitisation products with a nominal value of € 15.3 million which include participation in the first losses in the underlying engagements.

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

| By region (in € million) | 31 Mar 2008 Loan volume* | | 31 Mar 2007 Loan volume* | |
|---|---|---|---|---|
| Germany | 15 231 | 40% | 17 698 | 45% |
| Western Germany | 12 543 | 33% | 14 326 | 36% |
| Eastern Germany | 2 688 | 7% | 3 373 | 8% |
| Foreign | 8 080 | 21% | 7 134 | 18% |
| West European | 6 063 | 16% | 5 145 | 13% |
| North America | 1 098 | 3% | 1 313 | 3% |
| Other | 919 | 2% | 675 | 2% |
| **Core segments** | **23 311** | **62%** | **24 832** | **62%** |
| Risk transferred to third parties[1)] | 9 965 | 26% | 8 105 | 20% |
| **Core business total** | **33 276** | **88%** | **32 937** | **83%** |
| Segment Portfolio Investments | 4 366 | 12% | 6 802 | 17% |
| **Group Total** | **37 642** | **100%** | **39 739** | **100%** |

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

Foreign lending amounted to € 8.1 billion of the total at 31 March 2008; 95% of this amount was lent in countries with the highest country risk classes (1/1.5). In addition € 1.3 billion of risks transferred to third parties (for example Hermes Insurance) related to foreign business.

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

| **Country credit ratings[1)]** **Loan volume (in € million)** | 31 Mar 2008 Total | 1–1.5 | 2–2.5 | 3–3.5 | 4–4.5 | 5–6 |
|---|---|---|---|---|---|---|
| Foreign | 8 080 | 7 643 | 327 | 55 | 51 | 4 |
| West European | 6 063 | 6 063 | 0 | 0 | 0 | 0 |
| North America | 1 098 | 1 098 | 0 | 0 | 0 | 0 |
| Other | 919 | 482 | 327 | 55 | 51 | 4 |

1) Excluding risks transferred to third parties; higher credit ratings reflect higher risk levels

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

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

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

Structure by sector. In calculating risk by sector IKB evaluates approximately 370 sectors as part of the rating process. This is based on an econometric model, which reflects national and international macroeconomic conditions as well as inter-rated trends. Specialists working in the economics department are involved in this process.

| Sector (in € million) | 31 Mar 2008 Loan volume* | | 31 Mar 2007 Loan volume* | |
|---|---|---|---|---|
| Industry sector | 16 476 | 44% | 18 023 | 45% |
| Mechanical engineering | 1 261 | 3% | 1 278 | 3% |
| Energy and energy supply | 1 086 | 3% | 1 025 | 3% |
| Retail (excluding motor vehicles) | 993 | 3% | 1 104 | 3% |
| Services | 895 | 2% | 1 036 | 3% |
| Metal manufacturing | 786 | 2% | 699 | 2% |
| Foodstuffs, including tobacco | 764 | 2% | 986 | 2% |
| Transport support services | 760 | 2% | 817 | 2% |
| Chemical, coal and oil processing industries | 750 | 2% | 1 001 | 3% |
| Health and community care | 729 | 2% | 865 | 2% |
| Other (under € 0.7 billion) | 8 453 | 22% | 9 211 | 23% |
| Real Estate | 3 779 | 10% | 4 168 | 10% |
| Financial sector | 1 039 | 3% | 1 394 | 4% |
| Public sector/Banks | 2 017 | 5% | 1 247 | 3% |
| **Core segments** | **23 311** | **62%** | **24 832** | **62%** |
| Risk transferred to third parties[1)] | 9 965 | 26% | 8 105 | 20% |
| **Core business total** | **33 276** | **88%** | **32 937** | **83%** |
| Segment Portfolio Investments | 4 366 | 12% | 6 802 | 17% |
| **Group Total** | **37 642** | **100%** | **39 739** | **100%** |

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

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

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

| Credit rating structure – core segments[1] (in € million) | 31 Mar 2008 Loan volume* | | 31 Mar 2007 Loan volume* | | 31 Mar 2006 Loan volume* | |
|---|---|---|---|---|---|---|
| 1–1.5 | 5 633 | 18% | 5 111 | 17% | 4 608 | 17% |
| 2–2.5 | 7 734 | 24% | 8 786 | 28% | 10 009 | 36% |
| 3–3.5 | 5 386 | 17% | 5 479 | 18% | 5 083 | 18% |
| **Sub-total I** | **18 753** | **59%** | **19 376** | **63%** | **19 700** | **71%** |
| 4–4.5 | 2 000 | 6% | 2 239 | 7% | 2 132 | 8% |
| 5 and above | 873 | 3% | 1 191 | 4% | 1 630 | 6% |
| **Sub-total II** | **21 626** | **68%** | **22 806** | **74%** | **23 462** | **85%** |
| Risk transferred to third parties[2] | 9 965 | 32% | 8 105 | 26% | 4 231 | 15% |
| **AG Total** | **31 591** | **100%** | **30 910** | **100%** | **27 693** | **100%** |

[1] Excluding structured securities (€ 214 million at 31. March 2008) and non performers (impaired). Higher credit ratings reflect higher risk levels.
[2] Hermes guarantees, indemnifications, risks transferred
* Rounding differences may occur

The total volume of risks transferred at 31 March 2008 has again increased to 32% (31 March 2007: 26%). The proportion in rating level 2-2.5 has fallen from 28% to 24%, the proportion in other categories is consistent with the previous year.

Identification and specific handling of exposures in danger of default. All exposures subject to credit risk are monitored on a permanent basis. Specialist management units are responsible for managing exposures in danger of default. By implementing acceptable solutions at an early stage, this special management facility aims to preserve the company's ability to continue trading, or – should these efforts fail – substantially reduce the financial fallout. Particular focus is placed on so-called non-performing loans. A loan is defined as being non-performing if (i) insolvency proceedings have been instigated, (ii) interest or principal payments are more than 90 consecutive days in arrears, or (iii) in the event of other clear signs that the debtor is unable to meet the contractual obligations in the absence of any objective indications of that subsequent payment or the realisation of collateral is likely. In such cases account is taken of the liquidation value of the available collateral.

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

| Non performing loans – Core segments | 31 Mar 2008 Lending volume in € million | 31 Mar 2007 Lending volume in € million | Change in € million | Change in % |
|---|---|---|---|---|
| **Germany** | **1 364** | **1 750** | **–386** | **–22** |
| Western Germany | 730 | 943 | –213 | –23 |
| Eastern Germany | 635 | 807 | –172 | –21 |
| **Foreign** | **107** | **82** | **25** | **+30** |
| **Impaired (non performer) loans** | **1 471** | **1 832** | **–361** | **–20** |
| **Structured securities (impaired assets)** | **198** | **15** | **183** | **+1 220** |
| **Non performing loans – Total** | **1 669** | **1 847** | **–178** | **–10** |
| **As a percentage of core segments lending volume** | **5.0%** | **5.6%** | | |

Non Performing Loans to domestic customers have fallen significantly, whereas for foreign loans, a small increase is reported. In addition to the non per forming loans as traditionally defined, an additional € 198 million of structured securities in the loan portfolio connected to the risk transfer of the Bank's own financing transactions is under close scrutiny due to impairments resulting from the current uncertainties prevailing in capital markets.

Risk provisioning. For financial instruments valued at amortised cost, risk provisions are made in the form of a write-down. Provisions for contingent liabilities are made by recording accruals when the contingent liability threatens to materialise. For products which are valued at Fair Value, credit rating driven changes in value are taken into account when determining fair value.

The corresponding value adjustments take into account both expected future cash flow and the value of collateral available. The Credit Risk Management and Controlling department is responsible for determining the amounts of write-downs, and for evaluating each case individually, assessing the workout strategy and estimating the future expected cash flow receipts.

Financial instruments carried at amortised cost are also checked for the existence of any potential impairment. For portfolios with similar credit risk characteristics general provisions are made 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.

| | 2007/08 in € million | 2006/07 in € million | Change in % |
|---|---|---|---|
| **Additions/releases** | | | |
| Additions to individual provisions/accruals | 391.5 | 437.7 | –11 |
| Direct write-offs | 11.5 | 12.7 | –9 |
| Receipts of loans written down | –6.8 | –3.1 | 119 |
| Additions to/releases of portfolio allowances | –19.6 | –121.1 | –84 |
| Releases of individual loan loss provisions/accruals | –121.4 | –86.5 | 40 |
| **Risk provisions in lending business** | **255.2** | **239.7** | **6** |
| **Portfolio growth individual loan loss provisions/accruals** | | | |
| Opening balance | 1 019.3 | 1 229.3 | –17 |
| Provisions utilised | –453.4 | –518.0 | –12 |
| Release | –121.4 | –86.5 | 40 |
| Reclassifications | –0.7 | – | – |
| Unwinding | –32.9 | –43.2 | –24 |
| Additions to individual provisions/accruals | 391.5 | 437.7 | –11 |
| Effect of changes in foreign currency exchange rates | –0.9 | – | |
| **Individual loan loss provisions/accruals** | **801.5** | **1 019.3** | **–21** |
| **Portfolio allowances** | | | |
| Opening balance | 103.6 | 225.2 | –54 |
| Additions/releases | –19.6 | –121.1 | –84 |
| Effect of changes in foreign currency exchange rates | –1.0 | –0.5 | |
| **Portfolio allowances** | **83.0** | **103.6** | **–20** |
| **Total risk provisions including accruals** | **884.5** | **1 122.9** | **–21** |

The provisions for possible loan losses of € 255 million at 31 March 2008 are higher than in the same period of the previous year (€ 240 million). The reasons for this are described in the explanations given to the consolidated profit and loss account. Risk provisions for the traditional lending business, including portfolio allowances, totalled € 885 million at 31 March 2008. The provision cover of loans for loans classified as impaired was 54% (56% at 31 March 2007).

Investments in structured credit products. The Group's investments in structured security portfolios at 31 March 2008 comprised the following:

- Investments made by IKB AG and IKB International S.A., Luxembourg, with a nominal value of € 5.7 billion;

- The special purpose entity Rhinebridge plc, with an investment volume of € 0.6 billion, in which IKB has direct investments in capital notes amounting to € 164 million and in commercial papers of € 168 million;

- The protected first loss piece investments in the Havenrock entities of € 1.03 billion, of which the KfW has taken over € 0.98 billion. IKB's risk is limited to € 51 million.

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

## IKB AG and IKB International S.A.'s Portfolio Investments

**Credit rating structure* of IKB's Portfolio Investments (Excluding Rhinebridge and Havenrock)**

| | 31 Mar 2008* Nominal amount, in € billion** | 31 Mar 2007* Nominal amount, in € billion** | 31 Mar 2006* Nominal amount, in € billion** |
|---|---|---|---|
| Aaa | 1.6 | 2.1 | 2.2 |
| Aa | 1.8 | 2.9 | 2.5 |
| A | 1.1 | 1.2 | 1.2 |
| Baa | 0.4 | 0.6 | 0.5 |
| Ba / B | 0.3 | 0.1 | 0.2 |
| Sub B | 0.5 | 0.2 | 0.0 |
| | **5.7** | **7.0** | **6.7** |

* Moody's ratings. Where two or more ratings are available, the less favourable rating is presented.
** Figures for 31 March 2007 include € 0.3 billion of assets which were transferred to Rhinebridge after its formation.
*** Rounding differences may occur

**Underlying assets structure of IKB's portfolio investments**

| Underlying portfolios | 31 Mar 2008 Nominal in € billion | 31 Mar 2008 in % | 31 Mar 2007 Nominal in € billion | 31 Mar 2007 in % |
|---|---|---|---|---|
| Corporates | 2.7 | 46 | 3.0 | 43 |
| ABS | 2.3 | 41 | 3.1 | 44 |
| Thereof with sub-prime content | 1.8 | 32 | 2.4 | 34 |
| ABS/Corporates mixed | 0.7 | 13 | 0.9 | 13 |
| Thereof with sub-prime content | 0.2 | 4 | 0.2 | 2 |
| | **5.7** | **100** | **7.0** | **100** |

* Rounding differences may occur

Of a total of € 5.7 billion in structured securities and € 0.2 billion Rhinebridge capital notes there is risk shield protection from the KfW and the Banking Associations for € 2.8 billion of securities included in the higher risk portfolio up to an original maximum protected loss of € 1 billion, of which € 0.9 billion remains available at 31 March 2008.

**The IKB portfolio investments underlying asset structure at 31 March 2008, analysed between higher risk and unshielded sub-portfolios (excluding Rhinebridge und Havenrock)**

| | 31 Mar 2008 Nominal in € billion Total* | | Nominal in € billion higher risk sub-portfolio* | | Nominal in € billion unshielded sub-portfolio* | |
|---|---|---|---|---|---|---|
| Corporates | 2.7 | 46% | 0.6 | 21% | 2.1 | 71% |
| ABS[1] | 2.3 | 41% | 1.9 | 66% | 0.5 | 16% |
| Thereof with sub-prime content | 1.8 | 32% | 1.8 | 65% | 0.0 | 1% |
| ABS/Corporates mixed | 0.7 | 13% | 0.4 | 13% | 0.4 | 13% |
| Thereof with sub-prime content | 0.2 | 4% | – | – | 0.2 | 8% |
| | **5.7** | **100%** | **2.8** | **100%** | **2.9** | **100%** |

* Rounding differences may occur
[1] E.g. residential mortgage backed securities (RMBS); commercial mortgage backed securities (CMBS); small business loans (SBL)

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

**Credit rating structure of IKB portfolio investments with underlying corporate assets at 31 March 2008, analysed between higher risk and unshielded sub-portfolios (excluding Rhinebridge und Havenrock)**

| | 31 Mar 2008 | | |
|---|---|---|---|
| **Corporate CDO investments Rating structure*** | Nominal in € billion | Nominal in € billion higher risk sub-portfolio | Nominal in € billion unshielded sub-portfolio |
| Aaa | 0.6 | 0.1 | 0.6 |
| Aa | 1.3 | 0.2 | 1.1 |
| A | 0.5 | 0.2 | 0.3 |
| Baa | 0.1 | 0.0 | 0.1 |
| Ba / B | 0.0 | 0.0 | 0.0 |
| Sub B | 0.1 | 0.1 | 0.0 |
| | **2.7** | **0.6** | **2.1** |

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

Of the € 2.1 billion corporate investments not covered by the rescue package risk cover, 55% have lending exposure to corporations located in North America.

**Credit rating structure of portfolio investments with underlying ABS assets at 31 March 2008, analysed between higher risk and unshielded sub-portfolios (excluding Rhinebridge und Havenrock)**

| | 31 Mar 2008 | | |
|---|---|---|---|
| **ABS investments Rating structure*** | Nominal in € billion | Nominal in € billion higher risk sub-portfolio | Nominal in € billion unshielded sub-portfolio |
| Aaa | 0.5 | 0.3 | 0.2 |
| Aa | 0.3 | 0.2 | 0.1 |
| A | 0.4 | 0.4 | 0.1 |
| Baa | 0.3 | 0.3 | 0.0 |
| Ba / B | 0.3 | 0.3 | 0.0 |
| Sub B | 0.4 | 0.4 | 0.0 |
| | **2.3** | **1.9** | **0.5** |

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

Of the assets included in the unshielded portfolio with ABS underlyings (e.g. mortgage loan finance, credit card finance) totalling € 0.4 billion, 93% are in North America. Again, the external ratings of these are in the higher investment grade categories.

**Credit rating structure of IKB portfolio investments with mixed assets at 31 March 2008, analysed between higher risk and unshielded sub-portfolios (excluding Rhinebridge und Havenrock)**

| | 31 Mar 2008 | | |
|---|---|---|---|
| **ABS/Corporates mixed Rating structure*** | Nominal in € billion | Nominal in € billion higher risk sub-portfolio | Nominal in € billion unshielded sub-portfolio |
| Aaa | 0.4 | 0.2 | 0.2 |
| Aa | 0.1 | 0.0 | 0.1 |
| A | 0.2 | 0.1 | 0.1 |
| Baa | 0.0 | 0.0 | 0.0 |
| Ba / B | 0.0 | 0.0 | 0.0 |
| Sub B | 0.0 | 0.0 | 0.0 |
| | 0.7 | 0.4 | 0.4 |

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

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

Rhinebridge Portfolio Investments. At 31 March 2008 the Rhinebridge investment volume amounted to € 0.6 billion, of which € 0.4 billion had an investment grade rating at the balance sheet date (thereof € 0.3 billion Aaa) and € 0.2 billion a non investment grade rating.

IKB's risk arising from these investments is limited to the capital notes (€ 164 million at 31 March 2008) and commercial papers (€ 168 million at 31 March 2008). The capital notes were fully covered by the risk shield at 31 March 2008.

Havenrock. IKB has accepted 25% of first loss risk (of a nominal € 4.4 billion) of the Havenrock entities' investments in CDSs. This risk is almost completely covered by the KfW risk shield at the balance sheet date, and IKB's exposure is limited to € 52 million.

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

## Liquidity and market price risk

### *Liquidity Risk*

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

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

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

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

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

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

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

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

In addition the Bank plans to use a portion of its portfolio investments to generate liquidity in the financial year 2008/09. Around € 1 billion will be raised from the higher risk portion of the portfolio investments and associated compensation from the loss protection cover generated under the rescue package.

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

### *Market price risk*

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

Risk of interest rate changes. Interest rate changes are associated with potential changes in the value of asset and liability positions resulting from shifts in the risk free interest rate curve. IKB uses a number of instruments to manage and reduce the risk arising from changes in interest rates which are used in both the Bank's trading and asset books. Risks in the Bank's trading and asset books are managed and measured using similar methods.

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

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

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

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

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

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

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

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

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

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

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

| **IKB Group interest, volatility, and foreign currency risks in € million** | 31 Mar 2008 | 31 Mar 2007 |
|---|---|---|
| Basis point value | –1.9 | –5.7 |
| Vega | –23.2 | –33.4 |
| VaR foreign currency | –14 | 0 |
| VaR interest* | –129 | –235 |
| **VaR Total** | **–143** | **–235** |

* Interest rate and volatility risks

Basis point value (BPV) represents the potential change in the discounted present value of the Bank's portfolios under the assumption of one basis point (0.01%) upwards parallel shift of the interest rate curve. The so-called "Vega" shows the potential change in the net present value of the Bank's portfolio following an increase in interest rate volatility of 1%.

Value at risk expresses the potential net present value change in the Bank's portfolio as a result of both factors, under the assumption of a holding period of 10 days, unexpected volatility of risk factors (99.8% confidence level), and correlation between volatility of the risk factors consistent with historically observed correlations.

The methods used to calculate BPV, Vega, and value at risk are based on the valuation methods used for the valuation of the Bank's individual financial instruments.

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

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

## Operational risks

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

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

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

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

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

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

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

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

## Legal risks

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

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

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

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

The United States' securities Financial Guaranty Insurance Company (FGIC) and its British subsidiary filed claims, among others, against IKB AG and its subsidiary IKB CAM on 10 March 2008 with the courts in New York. In the first instance the plaintiffs apply for release from contractual obligations in respect of Rhineland Funding towards another liquidity provider totalling USD 1,875 billion. In addition, claims for damages, the amount of which have not been stated, against IKB have been made. IKB holds the view that the accusations made in the court submission are unfounded.

The risk cannot be excluded that IKB AG may receive further claims for damages as a result of its activities and business transactions or from other participants in the Rhineland Funding and/or Rhinebridge arrangements as a result of activities and transactions of IKB Credit Asset Management GmbH in connection with those transactions.

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

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

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

In the opinion of the Federal Government the measures taken to date do not represent state aid or state aid requiring approval. Should the European Commission determine that the measures constitute state assistance, it may approve the assistance, in particular when the assistance is in compliance with legislation providing for the rescue and restructuring of business in financial difficulty. The Commission will investigate whether the planned restructuring re-establishes the long-term rentability of the Bank, whether the measures are limited to the minimum amount necessary to meet their objectives, and whether further measures are necessary to limit any resulting distortion of competition. Should the Commission determine that the rescue package represents government support which may not be approved under legislation the support received must be repaid. The Board of Managing Directors are of the opinion, based on the process to date, that the measures do not represent government support or government support which may not be approved.

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

## IT-Risks

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

## Compliance risks

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

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

IKB's Code of Conduct 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 in going about their daily business.

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

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

## Personnel risks

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

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

## Strategy and reputation risk

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

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

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

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

## Business risk

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

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

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

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

## Core content of the risk situation

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

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

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

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

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

# 5. Events after 31 March 2008 (Supplementary report)

Since 31 March 2008 the following events have occurred:

## Collateralisation and sale of portfolio investments

IKB commenced the process of selling securities from the higher risk investments sub-portfolio in June 2008. By 8 July 2008, the date of issue of these financial statements, securities with a nominal € 450 million had been sold at, or slightly above, their 31 March 2008 book value.

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

### *Personnel changes*

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

### *Changes in the Group*

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

### *Sale process*

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

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

# 6. Outlook

## Future economic framework

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

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

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

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

- It is likely that export growth will not be as strong as in recent years as a result of a cooling in the global economy. Leading economic researchers expect increases of 6 to 7% in 2008 and 2009 after almost 8% in 2007. The levels of capacity utilisation and order backlogs reported by IKB customers, who are overwhelmingly strong export orientated mid-cap companies, will therefore remain at a high level for some time to come.

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

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

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

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

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

## Opportunities in future developments

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

This is based on the Bank's specialist approach, which combines competence and a high level of trust that the Bank's customers have in its expertise. The majority of customers have a relationship with the Bank going back ten years or more. As a result – especially because of the crisis – customers have stood by the Bank. Despite the crisis, disbursements in domestic mid-cap business (Corporate Clients segment) over the whole year 2007/08 (1 April 2007 to 31 March 2008) were € 4.6 billion as in the previous year (2006/07: € 4.6 billion), although IKB has cut back on new commitments in recent months.

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

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

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

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

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

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

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

## Balance sheet

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

## Liquidity situation

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

## Income

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

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

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

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

# 7. Remuneration report

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

## The remuneration system of the Board of Managing Directors

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

- Dr Günther Bräunig (Chairman and member of the Board of Managing Directors from 29 July 2007)
- Frank Braunsfeld (until 15 October 2007)
- Dr Volker Doberanzke (until 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
- Stefan Ortseifen (until 29 July 2007)

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

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

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

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

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

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

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

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

Remuneration from third parties. No member of the Board of Managing Directors received payments or corresponding commitments from a third party during the past financial year, with the exception of remuneration from subsidiaries of IKB or Movesta Lease and Finance GmbH, 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 2007/08 are shown in the following table:

| | Annual remuneration (in € thousand) | | | |
|---|---|---|---|---|
| | Fixed remuneration | Variable remuneration | Benefits in kind* | Total |
| Dr Günther Bräunig (from 29 July 2007) | 371 | 550 | 15 | 936 |
| Frank Braunsfeld (until 15 October 2007) | 162 | – | 21 | 183 |
| Dr Volker Doberanzke (until 7 August 2007) | 132 | 57 | 23 | 212 |
| Dr Dieter Glüder (from 29 July 2007) | 277 | 450 | 14 | 741 |
| Dr Reinhard Grzesik (from 15 October 2007) | 278 | 450 | 8 | 736 |
| Dr Markus Guthoff (until 15 October 2007) | 216 | 87 | 22 | 325 |
| Claus Momburg | 404 | 450 | 50 | 904 |
| Stefan Ortseifen (until 29 July 2007) | 183 | – | 44 | 227 |
| **Total** | **2 023** | **2 044** | **197** | **4 264** |

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

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

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

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

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

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

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

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

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

| **Annual pension entitlement (in € thousand)** | Annual pension on retirement as at 31 Mar 2008 | Addition to pension provisions At 31 Mar 2008 (Service Costs) |
|---|---|---|
| Frank Braunsfeld (until 15 October 2007) | 96 | – |
| Dr Volker Doberanzke (until 7 August 2007) | 230 | 149 |
| Dr Markus Guthoff (until 15 October 2007) | 262 | 99 |
| Claus Momburg | 308* | 118 |
| Stefan Ortseifen (until 29 July 2007) | 407 | – |

* Assumes the Board member will remain in office until his 63rd birthday

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

Former members of the Board of Managing Directors. Total remuneration paid to former members of the Board of Managing Directors and to their surviving dependants amounted to € 3,882 thousand (2006/07: € 5,622) including disbursements and benefits in kind. In addition in the Financial Year 2007/08 a former member of the Board of Managing Directors was paid a redundancy payment of € 800 thousand, a further payment of the same amount is payable in the next financial year. These amounts were accrued in 2006/07. Provisions totalling € 42,536 thousand were recognised for pension obligations to former members of the Board of Managing Directors and their surviving dependents (2006/07: € 37,227 thousand).

## The remuneration system of the Supervisory Board

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

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

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

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

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

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

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

# 8. Other financial information

## Disclosures required under section 315 (4) of the German Commercial Code (HGB)

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

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

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

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

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

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

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

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

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

The Board of Managing Directors has made the disclosures required under section 315 (4) of the German Commercial Code to which it comments as follows:

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

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

IKB Deutsche Industriebank AG
The Board of Managing Directors

Düsseldorf, 8 July 2008

# Consolidated Financial Statements in Accordance with International Financial Reporting Standards for the Financial Year ended 31 March 2008

# Consolidated income statement of IKB Deutsche Industriebank AG for the period from 1 April 2007 to 31 March 2008

| | Notes | 1 Apr 2007– 31 Mar 2008 in € million | 1 Apr 2006– 31 Mar 2007 in € million after restatements | Change in % |
|---|---|---|---|---|
| **Net interest income** | (23) | **449.9** | **673.1** | **–33.2** |
| Interest income | | 3 426.6 | 3 831.6 | –10.6 |
| Interest expenses | | 2 976.7 | 3 158.5 | –5.8 |
| **Provision for possible loan losses** | (24) | **255.2** | **239.7** | **6.5** |
| **Net interest income after provision for possible loan losses** | | **194.7** | **433.4** | **–55.1** |
| **Net fee and commission income** | (25) | **54.7** | **52.0** | **5.2** |
| Fee and commission income | | 67.0 | 66.6 | 0.6 |
| Fee and commission expenses | | 12.3 | 14.6 | –15.8 |
| **Net income from financial instruments at fair value** | (26) | **–1 825.4** | **–37.8** | **>100.0** |
| **Net income from investment securities** | (27) | **–979.9** | **–12.4** | **>100.0** |
| **Net income from investment accounted for using the equity method** | (28) | **1.7** | **1.7** | **–** |
| **General administrative expenses** | (29) | **376.5** | **316.2** | **19.1** |
| Personnel expenses | | 181.2 | 185.8 | –2.5 |
| Other administration expenses | | 195.3 | 130.4 | 49.8 |
| **Net other operating income** | (30) | **662.2** | **–6.2** | |
| Other operating income | | 749.5 | 28.4 | >100.0 |
| Other operating expenses | | 87.3 | 34.6 | >100.0 |
| **Result as of risk assumption** | (31) | **2 401.0** | **–** | |
| **Operating result** | | **132.5** | **114.5** | **15.7** |
| Income taxes | (32) | 158.6 | 74.7 | >100.0 |
| Other taxes | | 5.8 | 1.9 | >100.0 |
| **Net income for the year** | | **–31.9** | **37.9** | |
| Minority interests | | –0.1 | –0.1 | – |
| **Net income after minority interests** | | **–32.0** | **37.8** | |
| Allocation to retained earnings | | – | –37.8 | |
| **Consolidated profit** | | **–32.0** | **–** | |

# Earnings per share

| | 2007/08 | 2006/07 | Change in % |
|---|---|---|---|
| Net income after minority interest (€ million) | –32.0 | 37.8 | |
| Average number of shares outstanding (million) | 90.0 | 87.9 | 2.4 |
| **Earnings per share (€)** | **–0.36** | **0.43** | |

During the period under review the number of individual share certificates issued was increased to 96,794,661 no-par-value ordinary shares by means of a convertible bond issue with mandatory conversion as at 31 March 2008. The ordinary shares issued in conjunction with the mandatory convertible bond were taken into account in the undiluted result in accordance with IAS 33 on conclusion of the agreement for these convertible bonds. As a result, 90,041,915 shares were issued on average in the financial year 2007/08.

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

# Consolidated balance sheet of IKB Deutsche Industriebank AG as at 31 March 2008

| | Notes | 31 Mar 2008 in € million | 31 Mar 2007 in € million after restatements | Change in % |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash reserve | (8, 33) | 308.8 | 28.7 | >100.0 |
| Loans and advances to banks | (9, 34) | 2 850.3 | 4 441.9 | –35.8 |
| Loans and advances to customers | (9, 35) | 28 868.9 | 29 685.0 | –2.7 |
| Provision for possible loan losses | (10, 36) | –861.2 | –1 094.7 | –21.3 |
| Assets held for trading | (11, 37) | 3 637.7 | 2 208.5 | 64.7 |
| Investment securities | (12, 38) | 12 844.5 | 27 258.6 | –52.9 |
| Investments accounted for using the equity method | (13, 39) | 14.7 | 13.3 | 10.5 |
| Intangible assets | (14, 40) | 32.1 | 37.9 | –15.3 |
| Property and equipment | (15, 41) | 218.8 | 212.1 | 3.2 |
| Current tax assets | (16, 42) | 44.8 | 13.7 | >100.0 |
| Deferred tax assets | (16, 43) | 174.1 | 150.2 | 15.9 |
| Other assets | (17, 44) | 2 111.1 | 589.4 | >100.0 |
| **Total** | | **50 244.6** | **63 544.6** | **–20.9** |
| **Shareholders’ equity and liabilities** | | | | |
| Liabilities to banks | (9, 45) | 17 449.3 | 13 912.5 | 25.4 |
| Liabilities to customers | (9, 46) | 5 751.5 | 4 277.8 | 34.4 |
| Securitised liabilities | (18, 47) | 18 184.8 | 39 555.5 | –54.0 |
| Liabilities held for trading | (11, 48) | 5 410.9 | 1 164.7 | >100.0 |
| Provisions | (19, 20, 49, 50) | 83.7 | 60.0 | 39.5 |
| Current tax liabilities | (16, 51) | 88.1 | 79.2 | 11.2 |
| Deferred tax liabilities | (16, 52) | 149.2 | 16.7 | >100.0 |
| Other liabilities | (17, 53) | 163.4 | 172.7 | –5.4 |
| Subordinated capital | (21, 54) | 1 779.7 | 3 108.0 | –42.7 |
| Shareholders‘ equity | (22, 55) | 1 184.0 | 1 197.5 | –1.1 |
| Subscribed capital | | 247.8 | 225.3 | 10.0 |
| Capital reserve | | 597.8 | 568.2 | 5.2 |
| Retained earnings | | 333.1 | 330.6 | 0.8 |
| Currency translation reserve | | 7.0 | –15.2 | |
| Revaluation reserve | | 29.9 | 88.4 | –66.2 |
| Minority interests | | 0.4 | 0.2 | 97.3 |
| Consolidated profit | | –32.0 | – | – |
| **Total** | | **50 244.6** | **63 544.6** | **–20.9** |

# Statement of recognised income and expense (SORIE)

| | 2007/08 in € million | 2006/07 in € million after restatements | Change in % |
|---|---|---|---|
| Gains/losses on remeasurement of securities | –53.9 | –39.0 | 38.2 |
| Unrealised gains/losses from investments securities available for sale | –20.2 | –32.6 | –38.0 |
| Reclassification into income statement due to investment securities available for sale | –33.7 | –6.4 | >100.0 |
| Fair value changes from hedging relationships recognised in profit or loss (IFRS 1 IG 60B) | –74.8 | –74.8 | – |
| Exchange differences | 22.2 | –7.7 | |
| Changes due to actuarial gains/losses | 2.7 | 20.2 | –86.6 |
| Deferred taxes on changes recognised directly in equity | 68.1 | 34.7 | 96.3 |
| **Gains/losses recognised directly in equity (net)** | **–35.7** | **–66.6** | **–46.4** |
| **Net income for the year** | **–31.9** | **37.9** | |
| **Total recognised gains/losses** | **–67.6** | **–28.7** | **>100.0** |
| Attributable to shareholders of IKB | –67.4 | –28.7 | >100.0 |
| Attributable to minority interests | –0.2 | 0.0 | |

The changes in equity are presented in Note (55).

# Cash flow statement from 1 April 2007 to 31 March 2008

| in € million | 2007/08 | 2006/07 |
|---|---|---|
| **Net income for the year** | **–32.0** | **37.8** |
| ***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 | 262.0 | 262.1 |
| Depreciations and write-downs of property and equipment, and write-downs of investments securities, less reversals of impairment losses on these items | 990.0 | 16.9 |
| Changes on other non-cash items (mainly changes in provisions and certain liabilities, and positive and negative market values from derivative financial instruments) | –2 495.0 | 54.8 |
| Gains/losses on disoposal of investment securites | 99.7 | –14.0 |
| Gains/losses on disposal of property and equipment | 1.2 | 1.7 |
| Other adjustments (mainly reclassification of interests inclusiv gains/losses from leases and income taxes) | –248.4 | –603.9 |
| **Subtotal** | **–1 422.5** | **–244.6** |
| ***Changes in assets and liabilities from operating activities after adjustment for non-cash components*** | | |
| Loans and advances | | |
| to banks | 1 560.0 | –2 226.8 |
| to customers | 953.2 | –2 189.3 |
| Assets held for trading | –1 451.8 | –1 486.5 |
| Other assets from operating activities | 286.2 | –493.5 |
| Liabilities | | |
| to banks | 3 768.3 | –162.8 |
| to customers | 1 407.4 | 1 671.7 |
| Liabilities held for trading | 3 834.1 | –14.5 |
| Securitised liabilities | –11 540.8 | 8 526.5 |
| Other liabilities from operating activities | –38.7 | –35.6 |
| Interest and dividends received | 3 208.5 | 3 523.8 |
| Interest paid | –2 332.9 | –2 649.7 |
| Income tax paid | –18.4 | –20.9 |
| **Net cash provided by (used in) operating activities** | **–1 787.4** | **4 197.8** |
| Proceeds from disposals of | | |
| Investment securities | 4 542.6 | 3 414.9 |
| Property and equipment | 52.6 | 36.9 |
| Payments for the acquisition of | | |
| Investment securities | –2 974.5 | –7 618.7 |
| Property and equipment | –97.0 | –100.4 |
| Effects of changes in the scope of consolidation | 628.5 | –25.7 |
| **Net cash provided by (used in) investing activities** | **2 152.2** | **–4 293.0** |
| Incoming payment from capital increase | 54.3 | 0.0 |
| Dividend payments | 0.0 | –74.8 |
| Net changes in cash and cash equivalence from other financing activities (reserves, subordinated capital, etc.) | –139.0 | 150.7 |
| **Net cash provided by (used in) financing activities** | **–84.7** | **75.9** |
| **Cash and cash equivalents at end of prior periods** | **28.7** | **47.6** |
| Net cash provided by (used in) operating activities | –1 787.4 | 4 197.8 |
| Net cash provided by (used in) investing activities | 2 152.2 | –4 293.0 |
| Net cash provided by (used in) financing activities | –84.7 | 75.9 |
| Effects from exchange rate differences | 0.0 | 0.4 |
| **Cash and cash equivalents at end of period** | **308.8** | **28.7** |

# Notes

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# Basis of Group accounting

The consolidated financial statements of IKB as at 31 March 2008 have been prepared in accordance with International Financial Reporting Standards (IFRS), and are based on Regulation 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 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. Amounts in millions and percentages are generally rounded to one decimal place in keeping with commercial principles. Due to rounding totals and calculated percentages may result in slight discrepancies.

## Accounting rules applied for the first time

All standards and interpretations that were mandatory for the financial year have been applied when preparing these consolidated financial statements. New mandatory standards and interpretations that apply from 2007, namely IFRS 7 (Financial Instruments) and amendments to IAS 1 (Presentation of Financial Statements), IFRIC 8 (Scope of IFRS 2), IFRIC 9 (Reassessment of Embedded Derivatives), IFRIC 10 (Interim Financial Reporting and Impairment) and IFRIC 11 (IFRS 2 – Group and Treasury Share Transactions) have not had an effect on the accounting and valuation methods of the Bank. However, IFRS 7 has a significant impact on information concerning financial instruments, whilst the change to IAS 1 has resulted in greater disclosure in relation to investments and investment management.

IFRS 7, which becomes effective for the first time in the financial year 2007/08, contains comprehensive reporting regulations on the risks resulting from financial instruments. The individual requirements listed below have been met with regards to IFRS 7 B6 outside of the consolidated financial statements in the risk report in the Group annual report.

- IFRS 7.33: Qualitative disclosures for risks resulting from financial instruments
- IFRS 7.34 (c): Concentrations of risk
- IFRS 7.34 in connection with IFRS 7.40-42: Qualitative and quantitative disclosures for market risks
- IFRS 7.36 (c): Information about credit quality

## New accounting rules

The Bank has not applied any relevant standards or interpretations that are not mandatory. The following section describes the standards and interpretations that had been published by IASB prior to the reporting date of IKB. However, due to a lack of relevance this section does not deal with IFRS 2 “Share-Based Payment”, IFRIC 12 “Service Concession Arrangements” and IFRIC 13 “Customer Loyalty Programmes”.

IFRS 8 “Operating Segments” was published in November 2006 and was transposed into EU Law in November 2007. IFRS 8 replaces IAS 14 “Segment Reporting”. This standard requires companies to report financial and descriptive information about their reportable segments and is effective for annual periods beginning on or after 1 January 2009. The differences between IFRS 8 and IAS 14 concern the scope of the segments, the segment sizes and valuation standards. This involves a switch from the “Risk and reward approach” to the “Management approach”. Operating segments are defined based on internal reports that are reviewed by the chief operating decision maker in order to allocate resources to the segment.

The following standards and interpretations have been adopted by IASB but have not been transposed into EU Law as at the reporting date:

The revised IAS 1 “Presentation of Financial Statements” is effective for annual periods beginning on or after 1 January 2009. The amendments concern the expansion of comparative figures (IAS 1.39). As a result, three balance sheet dates must be stated in the year that the accounting and valuation methods are changed. IAS 1 (revised 2007) requires that the contents of the income statement are amended. This new income statement can either be presented in one statement of comprehensive income (single statement approach) or in two statements (two statement approach), the old income statement and a supplement statement.

The main change to IAS 23 “Borrowing Costs”, which is effective from 1 January 2009, is the removal of the option to immediately recognise as an expense borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset.

In February 2008 the IASB published amendments to IAS 32 “Financial Instruments: Presentation”, which is effective for annual periods beginning on or after 1 January 2009. According to this standard, puttable at fair value financial instruments and obligations arising only on liquidation may only be classified as equity under certain conditions.

In January 2008 the IASB published a revised version of IFRS 3 “Business Combinations”, effective from 1 July 2009, and a revised version of IAS 27 “Consolidated and Separate Financial Statements”, effective from 1 January 2009. Whereas in IFRS 3 the application of acquisition methods has been expanded to include business combinations, IAS 27 sets out revised requirements concerning the calculation of minority interests and the accounting of the loss of control over a subsidiary.

The interpretation of IFRIC 14 “IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction” was published in July 2007 with effect from 1 July 2008. IFRIC 14 determines the upper limit of the surplus of a pension fund defined as an asset under IAS 19 “Employee Benefits” and describes how a statutory or contractual minimum funding requirement can impact assets and obligations.

IKB does not anticipate any significant effects on the consolidated financial statements from the IFRS provisions required to be applied for the first time in financial year 2007/08.

# Corrections in accordance with IAS 8

## a. Changes in accounting policies

The present financial statements include various changes in presentation compared with the previous year. The following corrections have been made to the restated consolidated financial statements prepared on 4 June 2007 and 15 February 2008 to ensure that comparisons can be made between the financial statements.

The changes to risk provisions for financial assets in the Loans and receivables category previously presented under the item *Provisions from possible loan losses (income statement)* have been presented under the item *Income from financial instruments*. As a result, the individual value adjustments and write-downs on financial assets are presented in the income from financial instruments, as is the case with the presentation of inventories in the balance sheet. As at 31 March 2007 € –19.3 million had been reclassified from *Provisions for possible loan losses (income statement)* to *Income from financial assets*.

Deferred tax assets and tax liabilities are no longer presented under the items *Other assets* and *Other liabilities*. Instead, they are presented under the items *Deferred tax assets* and *Deferred tax liabilities*. As at 31 March 2007 this reclassification resulted in a shift on the assets side amounting to € 150.2 million and on the liabilities side of € 16.7 million.

Management and performance measurement for the financial instruments of the Rhinebridge portfolio (including reporting) are carried out at fair value based on contractual agreements. IKB has applied the fair value option since the reporting period in accordance with IAS 39 assuming the recognition and management of a portfolio of financial instruments at fair value.

Due to the limited availability of accounting information for Rhinebridge plc, which went into receivership in October 2007, estimates and assumptions have been made, particularly in relation to assets. Due to a lack of sufficient information being furnished it has not been possible to differentiate between the assets acquired by IKB prior to the start of operations at Rhinebridge, classified as assets held for trading and the assets acquired following the start of operations at Rhinebridge. All financial instruments of the Rhinebridge portfolio continue to be measured at fair value through profit or loss. For the same reasons, it is not possible to separate out the valuation and selling results for the financial instruments into trading results and results from the application of the fair-value option as part of notes disclosures (see Note (26)).

The amounts from the amortisation of discontinued hedging relationships in accordance with IFRS IG 60A and IG 60B are now presented in the net interest income and not in the fair value result. This results in a reclassification as at 31 March 2007 of € –77.9 million from the fair value result to interest expenditure and of € 74.8 million from the fair value result to interest income.

The result for companies at equity is no longer presented under net interest income. Instead it is presented as a separate item on the income statement. As at 31 March 2007 companies at equity accounted for income amounting to € 1.7 million, which has been reclassified from net interest income to a new item.

Other operating income and other operating expenditure are no longer totalled in the income statement, but are instead presented separately. As at 31 March 2007 this results in other operating income amounting to € 28.4 million and other operating expenditure amounting to € 34.6 million (gross).

In the consolidated balance sheet interests in associated companies and joint ventures accounted for under the equity method are presented under the separate balance sheet item *Companies at equity*. The previous year's figure has been retrospectively amended to take account of the effects of calculating the first time application reserve for companies at equity. This increased the balance sheet value for companies at equity and the revenue reserves by € 6.9 million each to give a portfolio of € 13.3 million (before adjustment: € 6.4 million) for the item companies at equity and € 330.6 million (before adjustment: € 323.7 million) for revenue reserves as at 31 March 2007. These were based on IFRS company statements prepared for the first time.

Accrued interest for subordinated capital is now presented under subordinated capital and not under other liabilities. As at 31 March 2007 this resulted in a reclassification amounting to € 81.6 million from other liabilities to subordinated capital.

Changes in segment reporting are presented in Note (56).

## b. Changes in accounting estimates

In the financial year 2007/08 the factor used to estimate the existing time to identification or recognition of a default event (loss identification period factor) was adjusted to the factor used for loans and advances to customers when calculating the portfolio value adjustments for irrevocable undrawn credit lines. This adjustment resulted in a portfolio value adjustment of € –2.1 million.

This change in estimate was taken into account prospectively in accordance with IAS 8.

# Accounting policies

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.

Management opinions and assumptions have sometimes been used when preparing the consolidated financial statements. The statement of assets and liabilities and income and expenditure in the income statement are influenced by these opinions and assumptions. Actual valuations may deviate from the management's estimates. In particular, this concerns the calculation of the fair value for certain financial assets and liabilities and the calculation of risk provisions for possible loan losses and provisions for pensions and similar obligations.

## (1) Accounting Principles

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 2007 can be found in the list of consolidated entities (Note (75)).

Adjustments of material effects during the period of transition between 31 December 2007 until 31 March 2008 were taken into account to the extent necessary pursuant to the principle of materiality.

## (2) Notes to risk transfer

KfW Bankengruppe, together with three German Banking Associations, has undertaken measures to rescue IKB from the existential threats that it was exposed to as a consequence of the subprime crisis. Due to the specific nature of the rescue measures, their effects are reported separately in the income statement in accordance with IAS 1, the effects are presented as an additional line item entitled Result as of risk assumption (Note (31)). Financial amounts receivable from KfW Bankengruppe arising as a result of the risk transfer are reported within Other assets (Note (44)). The following items are involved:

At the end of July 2007 KfW Bankengruppe entered into the liquidity lines of IKB for the purchasing companies of Conduits Rhineland Funding Capital Corporation (RFCC), Delaware. IKB has renounced its opportunities for control in this respect and with a supplementary agreement at the end of September 2007. The companies of RFCC Conduits were deconsolidated at the end of July 2007 due to their failure to meet the criteria in accordance with SIC 12. This resulted in a decrease in the balance sheet total compared to the previous year of € 11.6 billion and a deconsolidation profit, which is recorded under Result as of risk assumption.

KfW Bankengruppe also provided hedging for some of IKB's financial instruments for a nominal value of € 3.3 billion as at 30 September 2007, with the support of a banking pool. In total, hedging was provided up to a total of € 1 billion. Under the terms of the agreement payments are only made by KfW on default or premature sale, which is only possible with the approval of or if recommended by KfW. Since the hedged financial instruments are allocated to the Loans and Receivables holding category, the hedging is set up as a financial guarantee. Financial instruments in the financial instruments at fair value through profit or loss category are hedged using a credit derivative.

The valuation of the compensation from the financial guarantee and credit derivative is carried out on a combined basis due to the close connection between the businesses according to the procedure used to value a CDO, where the initial risk of loss is covered by KfW up to € 1.0 billion. The valuation takes into account the premiums paid by IKB and the values calculated by IKB for the hedged financial instruments and assumptions concerning the correlation of defaults for these financial instruments, as well as market data on the historically high rate of loss on default for comparable financial instruments.

At 31 March 2008, impairment losses amounting to € –821 million have been recorded in respect of financial instruments categorised as *Loans and receivables* and amounting to € –1,155 million for financial instruments and derivatives at fair value through profit or loss. Under consideration of the maximum liability sum, the premium payable to KfW for hedging and the effect of discounting, risk cover amounting to € 942 million at the balance sheet date was reported under result as of risk assumption in the income statement.

Since there is a reciprocal link between the two hedging components with regard to the maximum liability sum of KfW and the nominal maximum amount at the valuation date has already been reached, both hedging instruments are reported together under other assets and the valuation result is reported as a total under *Result as of risk assumption*. In addition, financial amounts receivable from KfW arising as a result of hedging financial instruments are reported under assets, since it can be assumed that the amount receivable from KfW is almost certain (within the meaning of IAS 37) taking into account the knowledge acquired during the adjustment period up until the time the consolidated financial statements are prepared in relation to the value ratios of the financial instruments.

An agreement has also been concluded between KfW Bankengruppe and IKB, which releases IKB from risks resulting from the liquidity commitments of IKB amounting to USD 1.6 billion to the companies Havenrock I Ltd. and Havenrock II Ltd. up to a residual amount of USD 79.9 million. KfW sub-participates in the initial risks of loss of IKB up to USD 1.5 billion resulting from these liquidity lines. Due to the performance of the assets hedged by these liquidity lines, the liabilities of IKB and the resulting claim amounting to € 911.8 million can be classified as almost certain. This claim against KfW has therefore been reported as cash under *Other assets* as at 31 March 2008 within the meaning of IAS 37 and reported as profit or loss under *Result as of risk assumption*.

Furthermore, KfW has guaranteed IKB additional capital as part of its measures as agreed in mid-February 2008. This additional capital amounting to € 450 million is structured as a loan with immediate debt waiver and compensation out of future profits and comprises the same elements as the capital injection amounting to € 600 million on 19 February 2008.

## (3) Scope of consolidation

In addition to the parent company, 29 German (PY: 26) and 16 foreign (PY: 15) entities are included in the IKB consolidated financial statements as of 31 March 2008 in accordance with IAS 27. IKB holds the majority of voting rights in these entities. The consolidated companies are listed in Note (75). Changes to the consolidated group during the financial year concern the following companies:

The IKB Private Equity Group has founded IKB Dritte Equity Suporta GmbH, the main object of the business being equity financing. IKB Dritte Equity Suporta GmbH is fully consolidated.

IKB Leasing Group established two subsidiaries in order to provide its business partners in Russia and Rumania with an independent organisation as well. The main object of the business of the new company is finance leasing. The group of companies included in the consolidated financial statement has therefore been expanded to include ZAO IKB Leasing, Moscow and IKB Leasing srl, Bucharest.

ISTOS Zweite Beteiligungsverwaltungs- und Grundstücksvermietungsgesellschaft mbH & Co. KG, Düsseldorf, and ISTOS Dritte Beteiligungsverwaltungs- und Grundstücksvermietungsgesellschaft mbH & Co. KG, Düsseldorf, the main object of which is to manage associated companies and to lease out land, are included as fully-consolidated companies in the consolidated financial statements as at 31 March 2008.

IKB Financière France S.A., Paris, was merged with IKB Beteiligungen GmbH, Düsseldorf with effect from 1 October 2007 as a result of the merger agreement of 26 October 2007. As part of the merger (dissolution without settlement), the total assets and liabilities of IKB Financière France S.A. were transferred to IKB Beteiligungen GmbH. IKB Financière France S.A. is thus dissolved.

During the financial year IKB Beteiligungen GmbH acquired 100% of shares in six leasing companies (Phillease alpha-1 GmbH, Phillease alpha-2 GmbH, Phillease beta-1 GmbH, Phillease beta-2 GmbH, Phillease beta-3 GmbH und Phillease gamma-1 GmbH; based in Munich) at a cost of € 76.5 million. Control was handed over on 21 January 2008. The first-time consolidation created a negative difference, which must be recognised immediately as profit or loss in accordance with IFRS 3. These companies have been merged with IKB Beteiligungen GmbH in accordance with notarial agreements dated 11 March 2008. As a result, the companies have been dissolved and are no longer part of the consolidated group. Due to the additions and disposals between the two reporting periods during the financial year disclosures shall not be provided in accordance with IFRS 3.70.

Furthermore, the two special purpose entities Havenrock II Ltd., Jersey, and Rhinebridge plc, Dublin, have been included in the consolidated financial statements for this financial year.

In October 2007 a note was sold by the issuing company ELAN Ltd. This resulted in a reduction in the cells of the company ELAN Ltd. to be consolidated by IKB. The deconsolidation of the note had a material effect on the income statement under IFRS.

Conduit was deconsolidated on 30 July 2007 as a result of the takeover of the liquidity lines for RFCC-Conduit by KfW and the extensive relinquishment of influencing options by IKB. This deconsolidation effect is shown under *Result as of risk assumption*.

IKB would like to point out that due to the limited availability of company statements for RFCC-Conduit and Havenrock I and Havenrock II (for example, some national laws do not require companies to prepare financial statements) and the receivership of Rhinebridge in October 2007 estimates and assumptions have sometimes been made.

The companies ProPart Funding Limited Partnership (ProPart), Jersey, Capital Raising GmbH, Norderfriedrichskoog, and Hybrid Raising GmbH, Norderfriedrichskoog, meet the consolidation requirements for a special purpose entity set out in SIC 12. However, consolidation had no material effects on the overall picture of the consolidated financial statements, since the entity is an on-lending vehicle. As a result, consolidation was not performed on the principle of materiality.

In addition to the consolidated companies mentioned above, IKB is also involved with other companies in various capacities. Taking into account the overall picture of the financial relationships, however, IKB does not fulfil the prerequisites stated in IAS 27 and SIC 12 in any of these cases for consolidating these companies. For example, the Bacchus special purpose entities, which serve as securitisation within the scope of a collateralised debt obligation programme, are not included in the IFRS list of consolidated entities. Within the scope of these securitisation transactions, the Bacchus special-purpose entities 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 entities, 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.

## (4) Consolidation methods

Capital consolidation is carried out according to the acquisition method. Based on this method all of the assets and liabilities of the respective subsidiaries are measured at fair value at the time of acquisition (for a definition of the fair value of financial instruments see Note (6)). 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.

Intragroup receivables and liabilities, profits and expenses and income are eliminated as part of debt and expenditure and income consolidation in accordance with IAS 27.

Associated companies are valuated according to the equity method and shown separately in the balance sheet as companies at equity. The carrying amounts of such investments and any related differences (goodwill) are determined as at the date of initial consolidation. The same rules are applied as for 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, IKB Capital Fund I GmbH & Co. KG, IKB Erste Equity Suporta GmbH and IKB Dritte Equity Suporta GmbH are measured at fair value, and reported under financial assets.

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 with recognition in profit or loss. The closing rate is the reference rate of the European Central Bank on the balance sheet date. Foreign currency effects are presented in the fair value result.

Financial statements of foreign subsidiaries prepared in foreign currencies are translated using the modified closing rate method. Accordingly, equity items (excluding revaluation reserves) 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. The resulting gains or losses are recognised in equity. Gains or losses from capital consolidation are also recognised in equity.

## (6) Financial instruments: recognition and measurement

The treatment of financial instruments is governed by IAS 39. This rule states that all financial instruments must be recognised at the date of addition. Derivatives are always recognised at the trade date. At IKB the regular way purchase or sale of financial instruments is recognised and derecognised on the balance sheet on the settlement date. Financial instruments that are settled after the regular deadline are recognised as forwards at fair value. According to IAS 39 the fair value of a financial asset or a financial liability is the amount at which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm’s length transaction.

Furthermore, all financial assets and liabilities must be allocated to a holding category and valued accordingly. At IKB the rules of IAS 39 are applied as follows:

### Financial assets

- Financial Assets at Fair Value through Profit or Loss | Financial instruments in this category are measured at fair value at the time of settlement and on subsequent balance sheet dates. The valuation result is recorded as profit or loss in the fair value result in the income statement. This category can be broken down as follows:

  Held for Trading | *Financial assets held for trading* are financial instruments acquired with the intention of generating short-term profits. Derivatives are always classified as *Held for Trading* except those designated hedging instruments. In this case hedging derivatives are reported under the separate item *Positive market value from hedging derivatives* as assets held for trading.

  Fair Value Option | The fair value option under IAS 39 offers the additional option to designate financial assets that are not held for trading as financial instruments at the time of acquisition or issuance, which are subsequently to be measured at fair value through profit or loss. This rule excludes equity instruments for which there are no listed market prices on active markets and whose fair value cannot be reliably measured.

This voluntary classification must only be carried out if

- such a classification prevents or significantly reduces accounting mismatches, or
- the financial instrument consists of one or more embedded derivatives, or
- the management and performance measurement of a portfolio of financial instruments is based on the fair value.

Financial instruments for which the fair value option has been exercised are recognised in their respective balance sheet items according to product. Changes in value are recorded as fair value through profit or loss in the income statement.

- Loans and Receivables | *Loans and receivables* are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

  On acquisition financial instruments in this category are recognised at fair value including transaction costs. The measurement subsequent to initial recognition is carried out at amortised cost. Premiums and discounts are recorded as interest income through profit or loss over the expected life using the effective interest method.

- Held to Maturity | IKB does not currently hold any financial instruments in this category.

- Available for Sale | This category includes all non-derivative financial assets not allocated to any of the previous categories.

  Initial measurement and measurement subsequent to initial recognition in this category is carried out at fair value. In cases where this is impracticable, measurement subsequent to initial recognition is carried out at at amortised cost. The valuation result is recognised in equity in the revaluation reserves until the asset is sold or impaired. Recoveries of non-monetary assets are always recognised in equity. Premiums or discounts are recorded as interest income through profit or loss over the expected life using the effective interest method.

### Financial liabilities

- Financial Liabilities at Fair Value through Profit or Loss | As on the assets side, financial liabilities in this category are divided into two sub-categories:

  Held for Trading | This category includes all financial liabilities that are entered into with the intention of generating short-term gains. This category also includes derivatives with negative fair value.

  Fair Value Option | The fair value option applies to financial liabilities subject to the same conditions as on the assets side.

  The balance sheet and valuation methods for financial liabilities in this category are the same as on the assets side.

- Other Financial Liabilities | Financial instruments in the *Other financial liabilities* holding category include all financial liabilities that are not recognised at fair value in equity.

  Measurement is carried out at amortised cost. Premiums and discounts are recorded as interest income through profit or loss over the expected life using the effective interest method.

  Subordinated capital is allocated to borrowed capital in accordance with IAS 32. IKB's subordinated capital includes subordinated liabilities as well as capital paid in consideration of profit participation rights, dormant holdings and preferred shares of the *Other financial liabilities* category for which IAS 39 AG8 must be observed, unless recognised at fair value. These rules also apply to loans with immediate debt waiver and compensation out of future profits provided by KfW, which are reported under *Liabilities to banks*. For explanations see Note (45). These transactions must be measured at their cash value on each balance sheet date, which is calculated by re-estimating the underlying interest and redemption cash flow, discounted by the original instrument yield (effective interest on the date of issue). Any changes in book value must be recognised through profit or loss under *Other operating income*. As a result, any apportionment of losses or offsetting of interest payments in cash must be taken into account.

The derecognition of financial assets must be examined on the joint basis of IAS 27 and SIC 12.

Financial assets are derecognised if the contractually agreed cash flow claims from the financial assets expire or are transferred. If transferred, the entity must examine whether the Group has assumed the obligation with certain criteria to pass on this cash flow to one or more recipients without being able to draw a benefit. Complete derecognition of a financial asset occur when all material risks and opportunities associated with the ownership of the asset are transferred. If, however, all material opportunities and risks are retained, derecognition cannot occur.

In the case of transactions for which all material risks and opportunities associated with the ownership on the financial asset are not retained and not transferred, the transferred assets can only then be derecognised if the right of disposal over these assets is relinquished. The claims and obligations retained as part of the transfer are reported separately as assets and liabilities.

As long as not all risks and opportunities have been transferred and powers of disposal have been retained, the assets must continue to be reported according to the scope of the continued commitment.

A financial liability is derecognised if it is repaid, in other words if the obligations associated with the liability are settled, cancelled or become due.

### Valuation of the portfolio investment

In light of the subprime crisis IKB has extended the valuation methods used to determine the fair value for certain financial instruments and in doing so has based its approach on the principles set out in the position paper published by the Institute of Public Auditors in Germany (IDW) on accounting issues related to the subprime crisis dated 10 December 2007. Accordingly the following procedures were followed in determining fair market values:

Valuation of ABS securities: These securities were primarily valued using the prices quoted by market data providers. In a small number of exceptions, a discounted cash flow model with spreads was used for securities with a similar risk profile due to the low market liquidity in these securities. Again, allowances were made for the low level of market liquidity for these securities.

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

Valuation of other CDOs primarily indexed to securities with corporate risks: These CDOs were valued using valuation methods commonly used in the industry for such instruments. For this purpose CDOs indexed to other CDOs (“CDO$^2$”), were initially converted to simple CDOs. Special features were considered in determining the lower and higher loss participation levels in the simple CDOs. The most significant valuation variables – CDS spreads and correlation of the underlying corporate risks – were available from market or could be calculated from market data. Amendments were made to reflect the specific characteristics of the portfolio structure where necessary. Again, allowances were made for the low level of market liquidity for these securities.

Valuation of assets held by Rhinebridge: Rhinebridge ABS Bonds were also valued by an external market data provider. The CDOs of ABS without event of default trigger were valued with the CDO of ABS Pricer. The remaining CDOs of ABS with event of default trigger were set to zero (with one exception, which was also valued with the CDO of ABS Pricer).

In order to take reasonable account of the intention to sell a sub-portfolio of the IKB portfolio investment, the fair value of this asset has been given a liquidity discount, which was determined on the basis of the indicative prices quoted by various market participants for similar transactions. Specific asset class discounts have been determined based on these quotes.

Securities in the category *Financial Assets at Fair Value through Profit or Loss* have been determined using the values calculated with the above method as fair values. For securities in the category *Loans and Receivables* these values have been used to assess the grounds for a value adjustment and an impairment has been posted if required. Consideration was given to value-relevant information gained up until the consolidated financial statements were prepared.

The values of the derivative financial instruments concluded by the Havenrock companies have been determined for simplicity using the valuation methods commonly used by market participants for credit default swaps. The fair values for the underlyings of this transaction have initially been determined using a discounted cash flow model and on the basis of spreads for securities with similar risk profiles. These values have then been measured approximately on the basis of a similar portfolio using the method described above.

The senior issues of IKB are valued using a valuation curve that takes into account the spreads from so-called “back-trade” (repurchase of own issues) for maturities of less than 4 years and from similar CDS for maturities of more than 4 years. Subordinated issues use a valuation curve based on liquid CDSs spread quotes. Issues of hybrid funds are valued on the basis of observable market prices.

## Reporting hedging activities

IKB uses derivatives as hedging instruments to reduce market price risks (e.g. interest rate and currency risks). Since under IAS 39 underlyings (e.g. loan receivables and obligations) and hedging transactions (derivatives) can apply different valuations, IAS 39 allows a special type of accounting, known as hedge accounting, to hedge a period-based income calculation.

A series of restrictive conditions must be met in order to be able to map financial hedge relationships on the balance sheet through hedge accounting. In addition to formal documentation of the hedge relationship, evidence must also be provided that the hedge relationship offers effective risk compensation at the inception of the hedge and on subsequent balance sheet dates (prospective effectiveness). Moreover, documentation must prove that the hedge satisfies the effectiveness criteria set down in IAS 39 AG105 for the duration of the hedge (retrospective effectiveness). In principle, a distinction must be made between fair value hedge accounting and cash flow hedge accounting; IKB currently only applies fair value hedge accounting.

A fair value hedge secures a recognised asset or liability or a firm commitment against changes in fair value attributable to certain risk factors (IAS 39.86). This hedge can be on the basis of a 1:1 relationship (micro hedges) or portfolio with similar assets or liabilities being grouped together. Macro hedge accounting is only permitted when hedging fixed interest assets and liabilities against interest-induced changes in fair value; in this case the portfolio consists of assets and liabilities with counter exposure (IAS 39.81A).

In fair value hedge accounting changes in the market value of the hedging derivatives and risk-related changes in the value of the underlying are offset in the result for the period. As a result, the book values of the designated underlyings are adjusted through profit or loss by the accumulated valuation results that can be traced back to a change in the hedged risk factors since the time the hedge was designated. In micro hedge relationships, these book value changes (hedge adjustments) are reported on the respective transactions. IAS 39.89A allows interest-induced changes in the value of the underlyings to be reported in a separate line item exclusively for macro hedge accounting for interest rate risks.

IKB applies macro hedge accounting for interest rate risks. Interest-induced changes in the value of the active (passive) underlyings are reported in the respective item of the underlying. Changes in the value of the underlying included in the hedge relationship are also reported in the fair value result along with fair value changes in the hedge derivative.

Due to the restrictive conditions of hedge accounting, it is impossible to apply hedge accounting to all hedge relationships. Consequently, IKB applies the fair value option permitted in IAS 39.9 to financial instruments which are in a financial hedge relationship and for which risk compensation is expected. Financial instruments that are subject to a complete fair value valuation as part of this are primarily fixed-interest financial instruments in a financial micro hedge relationship.

### Financial instruments with embedded derivatives

Reporting financial instruments with embedded derivatives depends on whether or not the derivatives have to be reported separately from the host contract. Embedded derivatives must be accounted for separately if the financial characteristics of the host contract and embedded derivative are not closely related.

If there is a close financial association, in other words both instruments are subject to the same risk factors, the instruments must not be separated. The instrument is then reported using the same method as the host contract. If the host contract and the derivative are subject to different risk factors, the two instruments must be separated; the derivative is valued at fair value through profit or loss unless the instrument is reported at fair value through profit or loss. Securities with embedded derivatives are not reported separately at IKB. Instead, the fair value option is applied to report an instrument in the *Financial instruments at fair value through profit or loss* category. Embedded derivatives that have to be disclosed separately are only accounted for separately on the balance sheet in exceptional cases. In this case the corresponding derivatives are recognised separately from the host contract in the assets and liabilities at fair value. The host contract is reported according to its holding category.

### Financial guarantees

In accordance with IAS 39 a financial guarantee is a contract that obligates the guarantor to make certain payments. These payments reimburse for any losses incurred by the holder because a specified debtor fails to make payment when due in accordance with the current debt instrument conditions.

The value of a financial guarantee at inception is initially zero, since the premium for market conditions is identical to the value of the consideration. Measurements subsequent to initial recognition must review whether or not a commitment must be recognised.

A financial guarantee is entered into when accepting the guarantee offer.

### Securities repurchase agreements

Securities repurchase agreements are combinations of securities spots and futures (sale or repurchase) with the same counterparty (repos). In the case of repos, the securities reported in the repurchase agreement (spot sale) continue to be reported in the balance sheet. The inflow of liquidity from the transactions is reported in the balance sheet as an amount due to banks or customers depending on the counterparty. Reverse repos (spot buy of securities) are reported as Loans and advances to banks or customers. Securities accepted under repurchase agreements are not included in the balance sheet. The repo rate received or paid is reported in the net interest income pro rata.

## (7) Classifying financial instruments in accordance with IFRS 7

IKB applies the classification of financial instruments required by IFRS 7.6 as follows:

| | |
|---|---|
| **Assets** | |
| Measured at fair value through profit or loss | Held for Trading |
| | Assets held for trading |
| | Fair value option |
| | Loans and advances to banks |
| | Loans and advances to customers |
| | Investment securities |
| | Receivables KfW Bankengruppe |
| | Other assets |
| Hedging derivatives | Assets held for trading |
| Measured at fair value | Available for Sale |
| | Investment securities |
| Measured at amortised cost | Loans and Receivables |
| | Loans and advances to banks |
| | Loans and advances to customers (including hedge fair value adjustments) |
| | Investment securities |
| Finance lease receivables | Loans and advances to customers |
| Other financial instruments in the scope of IFRS 7 | Interests in companies at equity |
| **Liabilities** | |
| Measured at fair value through profit or loss | Held for Trading |
| | Liabilities held for trading |
| | Fair value option |
| | Liabilities to banks |
| | Liabilities to customers |
| | Securitised liabilities |
| | Subordinated capital |
| Hedging derivatives | Liabilities held for trading |
| Measured at amortised cost | Other Financial Liabilities |
| | Liabilities to banks |
| | Liabilities to customers |
| | Securitised liabilities (including hedge fair value adjustments) |
| | Subordinated capital |
| **Off-balance transactions** | Contingent liabilities |
| | Other commitments |

Reporting classes are grouped together in accordance with the holding categories for corresponding balance sheet items in IAS 39. The rescue package provided by KfW is reported in the separate reporting class *Receivables KfW Bankengruppe*. Derivatives in hedge relationships and Receivables from finance leasing agreement are reported in separate reporting classes as these cannot be allocated to any of the holding categories under IAS 39. Off-the-balance-sheet transactions are also covered by IFRS 7 and are therefore reported in a separate reporting class. Financial instruments that are reported at equity in accordance with IAS 28 and IAS 31 do not fall within the scope of IFRS 7 and are therefore posted in a separate reporting class.

## (8) Cash reserve

Cash reserve include cash and credit balances at central banks. Portfolios are reported at nominal value.

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

Loans and advances and liabilities to banks and customers that IKB holds for purposes other than trading and that are not traded on an active market are valued at amortised cost. Premiums and discounts are reported under the corresponding balance sheet item. They are amortised through profit or loss over the expected life using the effective interest method and reported as interest income. Further information on value adjustments (impairment) can be found in the section *Risk provisions for possible loan losses* (Note (10)).

Embedded derivatives are, if subject to elimination, reported separately and recognised at fair value under assets or liabilities (see the explanations in Note (6)).

### Finance leases

IAS 17 classifies a lease as a finance lease if it transfers substantially all the risks and rewards incident to ownership. As part of finance leasing the bank reports leasing receivables at the net investment value within the balance sheet item *Liabilities to customers*.

Finance lease agreements are generally part amortisation agreements under which the residual value is defined contractually with the lessee. During the non-cancellable lease term the acquisition costs are only amortised in part. Amortisation is carried out on the basis of the implicit interest rate. At the end of the agreement, a residual value is calculated. The residual value is based on the expected fair value of the leased object at the end of the agreement. Part amortisation agreements differentiate between agreements with a call option for IKB and agreements without call option with the lessee. Agreements without call option can also include hedging in the form of repurchase agreements with third parties. In foreign companies customers are sometimes offered buy options under this type of agreement. Agreements without call option or with repurchase agreements can also be reported in the balance sheet as an operating leasing relationship (Note (15)) depending on the value of the calculated residual value. For example, high residual values occur in machine leasing.

In addition, full amortisation agreements, terminable agreements and hire purchase agreements can be reported on the balance sheet as finance leasing relationships. In the case of full amortisation agreements, the full acquisition cost is amortised over the non-terminable lease term. These agreements are used for leased objects that are expected to have no significant fair value at the end of the term. Terminable agreements have a non-cancellable lease term after an automatic extension, as long as the customer does not request termination. In case of termination, the customer must make a final payment. The result is full amortisation. In hire purchase agreements legal ownership passes to the customer on payment of the final instalment.

The finance leasing agreement ends once the contracting parties have fulfilled all of their obligations in accordance with the agreement.

## (10) Provision for possible loan losses

Special provisions for possible loan losses are formed to hedge against detectable risks from the lending business. In addition, the risks that have not already been covered by these provisions based on statistical empirical values are taken into account by forming portfolio value adjustments (portfolio impairment).

Risk provisions are reported on the assets side with a minus sign. These include any value adjustments that are required on Loans and advances to banks and customers. Financial assets are always reported after the deduction of value adjustments. Irrecoverable debts are written off directly; receipts for written off debts are reported through profit or loss. If the basis for writing off a debt directly no longer applies, an allocation is made up to the value of the amortised cost.

Special provisions for possible loan losses are formed up to the value of the potential default as soon as the probability of default for interest and redemption receivables is sufficiently high based on the Group's standard assessment criteria. A loan is checked for a loss in value if one of the following criteria applies: a loss in value already exists, insolvency, arrears of more than 90 days or restructuring measures. The potential default is determined from the difference between the current book value and the cash value of the expected payment flows. The discount factor corresponds to the original effective interest of the value-adjusted receivable.

Portfolio provisions are formed for credit risks based on empirical default/loss quotas; these provide risk hedging for any acute default risks that exist but have not yet become apparent. The delay until an event is identified or noticed is taken into account with a portfolio-based parameter (loss identification period factor).

In the case of value-adjusted financial instruments, the interest income is determined using the original effective interest by compounding the future expected cash flow. As a result, the extrapolation of the cash value to the next reporting date (unwinding) is recorded, rather than the interest income agreed.

The procedure for determining provisions for off-the-balance-sheet obligations for possible loan losses resembles the method used for lending receivables. Adjustment losses are reported in the balance sheet as risk provisions for possible loan losses under Other provisions Note (50) and in the income statement as an element of risk provisions for possible loan losses.

## (11) Assets and liabilities held for trading

All derivatives are allocated to assets and liabilities held for trading in accordance with IAS 39. These are recognised at fair value. In addition, financial instruments held for trading, material holdings in shares and promissory loan notes and in bonds without placement are allocated to these items.

The fair value for listed products is determined using the market rate. The fair value of non-listed products is determined using the cash value method or other similar model. The valuation result and realised profits or losses are reported in the fair value result. Interest income and expenditure are reported under net interest income.

## (12) Investment securities

Financial assets include all debt securities and other fixed-income securities not held for trading, equities and other non-fixed income securities, equities in unconsolidated subsidiaries and other associated companies.

Portfolios that are not traded on an active market are valued at amortised cost, as long as no fair value option has been exercised. Any premiums and discounts that apply are allocated directly to the corresponding financial instruments and are spread across the residual term using the effective interest method and are reported under net interest income.

All other holdings reported under financial assets are valued on initial recognition and on each subsequent reporting date at fair value. If the fair value of shares in unconsolidated subsidiaries and other associated companies cannot be reliably determined, these items are reported at amortised cost. Shares reported at amortised cost include shares in limited liability companies (GmbH) and shares in partnerships for which there is a significant degree of fluctuation in the reasonable estimates of the fair value and for which the probability of occurrence of the various estimates cannot be reasonably assessed.

The profits and losses from the valuation of holdings in the *Available for Sale* category are reported in the revaluation reserves in equity. If the impairment is long-term or significant, write-downs are carried out through profit or loss and deducted from the holding.

The valuation result for holdings for which the fair value option has been exercised is recorded directly in the fair value result in the income statement.

## (13) Investments accounted for using the equity method

This item reports all holdings in associated companies and joint ventures that are accounted for using the equity method.

IKB records income from shares in associated companies and joint ventures on an accrual basis. The result is reported separately in the consolidated income statement under the item *Result for companies at equity*.

## (14) Intangible assets

In addition to self-created intangible assets, which mainly concern development costs that are directly attributable to self-purchased software, IKB also reports purchased software that is not an integral part of hardware under intangible assets. These are valued at amortised cost and/or production cost less accumulated depreciation.

Scheduled depreciation is carried out on a linear basis over a service life of five years. If there are grounds for impairment, unscheduled depreciation is carried out. Depreciation is reported in the income statement under administrative expenses.

## (15) Property and equipment

Tangible fixed assets include all real property and buildings that are used primarily for own purposes as well as furniture, fittings and equipment. Tangible fixed assets are measured at amortised cost.

Scheduled depreciation for buildings is carried out on a linear basis over a useful life of 33 to 50 years and for furniture, fittings and equipment over a useful life of 3 to 20 years. These are reported under administrative costs.

Unscheduled depreciation is carried out if there are grounds for impairment due to technically or financially outmoded equipment or due to a fall in the market price.

Profit and loss from the sale of tangible fixed assets is reported in *Other operating income*.

### Operating leases

IAS 17 classifies a lease as an operating lease if it does not transfer substantially all the risks and rewards incident to ownership to the lessee. Leased objects reported by IKB as part of its operating leases are recognised under tangible fixed assets.

Leased objects are reported at amortised cost, less the scheduled depreciation over the contractually agreed useful life and taking into account the agreed residual value or unscheduled depreciation if required due to long-term impairment.

Operating leases can result from part amortisation agreements and from terminable agreement which take into account a residual value. In part amortisation agreements both the term and the residual value are fixed. The residual value is amortised at the end of the agreement from the sale or sub-leasing of the leased object. IKB has a call option on the residual value in accordance with the terms of the agreement. In the case of vehicle part amortisation agreements, the lessee is also entitled to an additional share in the proceeds under the agreement, as long as the proceeds are higher than the residual value. Terminable agreements are concluded for an indefinite period. The calculated term, the termination rights and the corresponding compensatory payments are agreed on a case by case basis. See Note (23) for information on reporting income and expenditure.

## (16) Tax assets and liabilities / Deferred tax assets and liabilities

Tax on earnings is calculated for the individual Group companies in accordance with the tax laws in each country. Cash tax expenditure and income and expenditure resulting from the change in deferred tax assets or liabilities are reported in the income statement as *Taxes on income and earnings*.

Reporting in the balance sheet is carried out separately for current and for deferred tax assets and liabilities as asset or liability items. The items *Current tax assets and liabilities* report the current taxes on earnings based on which a refund or payment is made from or to the tax authorities. Deferred tax assets and liabilities are reported under the items *Deferred tax assets and liabilities*.

Deferred tax assets and liabilities are determined on the basis of the balance-sheet method in accordance with IAS 12. The result is calculated from the difference between the book value of assets/liabilities recognised in the consolidated financial statements and their tax valuations if tax charges or tax relief are expected in the future (temporary differences). These temporary differences have been valued in consideration of any country-specific income tax rates expected at the time of settling the differences.

Deferred tax assets on the taxable unused loss carry-forwards of a taxable entity are recognised, if it can be assumed with sufficient probability that the taxable entity in question will generate sufficient taxable income to use the loss carry-forward in subsequent periods.

Deferred taxes are not discounted. Rate changes are taken into account when calculating deferred tax assets and liabilities as long as it is certain that these will become effective at the time of preparing the financial statements.

Deferred tax assets and liabilities are created and dissolved depending on the underlying situation – either through profit or loss as taxes on income and earnings in the income statement or in equity.

Other non-income related taxes are reported separately in the income statement.

## (17) Other assets/liabilities

Other assets includes loans and receivables to KfW Bankengruppe as a result of risk assumption. Other liabilities includes trade liabilties.

## (18) Securitised liabilities

Securitised liabilities include issued debt instruments and money-market securities (e.g. certificates of deposit, euro notes, commercial papers). These financial instruments are either reported at amortised cost (*Other financial liabilities*) or at fair value, as long as the fair value option has been exercised.

## (19) Provisions for pensions and similar obligations

Pension provisions are provided for employees of IKB Deutsche Industriebank AG and its subsidiaries IKB Leasing GmbH, IKB Leasing Berlin GmbH, IKB Immobilien Management GmbH, IKB Private Equity GmbH, IKB Equity Finance GmbH, IKB International S.A., IKB Data GmbH and IKB Credit Asset Management GmbH. These provisions are defined benefit.

IKB uses these provisions for pensions and similar obligations to hedge payments under its company pension scheme on the basis of its indirect pension promises. According to the scheme pensions are paid on commencement of retirement when reaching pensionable age or early on disability or death to the surviving dependent. The value of provisions for defined benefit pensions depend on the pension scheme regulations that apply. While the 1979 pensions scheme (VO 79) was mainly based on factors such as pensionable service period and pensionable remuneration, the 1994 pensions scheme (VO 94) include a so-called benchmark model (Eckwertmodell) and a special pension components system (Rentenbaustein-system). In accordance with the VO 94, the amount of the obligations recognised as liabilities for income components below the contribution ceiling is based on the final salary and the benchmark value of pensions (in accordance with the RV-Bezugsgrößenverordnung, which are rules with regard to applicable calculation parameters in the German statutory pension insurance) and for income components above the contribution ceiling on the amount of the pension component earned on a yearly basis.

IKB introduced new pension scheme regulations (VO 06) in the financial year 2006/07 in line with the market trend of focussing pension provisions more strongly on the performance of corresponding investments. VO 06 is a cash balance-oriented pension scheme, which is dependent on performance, but also has a minimum interest rate and additional benefits for incapacity or death. VO 06 applies to new employees who join IKB Deutsche Industriebank AG, IKB Data GmbH, IKB Leasing GmbH, IKB Private Equity GmbH and IKB Credit Asset Management GmbH with effect from the financial year 2006/07.

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 senior, fixed-rate corporate bonds.

The expenses for direct retirement benefit obligations, which have to be recognised in profit or loss, are composed of interest and service costs. 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 returned earnings in their full amount in the period in which they are incurred, i.e. in the amount of the present value of the 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.

In 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 this model complements the existing benefit regulations of IKB and offers a further possibility for deferred compensation. The deferred income accounts scheme is provided for employees of IKB Deutsche Industriebank AG and its subsidiaries IKB Leasing GmbH, IKB Leasing Berlin GmbH, IKB Immobilien Management GmbH, IKB Private Equity GmbH and IKB Data GmbH.

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. In November 2007 the assets of the deferred income accounts plan were also 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. The spin-off of assets under VO 06 will be carried out in the financial year 2008/09.

The assets contributed by IKB represent plan assets within the meaning of IAS 19 and are therefore offset with pension provisions. Plan assets are measured at amortised cost. Differences between the plan income reported in the income statement and current income are recognised in equity as actuarial gains and losses in the revenue reserves.

## (20) 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. Other provisions are measured in the amount expected to be utilised.

## (21) 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. No provision is made for a participation in operating losses; interest is due and paid irrespective of the Bank's operating results.

### Profit-participation certificates

Profit-participation certificates fully participate in the loss of the Company. Interest payments are solely made in the case of an existing consolidated profit. The rights of Profit-Participation Certificate holders to repayment of capital invested is 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. If the company records a loss for the period or a loss carryforward (in accordance with the German Commercial Code (HGB)) the profit-participation certificates participate fully by reducing their repayments amounts in proportion to their book value for the capital reported in the Company balance sheet (including profit-participation certificates, but excluding any other subordinated liabilities).

### Silent partnership contributions/ preferred shares

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

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

Silent partnership contributions participate in the balance sheet loss of the AG (in accordance with the German Commercial Code) and therefore in proportion to the silent partnership contributions at the total book value of the Bank's liable capital participating in the loss.

If the AG records a balance sheet loss, the preferred shares only participate in the subsequent financial year if payment is not made.

## (22) 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 and are also reported in the revaluation reserve.

### Minority interest

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

# Notes to the consolidated Income Statement

## (23) Net interest income

Net interest income includes interest income and interest expenses, dividends from securities, current income from shares in unconsolidated affiliated companies and investments as well as income and expenditure from leasing transactions. 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. Income and expenditure from leasing transactions apply to finance leasing as well as operating leasing.

| | 2007/08 in € million | 2006/07 in € million | Change in % |
|---|---|---|---|
| Interest income from derivatives | 315.6 | 729.7 | –56.7 |
| Interest income from financial instruments accounted for under the fair value option | 340.6 | 172.0 | 98.0 |
| Interest income from securities held for trading | 47.5 | 35.4 | 34.2 |
| **Total interest income from financial assets measured at fair value through profit or loss** | **703.7** | **937.1** | **–24.9** |
| Interest income from lending and money market transactions | 1 648.8 | 1 513.8 | 8.9 |
| Amortisation from discontinued hedging relationships IFRS 1 IG 60B | 74.8 | 74.8 | 0.0 |
| Interest income from fixed and floating-rate securities | 718.6 | 1 064.5 | –32.5 |
| Income from equity investments | 6.7 | 10.5 | –36.2 |
| Dividends | 1.1 | 2.1 | –47.6 |
| Income from leasing transactions | 272.9 | 228.8 | 19.3 |
| **Total interest income from other categories** | **2 722.9** | **2 894.5** | **–5.9** |
| **Total interest income** | **3 426.6** | **3 831.6** | **–10.6** |
| Interest expenses for derivatives | 316.5 | 663.2 | –52.3 |
| Amortisation from discontinued hedging relationships IFRS 1 IG 60A | 168.1 | 77.9 | >100.0 |
| Interest expenses for financial instruments accounted for under the fair value option | 346.1 | 275.2 | 25.8 |
| **Total interest expenses from financial liabilities measured at fair value through profit or loss** | **830.7** | **1 016.3** | **–18.3** |
| Interest expenses for securitised liabilities | 1 090.1 | 1 239.7 | –12.1 |
| Interest expenses for other liabilities | 774.6 | 636.0 | 21.8 |
| Interest expenses for subordinated capital | 59.6 | 72.5 | –17.8 |
| Expenses for leasing transactions | 153.5 | 134.1 | 14.5 |
| Similar expenses to interest expenses including interest expenses for pension obligations | 68.2 | 59.9 | 13.9 |
| **Total interest expenses from other categories** | **2 146.0** | **2 142.2** | **0.2** |
| **Total interest expenses** | **2 976.7** | **3 158.5** | **–5.8** |
| **Net interest income** | **449.9** | **673.1** | **–33.2** |

No current interest income is recognised for impaired loans and advances. Instead, the increase in the present value of future payments as a result of the passage of time is recognised as interest income (unwinding). The interest income resulting from the unwinding effect amounts to € 32.1 million (PY: € 42.4 million).

The adjustment from fair value hedges as part of initial recognition under IFRS and the amounts from the cash flow hedges are amortised according to the residual term of the underlying taking into account early repayments above the net interest income.

## (24) Provision for possible loan losses

| | Measured at amortised cost | | | Measured at fair value | Finance lease receivables | Provisions for off-balance transactions | Total |
|---|---|---|---|---|---|---|---|
| 2007/08 in € million | Loans and advances to banks | Loans and advances to customers | Investment securities | Investment securities | Loans and advances to customers | | |
| Additions to specific valuation allowances/provisions | – | 355.2 | – | – | 3.6 | 32.8 | 391.6 |
| Direct write-offs | – | 11.5 | – | – | – | – | 11.5 |
| Recoveries on loans and advances previously written off | – | 6.8 | – | – | – | – | 6.8 |
| Additions to/reversals of portfolio impairment | – | –19.7 | – | – | – | – | –19.7 |
| Reversals of specific valuation allowances/provisions | – | 86.7 | – | – | 2.3 | 32.4 | 121.4 |
| Reclassification | – | – | – | – | – | – | – |
| **Provision for possible loan losses** | **–** | **253.5** | **–** | **–** | **1.3** | **0.4** | **255.2** |
| Impairment on investment securities (net income from investment securities) | – | – | 966.7 | – | – | – | 966.7 |
| **Total** | **–** | **253.5** | **966.7** | **–** | **1.3** | **0.4** | **1 221.9** |

| 2006/07 in € million | Measured at amortised cost | | | Measured at fair value | Receivables from finance leasing | Provisions for off-balance sheet activities | Total |
|---|---|---|---|---|---|---|---|
| | Loans and advances to banks | Loans and advances to customers | Investment securities | Investment securities | Loans and advances to customers | | |
| Additions to specific provisions | – | 415.0 | – | – | 0.8 | 21.9 | 437.7 |
| Direct depreciation | – | 12.7 | – | – | – | – | 12.7 |
| Recoveries on loans and advances previously written off | – | 3.1 | – | – | – | – | 3.1 |
| Additions to/reversals of portfolio provisions | – | –121.1 | – | – | – | – | –121.1 |
| Reversals of specific provisions | – | 70.3 | – | – | 1.8 | 14.4 | 86.5 |
| Reclassification | – | – | – | – | – | – | – |
| **Provision for possible loan losses** | **–** | **233.2** | **–** | **–** | **–1.0** | **7.5** | **239.7** |
| Specific provisions for financial assets (result from financial assets) | – | – | 19.3 | – | – | – | 19.3 |
| **Total** | **–** | **233.2** | **19.3** | **–** | **–1.0** | **7.5** | **259.0** |

## (25) Net fee and commission income

| | 2007/08 in € million | 2006/07 in € million | Change in % |
|---|---|---|---|
| Net fee and commission income from lending business | 43.6 | 41.3 | 5.6 |
| Net fee and commission income from securitisation | 6.1 | 3.1 | 96.8 |
| Other | 5.0 | 7.6 | –34.2 |
| **Total** | **54.7** | **52.0** | **5.2** |

## (26) Net income from financial instruments at fair value

| | 2007/08 in € million | 2006/07 in € million | Change in % |
|---|---|---|---|
| Net trading result | –668.8 | 65.8 | |
| Net result from fair value option | –900.5 | –103.4 | >100.0 |
| Result from Rhinebridge | –241.9 | – | |
| Result from hedging relationships | –14.2 | –0.2 | >100.0 |
| **Total** | **–1 825.4** | **–37.8** | **>100.0** |

The negative effects in the trading results are mainly due to the valuation results of the special-purpose vehicles Havenrock I and Havenrock II and the ELAN cells. The trading result includes the net foreign exchange gain/loss in the amount of € –24.9 million (PY: € 4.0 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, IKB uses 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.

Impairments on portfolio investments of the RFCC conduit (before deconsolidation) (€ –1,260 million) and on portfolio investments of IKB AG and IKB International S.A., Luxemburg (€ –1,210 million) are taken into account in the results from the application of the fair value option. In addition, IKB's own issues were traded on the capital market as at 31 March 2008 at a discount reflecting the default risk. Since the fair value option is exercised for a proportion of these issues, this resulted in default risk-related income within the fair value result of € 1,734.8 million. Until the scheduled redemption of these financial instruments, these effects could to some extent have an impact on the fair value results in future periods again. Default risk-related changes in the fair value of IKB's own issues relate to the following balance sheet items:

| | Amount of cumulative change in fair values attributable to changes in credit risk | | Amount of change in the period in fair values attributable to changes in credit risk | |
|---|---|---|---|---|
| in € million | 31 Mar 2008 | 31 Mar 2007 | 31 Mar 2008 | 31 Mar 2007 |
| Liabilities to banks | 109.4 | 0.0 | 109.4 | 0.0 |
| Liabilities to customers | 34.8 | 0.0 | 34.8 | 0.0 |
| Securitised liabilities | 736.3 | 0.6 | 735.7 | 0.0 |
| Subordinated capital | 854.9 | 0.0 | 854.9 | 0.0 |
| **Total** | **1 735.4** | **0.6** | **1 734.8** | **0.0** |

The fair value option has been exercised for an amount due from a bank established during the financial year. The result after applying the fair value option includes the expenditure from default risk-related changes in the fair value of this receivable in the amount of € –74.5 million.

In addition to the result reported separately from Rhinebridge amounting to € –241.9 million, the trading result also includes valuation and exchange losses in the amount of € –2.4 million.

The result from fair value hedging activities includes the result from underlying transactions (€ 51.4 million) and from hedging derivatives (€ –65.6 million).

## (27) Net income from investment/securities

| | 2007/08 in € million | 2006/07 in € million | Change in % |
|---|---|---|---|
| Net result from securities | –975.7 | –11.6 | >100.0 |
| Net result from equity participations and shares in affiliated companies | –4.2 | –0.8 | >100.0 |
| **Total** | **–979.9** | **–12.4** | **>100.0** |

The income from securities includes € 966.7 million (PY: € 19.3 million) from the risk provisions for securities of IAS 39 category *Loans and receivables*.

In the previous year impairments were made for holdings through profit or loss in the amount of € 7.0 million (PY: € 0.9 million).

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

Movesta Lease and Finance GmbH and Linde Leasing GmbH amounted to € 1.7 million as at 31 March 2008 (PY: € 1.7 million).

## (29) Administrative expenses

| | 2007/08 in € million | 2006/07 in € million | Change in % |
|---|---|---|---|
| Personnel expenses | 181.2 | 185.8 | –2.5 |
| Other administrative expenses | 168.4 | 111.8 | 50.6 |
| Depreciations and write-downs of operating and office equipment and property and amortisation and write-downs of intangible assets | 26.9 | 18.6 | 44.6 |
| **Total** | **376.5** | **316.2** | **19.1** |

The individual expense categories are as follows:

## Personnel expenses

| | 2007/08 in € million | 2006/07 in € million | Change in % |
|---|---|---|---|
| Wages and salaries | 160.5 | 155.7 | 3.1 |
| Social-security contributions | 20.7 | 19.5 | 6.2 |
| Expenses for pensions and other employee benefits | 0.0 | 10.6 | –100.0 |
| **Total** | **181.2** | **185.8** | **–2.5** |

In addition to ongoing service expenses, pension costs also include the expected income from plan assets (Note (49)) and other expenditure such as insolvency protection contributions to PSVaG. The income from plan assets included in pension costs amounts to € 11 million. Interest expenditure from pension obligations is reported in net interest income (Note (23)).

## Other administrative expenses

| | 2007/08 in € million | 2006/07 in € million | Change in % |
|---|---|---|---|
| IT costs | 44.4 | 24.1 | 84.2 |
| Advisory fees | 30.9 | 14.3 | >100.0 |
| Mandatory contributions, miscellaneous other administrative expenses and expenses required under company law | 24.2 | 11.4 | >100.0 |
| Occupancy expenses | 20.5 | 17.4 | 17.8 |
| Travel expenses and vehicle costs | 11.9 | 12.7 | –6.3 |
| Workstation costs | 13.7 | 12.3 | 11.4 |
| Advertising, marketing and representation costs | 5.7 | 8.0 | –28.8 |
| Other administrative expenses | 17.1 | 11.6 | 47.4 |
| **Total** | **168.4** | **111.8** | **50.6** |

The increase in other administrative expenses is due to the costs for consultancy and services in conjunction with overcoming the crisis (€ 36.8 million) and IT projects.

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

| | 2007/08 in € million | 2006/07 in € million | Change in % |
|---|---|---|---|
| Audit services | 3.7 | 2.1 | 76.2 |
| of which to the former auditor | 1.3 | | |
| Other testation and valuation services *) | 8.0 | 0.5 | >100.0 |
| of which to the former auditor | 0.3 | | |
| Tax advisory services | 0.1 | 0.4 | –75.0 |
| of which to the former auditor | 0.1 | | |
| Other services | 0.6 | 0.2 | >100.0 |
| of which to the former auditor | 0.1 | | |
| **Total** | **12.4** | **3.2** | **>100.0** |

*) Amount in 2007/08 including special audit fee

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

| | 2007/08 in € million | 2006/07 in € million | Change in % |
|---|---|---|---|
| Operating and office equipment | 7.9 | 7.2 | 9.7 |
| Property | 1.6 | 1.7 | –5.9 |
| Intangible assets | 17.4 | 9.7 | 79.4 |
| **Total** | **26.9** | **18.6** | **44.6** |

## (30) Net other operating income/expenses

| | 2007/08 in € million | 2006/07 in € million | Change in % |
|---|---|---|---|
| **Material other operating income** | **749.5** | **28.4** | **>100.0** |
| Income from the revaluation of compensation out of future profits and hybrid financial instruments | 648.7 | – | |
| Income from the waiver of negative differences | 50.2 | – | |
| Buyback of own issues | 17.5 | – | |
| Cost allocations | 9.9 | 10.9 | –9.2 |
| Reversals of provisions/valuation allowances for other receivables | 7.7 | 4.2 | 83.3 |
| Income for buildings not used for banking purposes | 3.1 | 2.8 | 10.7 |
| Income from the sale of non-financial assets | 0.2 | – | |
| Other operating income | 12.2 | 10.5 | 16.2 |
| **Material other operating expenses** | **87.3** | **34.6** | **>100.0** |
| Expenses for buildings not used for banking purposes (including depreciation) | 5.0 | 8.1 | –38.3 |
| Additions to provisions/valuation allowances for other receivables | 35.4 | 5.1 | >100.0 |
| Voluntary social benefits (including donations) | 3.0 | 3.3 | –9.1 |
| Expenses from the sale of non-financial assets | 1.3 | 1.9 | –31.6 |
| Other operating expenses | 42.6 | 16.2 | >100.0 |
| **Total** | **662.2** | **–6.2** | |

Income from the revaluation of hybrid financial instruments (IAS 39 AG8) is explained in Note (45) *Liabilities to banks* and in Note (54) *Subordinated capital*.

## (31) Result as of risk assumption

| | 2007/08 in € million | 2006/07 in € million |
|---|---|---|
| Result from risk coverage of IKB portfolio investments | 942.0 | – |
| Result from risk coverage of Havenrock | 911.8 | – |
| Effects from deconsolidation of Rhineland Funding | 547.2 | – |
| **Total** | **2 401.0** | **–** |

## (32) Income taxes

| | 2007/08 in € million | 2006/07 in € million | Change in % |
|---|---|---|---|
| Current income taxes | –13.5 | 39.6 | |
| for the current year | 11.1 | 57.3 | –80.6 |
| from prior years | –24.5 | –17.7 | 38.4 |
| Deferred taxes | 172.1 | 35.1 | >100.0 |
| **Total** | **158.6** | **74.7** | **>100.0** |

On the basis of the Group's operating result in 2007/08, a tax expense of € 39.8 million (PY: € 45.0 million) would have been expected, using the applicable German corporate income tax rate including solidarity surcharge, and taking into account trade taxes. The following table shows a reconciliation of expected to actually reported tax expense:

| | 2007/08 in € million | 2006/07 in € million | Change in % |
|---|---|---|---|
| Profit/loss before income taxes | 126.7 | 112.6 | 12.5 |
| Applicable tax rate | 31.4 % | 40.0 % | –21.5 |
| Expected income taxes | 39.8 | 45.0 | –11.5 |
| Tax effects | | | |
| from prior years and tax rate changes | 11.4 | –19.7 | |
| from differences between tax rates in Germany and abroad | 86.9 | 18.4 | >100.0 |
| from tax-free income | –116.4 | 15.7 | |
| from non-deductible expenses | 140.6 | 17.8 | >100.0 |
| from unrecognised deferred taxes | 514.7 | – | |
| from other differences | –518.4 | –2.5 | >100.0 |
| **Income taxes** | **158.6** | **74.7** | **>100.0** |

The income tax rate used as the basis for the reconciliation is composed of the corporate income tax rate of 15.0% applicable in Germany as of 2008 (PY: 25.0%), plus a solidarity surcharge of 5.5% (PY: 5.5%) on corporate income tax and an average trade tax rate of 15.6% (PY: 18.4%). In total this is equivalent to an income tax rate of 31.4% (PY: 40.0%). The reduction in tax rates results in a reduction in the initial deferred tax assets and liabilities. This generates additional tax expenditure of € 34.1 million.

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 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.

The transition has been affected by the non-application of deferred taxes due to the expected handover of the majority of interests in IKB AG and the lack of utilisation during the planning period of 5 years (in Germany € 348.3 million; in Luxembourg € 128 million). In addition, the assessment that the KfW rescue package should be valued as an investment and thus as a permanent difference generates considerable relief effects; this eliminates € 482 million in other differences.

# Notes to Assets

## (33) Cash reserve

| | 31 Mar 2008 in € million | 31 Mar 2007 in € million | Change in % |
|---|---|---|---|
| Cash on hand | 0.1 | 0.1 | 0.0 |
| Balances with central banks | 308.5 | 28.3 | >100.0 |
| Other | 0.2 | 0.3 | –33.3 |
| **Total** | **308.8** | **28.7** | **>100.0** |

Balances with central banks relate to balances at Deutsche Bundesbank, in an amount of € 308.3 million (PY: € 28.1 million) as at the balance sheet date.

## (34) Loans and advances to banks

| | Total | | | Germany | | Foreign countries | |
|---|---|---|---|---|---|---|---|
| | 31 Mar 2008 in € million | 31 Mar 2007 in € million | Change in % | 31 Mar 2008 in € million | 31 Mar 2007 in € million | 31 Mar 2008 in € million | 31 Mar 2007 in € million |
| Loans and advances to banks payable on demand | 1 462.0 | 692.2 | >100.0 | 332.0 | 174.2 | 1 130.0 | 518.0 |
| Loans and advances to banks (initial maturity < 4 years) | 1 126.3 | 3 568.5 | –68.4 | 87.3 | 779.9 | 1 038.9 | 2 788.6 |
| Loans and advances to banks (initial maturity ≥ 4 years) | 262.0 | 181.2 | 44.6 | 3.6 | 10.7 | 258.4 | 170.5 |
| **Total** | **2 850.3** | **4 441.9** | **–35.8** | **422.9** | **964.8** | **2 427.4** | **3 477.1** |

## (35) Loans and advances to customers

| | Total | | | Germany | | Foreign countries | |
|---|---|---|---|---|---|---|---|
| | 31 Mar 2008 in € million | 31 Mar 2007 in € million | Change in % | 31 Mar 2008 in € million | 31 Mar 2007 in € million | 31 Mar 2008 in € million | 31 Mar 2007 in € million |
| Loans and advances to customers (initial maturity < 4 years) | 4 747.8 | 4 107.8 | 15.6 | 3 092.8 | 3 297.5 | 1 655.0 | 810.3 |
| Loans and advances to customers (initial maturity ≥ 4 years) | 22 280.5 | 24 038.8 | –7.3 | 17 528.7 | 18 515.8 | 4 751.8 | 5 523.0 |
| Receivables from finance leases | 1 840.6 | 1 538.4 | 19.6 | 1 532.2 | 1 432.5 | 308.4 | 105.9 |
| **Total** | **28 868.9** | **29 685.0** | **–2.7** | **22 153.7** | **23 245.8** | **6 715.2** | **6 439.2** |

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 € 197.0 million (PY: € 365.1 million).

The Loans and advances to customers take into account changes in value of € –11.1 million (PY: € –9.3 million) from hedged underlying transactions in hedge accounting.

## (36) Provision for possible loan losses

Special provisions for possible loan losses are formed to hedge against detectable risks from the lending business.

| in € million | Impairment – Measured at amortised cost – Loans and advances to banks | Impairment – Measured at amortised cost – Loans and advances to customers | Impairment – Finance lease receivables – Loans and advances to customers | Portfolio impairment | Provisions for off-balance transactions | Total |
|---|---|---|---|---|---|---|
| Opening carrying amount (1 Apr 2007) | 0.0 | 989.3 | 1.8 | 103.6 | 28.2 | 1 122.9 |
| Utilisation | 0.0 | 448.9 | 0.0 | 0.0 | 4.5 | 453.4 |
| Reversals | 0.0 | 86.7 | 2.3 | 23.2 | 32.4 | 144.6 |
| Unwinding | 0.0 | 32.1 | 0.0 | 0.0 | 0.8 | 32.9 |
| Allocation | 0.0 | 355.2 | 3.6 | 3.5 | 32.8 | 395.1 |
| Reclassification | 0.0 | 0.0 | –0.8 | 0.0 | 0.0 | –0.8 |
| Effects from foreign exchange rate changes | 0.0 | –0.9 | 0.0 | –0.9 | 0.0 | –1.8 |
| Change in the scope of consolidation | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Closing carrying amount (31 Mar 2008)** | 0.0 | **775.9** | **2.3** | **83.0** | **23.3** | **884.5** |
| minus provisions | – | – | – | – | 23.3 | 23.3 |
| **Provision for possible loan losses reported in the balance sheet** | 0.0 | **775.9** | **2.3** | **83.0** | **–** | **861.2** |

| in € million | Impairment – Measured at amortised cost – Loans and advances to banks | Impairment – Measured at amortised cost – Loans and advances to customers | Impairment – Finance lease receivables – Loans and advances to customers | Portfolio impairment | Provisions for off-balance transactions | Total |
|---|---|---|---|---|---|---|
| Opening carrying amount (1 Apr 2006) | 0.0 | 1 180.2 | 6.3 | 225.2 | 42.8 | 1 454.5 |
| Utilisation | 0.0 | 504.1 | 3.5 | 0.0 | 10.4 | 518.0 |
| Reversals | 0.0 | 70.3 | 1.8 | 126.3 | 14.4 | 212.8 |
| Unwinding | 0.0 | 42.4 | 0.0 | 0.0 | 0.8 | 43.2 |
| Allocation | 0.0 | 415.0 | 0.8 | 5.2 | 21.9 | 442.9 |
| Reclassification | 0.0 | 10.9 | 0.0 | 0.0 | –10.9 | 0.0 |
| Effects from foreign exchange rate changes | 0.0 | 0.0 | 0.0 | –0.5 | 0.0 | –0.5 |
| Change in the scope of consolidation | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Closing carrying amount (31 Mar 2007)** | **0.0** | **989.3** | **1.8** | **103.6** | **28.2** | **1 122.9** |
| minus provisions | – | – | – | – | 28.2 | 28.2 |
| **Provision for possible loan losses reported in the balance sheet** | **0.0** | **989.3** | **1.8** | **103.6** | **–** | **1 094.7** |

Provisions for possible loan losses consisting of special provisions and reserves amount to a total of € 801.5 million (PY: € 1,019.3 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 2008, portfolio impairment amounts to € 83.0 million (PY: € 103.6 million).

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

| | 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 | 2007/08 | 2006/07 | 2007/08 | 2006/07 | 2007/08 | 2006/07 |
| German customers | 755.1 | 976.7 | 424.2 | 484.2 | 233.8 | 334.7 |
| Production | 203.0 | 254.9 | 121.5 | 160.2 | 80.2 | 89.4 |
| Trade | 32.2 | 65.4 | 43.2 | 58.1 | 12.3 | 25.0 |
| Services | 480.1 | 609.0 | 244.6 | 255.5 | 135.2 | 183.9 |
| Transport | 24.9 | 20.8 | 5.0 | 2.1 | 9.2 | 14.1 |
| Other | 14.9 | 26.6 | 9.8 | 8.3 | –3.1 | 22.3 |
| Foreign customers | 46.5 | 40.6 | 29.2 | 33.8 | 41.1 | 24.1 |
| Production | 26.2 | 22.1 | 15.0 | 6.4 | 22.8 | 15.3 |
| Trade | 6.5 | 0.1 | 0.0 | 0.1 | 8.2 | 0.3 |
| Services | 8.6 | 12.7 | 12.4 | 22.4 | 8.8 | 7.6 |
| Transport | 4.0 | 4.3 | 1.3 | 4.9 | 1.2 | 0.9 |
| Other | 1.1 | 1.4 | 0.5 | 0.0 | 0.1 | 0.0 |
| Segment Portfolio Investments | 0.0 | 2.0 | 0.0 | 0.0 | 0.0 | 2.0 |
| Portfolio impairment | | | | | –19.7 | –121.1 |
| **Total** | **801.5** | **1 019.3** | **453.4** | **518.0** | **255.2** | **239.7** |

Key figures related to the provision for possible loan losses:

| | 2007/08 in % | 2006/07 in % | Change absolute |
|---|---|---|---|
| Additions | 0.7 | 0.5 | 0.2 |
| Utilisation | 1.2 | 1.0 | 0.2 |
| Balance | 2.3 | 2.2 | 0.1 |

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 by the Group
- Total = Total amount of valuation allowances and provisions, in relation to total credit extended

## (37) Assets held for trading

| | 31 Mar 2008 in € million | 31 Mar 2007 in € million | Change in % |
|---|---|---|---|
| Bonds and other fixed-income securities | 33.2 | 1 201.4 | –97.2 |
| Equities and other non-fixed-income securities | 0.1 | 1.9 | –94.7 |
| Promissory notes carried as trading assets | 67.8 | 419.2 | –83.8 |
| Positive fair values from derivative financial instruments | 3 502.9 | 586.0 | >100.0 |
| Positive fair values from hedging derivatives | 33.7 | – | – |
| **Total** | **3 637.7** | **2 208.5** | **64.7** |

The reduction in bonds and other fixed-income securities mainly relates to the sale of securities held for trading to Rhinebridge (€ 1.2 billion as at 31 March 2007), which are now classified as investment securities and whose valuation is still reported at fair value. The increase in the positive fair values from derivative financial instruments is due to the inclusion of the Havenrock special-purpose entities (€ 2.8 billion).

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

## (38) Investment securities

Investment securities include the following items:

| | 31 Mar 2008 in € million | 31 Mar 2007 in € million | Change in % |
|---|---|---|---|
| Bonds and other fixed-income securities | 12 585.8 | 26 975.3 | –53.3 |
| Equities and other non-fixed-income securities | 11.5 | 18.5 | –37.8 |
| Equity investments | 247.1 | 264.7 | –6.6 |
| of which to banks | 44.1 | 78.5 | –43.8 |
| Shares in affiliated companies | 0.1 | 0.1 | 0.0 |
| of which to banks | – | – | |
| **Total** | **12 844.5** | **27 258.6** | **–52.9** |

The change in debenture bonds and other fixed-income securities mainly results from the deconsolidation of Rhineland Funding Capital Corporation (RFCC) of € 11.5 billion (as at 31 March 2007).

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

| | 31 Mar 2008 in € million | 31 Mar 2007 in € million | Change in % |
|---|---|---|---|
| Investment securities accounted for under the fair value option | 4 714.6 | 16 040.8 | –70.6 |
| Bonds and other fixed-income securities | 4 547.9 | 15 884.0 | –71.4 |
| Equity investments | 166.7 | 156.8 | 6.3 |
| Financial assets available for sale | 1 709.1 | 2 106.1 | –18.9 |
| Bonds and other fixed-income securities | 1 617.1 | 1 979.6 | –18.3 |
| Equities and other non-fixed-income securities | 11.5 | 18.5 | –37.8 |
| Shares in affiliated companies | 0.1 | 0.1 | 0.0 |
| Equity investments | 80.4 | 107.9 | –25.5 |
| at amortised cost | 36.3 | 29.4 | 23.5 |
| Loans and advances | 6 420.8 | 9 111.7 | –29.5 |
| Bonds and other fixed-income securities | 6 420.8 | 9 111.7 | –29.5 |
| **Total** | **12 844.5** | **27 258.6** | **–52.9** |

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

| 31 Mar 2008 in € million | Total marketable | listed | unlisted |
|---|---|---|---|
| Bonds and other fixed-income securities | 12 289.7 | 11 699.9 | 589.8 |
| Equities and other non-fixed-income securities | 60.8 | 43.8 | 17.0 |
| Equity investments | 68.9 | 3.5 | 65.4 |

As at 31 March 2008, the Company did not hold any marketable shares in unconsolidated subsidiaries.

## (39) Investments accounted for using the equity method

*Companies at equity* amounts to € 14.7 million (PY: € 13.3 million).

As at 31 March 2008, the Company did not hold any marketable interests in companies at equity.

## (40) Intangible assets

No goodwill is included in intangible assets.

Intangible assets include self-created software in the amount of € 6.3 million (PY: € 9.0 million).

## (41) Property and equipment

| | 31 Mar 2008 in € million | 31 Mar 2007 in € million | Change in % |
|---|---|---|---|
| Operating leases | 112.2 | 104.0 | 7.9 |
| Land and buildings | 83.3 | 84.5 | –1.4 |
| Operating and office equipment | 23.3 | 21.4 | 8.9 |
| Properties held for sale | – | 2.2 | –100.0 |
| **Total** | **218.8** | **212.1** | **3.2** |

## (42) Current tax assets

Current tax assets are broken down as follows:

| | 31 Mar 2008 in € million | 31 Mar 2007 in € million | Change in % |
|---|---|---|---|
| Germany | 36.8 | 12.2 | >100.0 |
| Foreign countries | 8.0 | 1.5 | >100.0 |
| **Total** | **44.8** | **13.7** | **>100.0** |

## (43) Deferred tax assets

| | 31 Mar 2008 in € million | 31 Mar 2007 in € million | Change in % |
|---|---|---|---|
| Loans and advances to customers/provision for possible loan losses | 70.4 | 132.9 | –47.0 |
| Assets held for trading | 22.9 | 45.6 | –49.8 |
| Investment securities | 403.5 | 22.0 | >100.0 |
| Property and equipment | 6.6 | 8.7 | –24.1 |
| Loss carryforwards | 27.0 | 126.2 | –78.6 |
| Liabilities to banks | 40.3 | 1.3 | >100.0 |
| Liabilities held for trading | 443.2 | 356.8 | 24.2 |
| Pension provisions | 10.0 | 21.2 | –52.8 |
| Subordinated capital | 1.0 | – | |
| Other balance sheet items | 73.1 | 21.8 | >100.0 |
| **Subtotal** | **1 098.0** | **736.5** | **49.1** |
| Set-off against deferred tax liabilities | –923.9 | –586.3 | 57.6 |
| **Total** | **174.1** | **150.2** | **15.9** |

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

Because of the expected shareholder change of more than 50%, the domestic tax losses carried forward according to Section 8c KStG (Corporate Income Tax Law) and Section 10a GewStG (Business Income Tax Law) will be lost. Deferred tax assets relating to domestic loss carryforwards (€ 125 million) have been written off in full; including tax losses for the current financial year, the Bank estimates a loss of non-forfeitable loss carryforwards in the amount of € 350 million. Deferred tax assets in the amount of € 26,2 million have been reformed for part of the losses in Luxembourg. A total of € 868 million was not recognised in loss carryforwards; the details of this can be found in the following table:

| | 31 Mar 2008 in € million | 31 Mar 2007 in € million | Change in % |
|---|---|---|---|
| Corporate income tax – loss carryforwards unrecognised as at the reporting date | 868.1 | – | |
| of which expire in 2008/09 | – | | |
| of which expire in 2009/10 | – | – | |
| of which expire in 2010/11 | 0.5 | – | |
| of which expire in 2011/12 | 1.3 | – | |
| of which expire in 2012/13 | 0.8 | | |
| of which expire in 2013/14 | 1.5 | | |
| of which may be carried forward for an unlimited period | 738.9 | – | |
| Trade tax – loss carryforwards unrecognised as at the reporting date | 829.5 | 3.4 | >100.0 |
| of which may be carried forward for an unlimited period | 704.5 | 3.4 | >100.0 |

## (44) Other Assets

| | 31 Mar 2008 in € million | 31 Mar 2007 in € million | Change in % |
|---|---|---|---|
| Receivables KfW Bankengruppe | 1 829.7 | – | |
| Documents for collection | – | 333.3 | –100.0 |
| Receivables from leasing transactions | 119.4 | 93.2 | 28.1 |
| Trade receivable | 74.8 | 82.9 | –9.8 |
| Deferred expenses | 35.4 | 39.9 | –11.3 |
| Other loans and advances | 51.8 | 40.1 | 29.2 |
| **Total** | **2 111.1** | **589.4** | **>100.0** |

# Notes to equity and liabilities

## (45) Liabilities to banks

| | Total | | | Germany | | Foreign countries | |
|---|---|---|---|---|---|---|---|
| | 31 Mar 2008 in € million | 31 Mar 2007 in € million | Change in % | 31 Mar 2008 in € million | 31 Mar 2007 in € million | 31 Mar 2008 in € million | 31 Mar 2007 in € million |
| Liabilities to banks payable on demand | 107.0 | 1 278.2 | –91.6 | 46.3 | 1 245.2 | 60.7 | 33.0 |
| Liabilities to banks (initial maturity < 4 years) | 7 431.1 | 4 499.9 | 65.1 | 5 308.9 | 2 649.3 | 2 122.2 | 1 850.6 |
| Liabilities to banks (initial maturity ≥ 4 years) | 9 911.2 | 8 134.4 | 21.8 | 9 749.7 | 7 790.9 | 161.5 | 343.5 |
| **Total** | **17 449.3** | **13 912.5** | **25.4** | **15 104.9** | **11 685.4** | **2 344.4** | **2 227.1** |

Fixed-rate liabilities are hedged against interest rate risks partly 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.

On 19 February 2008, the KfW strengthened the regulatory core capital of IKB AG by € 600 million and on 19 March 2008 by a further € 450 million in order to offset the high valuation losses from the two sub-portfolios and the resulting equity impairment. The contractual details of these loans contain agreements on compensation out of future profits, with the following key elements:

- The compensation payments out of future profits on both of these measures total € 1,050 million (plus expenses and interest payments). Claims only accrue in a financial year if, and in so far as, IKB AG – in the HGB individual financial statement – does not incur an annual loss as a result of the compensation payments, and provided its statutory equity ratio stays at least at 9%.

- Interest payments will only be made in financial years when IKB AG does not incur an annual loss in its HGB individual financial statement as a result of the compensation payments. If the amount payable by the lender means that the Company falls below the 9% equity ratio at the time of payment, IKB is entitled to postpone payments until the payment can be effected without falling below the minimum equity ratio.

- The claims to compensation payments take commercial precedence over the claims of profit-participation certificate holders and silent participations of IKB AG.

- IKB AG is required as far as legally permitted to initiate a distribution, as far as possible, of consolidated profit generated by subsidiaries directly held to IKB AG.

The valuation according to IAS 39 AG8 applies to the loans with immediate debt waiver and compensation out of future profits provided by KfW in the consolidated financial statements for the *Other financial liabilities* category. These transactions are reported at their cash value on each reporting date. This is calculated by re-estimating the underlying interest and redemption cash flow, discounted by the original instrument yield (effective interest on the date of issue). The forecast future interest and redemption payments for these instruments are based on the planned operating result for the next years. The change in book value results from the agreed compensation out of future profits and the corresponding delay in interest and redemption payments. The book value gain in the amount of € 362.7 million is reported in *Other operating income*.

## (46) Liabilities to customers

| | Total | | | Germany | | Foreign countries | |
|---|---|---|---|---|---|---|---|
| | 31 Mar 2008 in € million | 31 Mar 2007 in € million | Change in % | 31 Mar 2008 in € million | 31 Mar 2007 in € million | 31 Mar 2008 in € million | 31 Mar 2007 in € million |
| Liabilities to customers payable on demand | 24.7 | 204.8 | –87.9 | 21.7 | 204.8 | 3.0 | 0.0 |
| Liabilities to customers (initial maturity < 4 years) | 2 710.6 | 978.0 | >100.0 | 2 673.8 | 758.8 | 36.8 | 219.2 |
| Liabilities to customers (initial maturity ≥4 years) | 3 016.2 | 3 095.0 | –2.5 | 3 015.8 | 3 074.3 | 0.4 | 20.7 |
| **Total** | **5 751.5** | **4 277.8** | **34.4** | **5 711.3** | **4 037.9** | **40.2** | **239.9** |

## (47) Securitised liabilities

| | 31 Mar 2008 in € million | 31 Mar 2007 in € million | Change in % |
|---|---|---|---|
| Bonds issued (initial maturity < 4 years) | 10 756.0 | 30 713.3 | –65.0 |
| less own bonds (initial maturity < 4 years) | 893.5 | 18.1 | >100.0 |
| Subtotal (initial maturity < 4 years) | 9 862.5 | 30 695.2 | –67.9 |
| Bonds issued (initial maturity ≥ 4 years) | 8 680.3 | 8 887.7 | –2.3 |
| less own bonds (initial maturity ≥ 4 years) | 358.0 | 27.4 | >100.0 |
| Subtotal (initial maturity ≥ 4 years) | 8 322.3 | 8 860.3 | –6.1 |
| **Total** | **18 184.8** | **39 555.5** | **–54.0** |

The change in the value of *Securitised liabilities* mainly results from the deconsolidation of Rhineland Funding Capital Corporation (RFCC) amounting to € 11.5 billion (as at 31 March 2007) and the fall in issues.

As a result of the crisis on the financial markets and associated violations of various contractual regulations on observing portfolio relationships, Rhinebridge went into receivership in October 2007. The receiver was appointed on 22 October 2007 and has since been responsible for controlling all of Rhinebridge's activities. Since October 2007 this has resulted in redemption delays on maturing commercial papers, which have been issued with an average interest yield of LIBOR +7.29 basis points. The nominal volume of commercial papers amounts to USD 402.0 million as at 31 March 2008. Rhinebridge is currently being restructured under the control of the receiver.

The securities liabilities take into account changes in value of € –0.8 million (PY: € –0.1 million) from hedged underlying transactions in hedge accounting.

## (48) Liabilities held for trading

| | 31 Mar 2008 in € million | 31 Mar 2007 in € million | Change in % |
|---|---|---|---|
| Derivatives with negative market value | 5 345.3 | 1 164.7 | >100.0 |
| Negative market values from hedging derivatives | 65.6 | – | – |
| **Total** | **5 410.9** | **1 164.7** | **>100.0** |

The increase in the negative fair values from derivative financial instruments is due to the inclusion of the Havenrock special-purpose entities (€ 3.8 billion).

## (49) Provisions for pensions and similar obligations

The nature and the amount of pension payments to eligible employees are governed by the applicable pension rules (see also Note (19)).

The value of pension obligations is calculated annually by an independent actuary based on the realisation value in expectancy. The difference in pension reserves results from the fair value of the plan assets. Pension obligations and the plan assets for defined benefit pension plans have previously performed as follows:

| in € million | 31 Mar 2008 | 31 Mar 2007 | 31 Mar 2006 |
|---|---|---|---|
| Pension obligations (defined benefid obligation) | 204.9 | 218.6 | 227.4 |
| – Fair value of plan assets | 206.5 | 215.9 | |
| = Excess (+)/Shortfall (–) | 1.6 | –2.7 | –227.4 |
| entered as assets | 5.1 | 0.0 | |
| entered as liabilities | 3.5 | 2.7 | 227.4 |

As at 31 March 2008, the realisation value in expectancy of pension obligations amounts to € 204.9 million (PY: € 218.6 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 2008, the reported pension obligations amount to € 3.5 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 obligations from the deferred income accounts scheme amounting to € 1.1 million are matched by a fund investment in the amount of € 1.0 million. In November 2007 of the previous financial year, these assets were also transferred to the CTA. The changes in value and the resulting effects on the income statement as at 31 March 2008 are therefore of minor significance.

In the two previous financial years pension obligations have changed as follows:

| in € million | 2007/08 | 2006/07 |
|---|---|---|
| **Initial status of pension obligations as at 1 April of the financial year** | **218.6** | **227.4** |
| Benefits paid | 9.9 | 8.4 |
| Employee contributions | 0.8 | 0.0 |
| Additions | 19.6 | 19.9 |
| of which current service cost | 9.5 | 10.4 |
| interest cost | 10.1 | 9.5 |
| –/+ actuarial gains and and losses | –24.2 | –20.3 |
| **Final status of pension obligations as at 31 March of the financial year** | **204.9** | **218.6** |
| Plan assets according to IAS 19 | 206.5 | 215.9 |
| **Net balance sheet position as at 31 March of the financial year** | **1.6** | **–2.7** |

As at 31 March 2008, the present value of the pension obligations amounted to € 204.9 million (PY: € 218.6 million). The decrease compared to the previous year is primarily attributable to actuarial gains of € 24.2 million (PY: € 20.3 million); of which € 7.4 million (PY: € 1.6 million) are losses relating to changes in the number of beneficiaries and € 31.6 million (PY: € 21.9 million) are gains relating to changes in actuarial parameters and bases of calculation. Actuarial gains mainly relate to the increase in the discount rate of 100 basis points. Actuarial gains for the year amounted to € 2.7 million as at the balance sheet date. They were recognised directly in equity as a component of the total obligations. In addition, minor changes occurred with respect to employee turnover.

The change in actuarial gains/losses reported in equity for the previous financial year is broken down as follows:

| in € million | Pension obligations | Plan assets | Total |
|---|---|---|---|
| **Accumulated gains/losses measured in SORIE as at 31 March 2005** | **16.6** | **0.0** | **16.6** |
| –/+ actuarial gains and and losses | 19.0 | 0.0 | 19.0 |
| changes to actuarial parameters and calculation bases | 14.0 | 0.0 | 14.0 |
| adjustments due to inventory changes | 5.0 | 0.0 | 5.0 |
| **Accumulated gains/losses measured in SORIE as at 31 March 2006** | **35.6** | **0.0** | **35.6** |
| –/+ actuarial gains and and losses | –20.3 | 0.0 | –20.3 |
| changes to actuarial parameters and calculation bases | –21.9 | 0.0 | –21.9 |
| adjustments due to inventory changes | 1.6 | 0.0 | 1.6 |
| **Accumulated gains/losses measured in SORIE as at 31 March 3007** | **15.3** | **0.0** | **15.3** |
| –/+ actuarial gains and and losses | –24.2 | 21.5 | –2.7 |
| changes to actuarial parameters and calculation bases | –31.6 | 0.0 | –31.6 |
| adjustments due to inventory changes | 7.4 | 0.0 | 7.4 |
| **Accumulated gains/losses measured in SORIE as at 31 March 3008** | **–8.9** | **21.5** | **12.6** |

In the two previous financial years plan assets available to meet the obligations changed as follows:

| in € million | 2007/08 | 2006/07 |
|---|---|---|
| **Initial status of plan assets as at 1 April of the financial year** | 215.9 | 0.0 |
| Expected return from plan assets | 11.0 | 0.0 |
| –/+ actuarial gains and and losses | –21.5 | 0.0 |
| IKB contribution additions | 0.3 | 215.9 |
| Employee contributions | 0.8 | 0.0 |
| Benefits paid | 0.0 | 0.0 |
| **Final status of plan assets as at 31 March of the financial year** | 206.5 | 215.9 |

The plan assets recorded a loss in the amount of € 10.5 million in the previous financial year 2007/08. As at 31 March 2008 and 31 March 2007 the plan assets were composed as follows:

| in % | 31 Mar 2008 | 31 Mar 2007 |
|---|---|---|
| Liquid Assets | 8.7 | 100.0 |
| Shares | 21.9 | – |
| Fixed-interest securities | 66.5 | – |
| Real Estate | 2.4 | – |
| Other | 0.4 | – |

The calculation was based on the following actuarial assumptions:

| | 31 Mar 2008 | 31 Mar 2007 |
|---|---|---|
| Discount rate | 5.75 | 4.75 |
| Expected increase of pensionable remuneration | 3.0 | 3.0 |
| Expected rates of pensions increases (including inflation) | 1.5 | 1.5 |
| Employee turnover (by age groups) | 1.0–6.5 | 1.0–5.5 |
| Expected return on plan assets | 5.25 | 5.25 |

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. Performance assumptions are not empirical, but instead are based on a capital market model which extrapolates the future performance for a variety of asset classes using simulation models.

The expected contributions to plan assets are based on the future changes in the realisation value of the pension obligations. In general, the Company (as before) intends to achieve a full cover of the obligations by plan assets.

For the financial year 2008/09 no adjustments are expected to plan assets. The expected pension payments amount to € 10.4 million.

## (50) Other provisions

| in € million | Initial status as at 31 Mar 2007 | Utilisation | Liquidation | Allocation | Reclassi-fication | Foreign currency rate changes | Final status as at 31 Mar 2008 | Change in % |
|---|---|---|---|---|---|---|---|---|
| Provisions for credit risks | 28.2 | 4.5 | 33.2 | 32.8 | – | – | 23.3 | –17.4 |
| Provisions for interest on tax | 14.5 | 2.4 | – | – | – | – | 12.1 | –16.6 |
| Provisions for jubilee payments | 4.7 | 0.4 | – | – | – | – | 4.3 | –8.5 |
| Provisions for taxes (excl. income taxes) | 1.3 | – | – | 1.8 | – | – | 3.1 | >100.0 |
| Litigation and recourse claims | 0.3 | 0.1 | 0.1 | 18.0 | – | – | 18.1 | >100.0 |
| Other | 8.3 | 2.0 | 0.7 | 13.7 | – | – | 19.3 | >100.0 |
| **Total** | **57.3** | **9.4** | **34.0** | **66.3** | **–** | **–** | **80.2** | **40.0** |

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 (49).

Provisions for possible loan losses 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.

## (51) Income tax liabilities

Income tax liabilities are broken down as follows:

| | 31 Mar 2008 in € million | 31 Mar 2007 in € million | Change in % |
|---|---|---|---|
| Germany | 87.3 | 78.4 | 11.4 |
| Foreign countries | 0.8 | 0.8 | 0.0 |
| **Total** | **88.1** | **79.2** | **11.2** |

## (52) Deferred tax liabilities

| | 31 Mar 2008 in € million | 31 Mar 2007 in € million | Change in % |
|---|---|---|---|
| Loans and advances to customers/provision for possible loan losses | 185.2 | 231.7 | –20.1 |
| Assets held for trading | 118.0 | 143.8 | –17.9 |
| Investment securities | 51.6 | 51.0 | 1.2 |
| Property and equipment | 2.7 | 0.4 | >100.0 |
| Liabilities | 326.8 | 51.1 | >100.0 |
| Liabilities held for trading | 22.8 | 39.8 | –42.7 |
| Pension provisions | 6.5 | 6.5 | 0.0 |
| Other liabilities | 10.9 | 42.9 | –74.6 |
| Subordinated capital | 199.8 | 24.6 | >100.0 |
| Other balance sheet items | 148.8 | 11.2 | >100.0 |
| **Subtotal** | **1 073.1** | **603.0** | **78.0** |
| Set-off against deferred tax assets | –923.9 | –586.3 | 57.6 |
| **Total** | **149.2** | **16.7** | **>100.0** |

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

The sharp rise in deferred tax liabilities under obligations and subordinated capital results from the downward trend in the Bank‘s current situation due to market valuations of these items.

## (53) Other liabilities

| | 31 Mar 2008 in € million | 31 Mar 2007 in € million | Change in % |
|---|---|---|---|
| Trade payables | 123.1 | 107.2 | 14.8 |
| Deferred income | 13.9 | 12.2 | 13.9 |
| Remaining | 26.4 | 53.3 | –50.5 |
| **Total** | **163.4** | **172.7** | **–5.4** |

## (54) Subordinated capital

| | 31 Mar 2008 in € million | 31 Mar 2007 in € million restated | Change in % |
|---|---|---|---|
| Subordinated liabilities | 1 228.5 | 1 466.3 | –16.2 |
| Profit-participation certificates | 187.5 | 625.7 | –70.0 |
| Silent partnership contributions/preferred shares | 363.7 | 1 016.0 | –64.2 |
| **Total** | **1 779.7** | **3 108.0** | **–42.7** |

In addition to subordinated liabilities, IKB's subordinated capital includes capital paid in consideration of profit participation rights, silent partnerships and preferred shares under the category other financial liabilities for which IAS 39 AG8 must be observed. These transactions are reported at their cash value on each reporting date. These are calculated by re-estimating the underlying interest and redemption cash flow, discounted by the original instrument yield (effective interest on the date of issue).

The forecast future interest and redemption payments for these instruments are based on the planned profit for next year. Changes in the book value amounting to € 286 million result from the profit-participation certificates and silent partnership contributions/preferred shares. Any apportionment of losses or offsetting of interest payments in cash must be taken into account in net present value calculation. The book value gain must be recognised under other operating income.

### Subordinated liabilities

€ 235.0 million (PY: € 350.0 million) of the subordinated liabilities mature after less than two years. Tier 3 capital as defined in Section 10 of the KWG amounts to € 45.0 million (PY: € 0 million).

As at 31 March 2008, the Company had the following material subordinated liabilities (> € 100.0 million):

| Start of term | Nominal amount in € million | Currency | Interest rate in % | Maturity |
|---|---|---|---|---|
| 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 | 4.64 | 23 Jan 2017 |

In the financial year 2007/08, interest expenses for subordinated liabilities amounted to € 74.6 million (PY: € 62.9 million).

## Profit-participation certificates

| | 31 Mar 2008 in € million | 31 Mar 2007 in € million | Change in % |
|---|---|---|---|
| Total | 187.5 | 625.7 | –70.0 |
| of which: requirements of Section 10 KWG | 140.9 | 508.6 | –72.3 |
| of which: due in less than 2 years | 45.4 | 81.8 | –44.5 |

Profit-participation certificates can be broken down as follows:

| Year of issue | Nominal amount in € million | Currency | Interest rate in % | Maturity |
|---|---|---|---|---|
| 1997/1998 | 102.3 | DM | 7.05 | 31 Mar 2009 |
| 1999/2000 | 20.0 | EUR | 7.23 | 31 Mar 2010 |
| 2001/2002 | 100.0 | EUR | 6.50 | 31 Mar 2012 |
| 2001/2002 | 74.5 | EUR | 6.55 | 31 Mar 2012 |
| 2004/2005 | 30.0 | EUR | 4.50 | 31 Mar 2015 |
| 2005/2006 | 150.0 | EUR | 3.86 | 31 Mar 2015 |
| 2006/2007 | 50.0 | EUR | 4.70 | 31 Mar 2017 |
| 2007/2008 | 70.0 | EUR | 5.63 | 31 Mar 2017 |

For the financial year 2007/08, interest on profit-participation certificates in the amount of € 2.3 million (PY: € 37.3 million) was recognised as interest expenses. No interest is payable for 2007/08 as a result of the losses incurred and of the net loss transferred to reserves.

The revaluation (IAS 39 AG8) generated an income of € 131.9 million which was reported under other operating income (Note (30)).

## Silent partnership contributions/preferred shares

As at 31 March 2008, the carrying amount of silent partnership contributions was € 363.7 million (PY € 1,016.0 million) This includes preferred shares with a carrying amount of € 208.5 million (PY: € 433.4 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 € 40.9 million (prior year: € 61.5 million) in the Group. See Note (21) on the apportionment of losses.

The revaluation (IAS 39 AG8) generated an income of € 154.1 million which was reported under other operating income (Note (30)).

## (55) Shareholders' equity

| | 31 Mar 2008 in € million | 31 Mar 2007 in € million | Change in % |
|---|---|---|---|
| Subscribed capital | 247.8 | 225.3 | 10.0 |
| Capital reserve | 597.8 | 568.2 | 5.2 |
| Retained earnings | 333.1 | 330.6 | 0.8 |
| Legal reserves | 2.4 | 2.4 | – |
| Other revenue reserves | 330.7 | 328.2 | 0.8 |
| Currency translation reserve | 7.0 | –15.2 | |
| Revaluation reserve | 29.9 | 88.4 | –66.2 |
| Minority interests | 0.4 | 0.2 | 97.3 |
| Consolidated profit/loss | –32.0 | – | – |
| **Total** | **1 184.0** | **1 197.5** | **–1.1** |

### Subscribed capital

On 7 January 2008 IKB issued convertible bonds in the amount of € 54.3 million with mandatory conversion, which was adopted under the exclusion of the subscription right by KfW Bankengruppe. The convertible bonds were convertible into Company shares, subject to a maximum of 10% of the IKB's share capital. The terms of the convertible bonds provided for early conversion under certain conditions. Following the fulfilment of these conditions, the convertible bonds were converted into shares, with a par value of € 22,514,332.16 and issued to the KfW Bankengruppe on 28 February 2008. Following conversion, the IKB's share capital amounted to € 247,794,332.16 (previously: € 225,280,000), comprising 96,794,661 (previously: 88.000.000) notional no-par value bearer shares.

At the Annual General Meeting on 27 March 2008, the Board of Managing Directors was authorised to purchase treasury shares for the purposes of securities trading until 26 September 2009. The holding of treasury shares purchased for this purpose may not exceed 5% of the share capital at the end of each day. Together with the treasury shares acquired for other purposes, held or allocated to IKB, in addition, treasury shares can be purchased in an amount of up to 10% of the share capital.

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

No shares were issued to employees during the year.

## Statement of changes in equity

| in € million | Subscribed capital | Capital reserve | Retained earnings | Currency translation reserve | Revaluation reserves | Minority interests | Consolidated balance sheet/income statement | Total |
|---|---|---|---|---|---|---|---|---|
| **Shareholders' equity 1 April 2006 after restatements** | **225.3** | **568.2** | **273.0** | **–7.5** | **159.1** | **0.2** | **74.8** | **1 293.1** |
| IAS 8 changes | | | 6.9 | | | | | 6.9 |
| Issue/redemption of shares | | 0.0 | | | | | | 0.0 |
| Dividends paid | | | | | | | –74.8 | –74.8 |
| Changes in the scope of consolidation | | | 1.0 | | | | | 1.0 |
| Net income for the year | | | 37.8 | | | 0.1 | | 37.9 |
| Currency translation differences | | | | –7.7 | | | | –7.7 |
| Change in value in equity | | | 11.9 | | –70.7 | –0.1 | | –58.9 |
| **Shareholders' equity 31 March 2007/1 April 2007** | **225.3** | **568.2** | **330.6** | **–15.2** | **88.4** | **0.2** | **–** | **1 197.5** |
| Mandatory convertible bonds | 22.5 | 31.8 | | | | | | 54.3 |
| Issue/redemption of units | | –2.2 | | | | | | –2.2 |
| Dividends paid | | | | | | | | 0.0 |
| Changes in the scope of consolidation | | | 2.1 | | | | | 2.1 |
| Net income for the year | | | | | | | –32.0 | –32.0 |
| Currency translation differences | | | | 22.2 | | | | 22.2 |
| Change in value in equity | | | 0.4 | | –58.5 | 0.2 | | –57.9 |
| **Shareholders' equity 31 March 2008** | **247.8** | **597.8** | **333.1** | **7.0** | **29.9** | **0.4** | **–32.0** | **1 184.0** |

## Revaluation reserve

| | 2007/08 in € million | 2006/07 in € million | Change in % |
|---|---|---|---|
| **Opening balance as at 1 April** | **88.4** | **159.1** | **–44.4** |
| Unrealised gains/losses from investment securities available for sale | –20.2 | –32.6 | –38.0 |
| Reclassification into income statement due to investment securities available for sale | –33.7 | –6.4 | >100.0 |
| Changes in value due discontinued hedging relationships regognised in the income in accordance with IFRS 1 | –74.8 | –74.8 | – |
| Deferred taxes on changes recognised directly in equity | 70.2 | 43.1 | 62.9 |
| **Closing balance as at 31 March** | **29.9** | **88.4** | **–66.2** |

In accordance with IFRS 1, the revaluation reserve includes a cash flow hedge reserve from the transition from HGB to IFRS totalling € 37.4 million (PY: € 112.2 million).

### Conditional capital / authorised capital

Pursuant to a resolution adopted by the General Meeting of 9 September 2004, the Board of Managing Directors was authorised, subject to approval by the Supervisory Board, to issue convertible bonds and/or bonds with warrants with an aggregate nominal value of up to € 300 million up until 8 September 2009 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. Use has been made of this authorisation and of the related conditional capital as described above. Following the use of this authorisation, authorised amounts of € 245,700.00 and the associated conditional capital of € 13,667.84 remain. In addition conditional capital amounting to € 22.5 million for the purposes of issuing conversion or options or rights to the holders of profit-participation certificates with conversion or options rights to be issued until 30 August 2007.

### Increase in cash capital

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

The Company's share capital will be increased by an amount of up to € 1,486,765,992.96 from € 247,794,332.16 to an amount of up to € 1,734,560,325.12 by the issue of up to 580,767,966 new, notional no-par value bearer shares (each with a nominal value of € 2.56) in return for additional capital. The new shares are entitled to participate in profits from the beginning of the financial year in which they are registered. The new shares will be offered for subscription to existing shareholders at a ratio of 1:6.

### Regulatory indicators

IKB's investment management approach is based on the regulations applicable to German banks and bank groups under Sections 10 and 10a of the KWG. This states that sufficient regulatory equity must be held within the group. Risk-weighted assets must be backed with at least 8% equity (solvency ratio). Risk-weighted assets that are backed with core capital are subject to a minimum ratio of 4% (core capital ratio). A summary of the equity components of IKB Group can be found in the following table:

| in € million | 31 Mar 2008 | 31 Mar 2007 |
|---|---|---|
| Credit and counterparty risk | 30 269.0 | 32 747.0 |
| Market risk positions | 795.0 | 750.0 |
| Operational risk | 1 330.0 | – |
| **Regulatory risk position** | **32 394.0** | **33 497.0** |
| Core capital (Tier 1) | 1 941.0 | 2 434.0 |
| Subscribed capital | 1 265.0 | 757.0 |
| Other reserves | 3 433.0 | 2 265.0 |
| Minority interest | 0.0 | 0.0 |
| Others | 1 146.0 | 1 570.0 |
| Deductible items | –3 903.0 | –2 158.0 |
| Supplementary capital (Tier 2) | 1 191.0 | 1 726.0 |
| Unrealised gains from investment securities and real estate | 0.0 | 0.0 |
| Profit participation certificates | 248.0 | 523.0 |
| Other long-term subordinated liabilities | 1 170.0 | 1 226.0 |
| Others | –227.0 | –23.0 |
| Deductible items | –18.0 | –88.0 |
| **Liable own capital (Tier 1 + 2)** | **3 114.0** | **4 072.0** |
| Tier 3 capital | 45.0 | 9.0 |
| **Total eligible regulatory capital** | **3 159.0** | **4 081.0** |
| Core capital ratio (Tier 1) | 6.0% | 7.1% |
| Total capital ratio (Tier 1 – 3) | 9.8% | 12.2% |

Equity consists of liable capital, which in turns comprises core and additional capital, and Tier 3 capital. The core capital (Tier 1) mainly consists of subscribed capital and reserves (Core or True Tier 1) and hybrid funds that are allowable as core capital (Hybrid Tier 1). Additional capital (Tier 2) includes profit participation rights (Upper Tier 2) and long-term subordinated liabilities (Lower Tier 2). Tier 3 capital includes short-term subordinated liabilities and subordinated liabilities that have been capped at 50% of the core capital based on the standard limit imposed.

IKB applied the transitional regulation in accordance with Section 339 (9) of the German Solvability Ordinance (Solvabilitätsverordnung; SolvV) and continued to calculate regulatory indicators in accordance with principle I (Grundsatz I) of the KWG until 31 December 2007. As of 1 January 2008 and the introduction of Basel II new regulations apply under the SolvV. Risk-weighted assets are now determined according to the so-called credit risk approach (KSA). The Bank has exercised its option under Section 64h of the KWG in conjunction with Section 10a (6) and (7) so that for the purposes of calculating regulatory equity the aggregation method will continue to apply on the basis of HGB calculation bases. IKB AG is a trading book institution and applies the basic indicator approach for operational risks.

Whereas in the previous financial year the main purpose of capital management was to ensure the minimum regulatory ratios that were required as a result of the financial crisis, the aim for the financial year 2008/09 will be to regain sufficient capitalisation for the Bank as a whole in order to restore capital market viability. After completing the capital increase decided on at the last AGM, the Bank is planning at achieve a core capital ratio (Tier 1 Ratio) of more than 6% and an equity ratio (Solvency Ratio) of more than 10% at Group level.

As part of its annual planning, the Bank will first target the business areas and segments (see table on segment reporting) of regulatory capital. The expected charge results from the three year planning of risk-weighted assets. The interest claims for the business fields are based on the lower limits of the target capital structure (6% Tier 1 Ratio and 10% Solvency Ratio) and on different capital cost rates for the individual equity components True Tier 1, Hybrid Tier 1, Upper and Lower Tier 2. Monthly performance reports break down the contribution margins gradually as far as profit centre level and compare the respective capital consumption. In addition, a limit on the capital consumption is being prepared at profit centre level.

# 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.

# Notes to Segment Reporting

## (56) 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. Segment reporting is carried out in accordance with IAS 14.

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
- Portfolio Investments

In the Corporate Clients 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.

The securitisation segment has been renamed Portfolio Investments. The name of the segment has been changed to reflect the segment's decreasing focus on investments in securitisation products (including consolidated SPEs). This includes the results and volume components from the SPEs of Rhineland Funding Capital Corporation, Rhinebridge and Havenrock. The results previously reported in the Securitisation segment in relation to the securitisation and outplacement of credit risks are now reported in the Head Office/Consolidation column.

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. The divisions are regarded as independent entities equipped with their own capital resources. Capital is allocated to the divisions based on risk-weighted assets (financial year 2007/08 in accordance with Basel II approach; financial year 2006/07 in accordance with regulatory principle I) with a different equity ratio of 6.5% compared to the previous approach and based on existing hybrid funds. In addition to the investment income from this economic capital, net interest income now comprises expenditure for hybrid and subordinated capital. The interest rate for equity investments corresponds to a risk-free interest rate on the long-term capital market. Previous years' figures have been adjusted accordingly.

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.

IKB Group is refinanced by a central Treasury. Consequently, there is no direct allocation of liabilities to each division. In accordance with IAS 14.20 no mathematical distribution of liabilities is carried out.

Primary segment reporting format

| in € million | Corporate Clients 2007/08 | Corporate Clients 2006/07 | Real Estate Clients 2007/08 | Real Estate Clients 2006/07 | Structured Finance 2007/08 | Structured Finance 2006/07 | Portfolio Investments 2007/08 | Portfolio Investments 2006/07 | Head Office/ Consolidation 2007/08 | Head Office/ Consolidation 2006/07 | Total 2007/08 | Total 2006/07 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Net interest income | 232.5 | 234.7 | 62.0 | 67.3 | 124.9 | 152.2 | 103.2 | 153.2 | –72.7 | 65.7 | 449.9 | 673.1 |
| Provision for possible loan losses | 66.0 | 37.5 | 23.0 | 15.4 | 63.4 | 35.4 | 0.0 | 0.0 | 102.8 | 151.4 | 255.2 | 239.7 |
| **Net interest income after provisions for possible loan losses** | **166.5** | **197.2** | **39.0** | **51.9** | **61.5** | **116.8** | **103.2** | **153.2** | **–175.5** | **–85.7** | **194.7** | **433.4** |
| Net fee and commission income | 6.7 | 12.9 | 7.7 | 8.0 | 35.8 | 36.1 | 5.9 | 0.6 | –1.4 | –5.6 | 54.7 | 52.0 |
| Net income from financial instruments at fair value | –8.1 | 23.2 | 3.5 | 3.4 | 2.0 | 1.9 | –3 241.2 | –92.3 | 1 418.4 | 26.0 | –1 825.4 | –37.8 |
| Net income from investment securities | –6.0 | 2.4 | 0.8 | 0.0 | –33.7 | 0.0 | –904.1 | –18.9 | –36.9 | 4.1 | –979.9 | –12.4 |
| Net income from investments accounted for using the equity method | 0.5 | 1.7 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 1.2 | 0.0 | 1.7 | 1.7 |
| General administrative expenses | 140.7 | 149.9 | 41.9 | 41.5 | 69.2 | 65.8 | 43.2 | 26.9 | 81.5 | 32.1 | 376.5 | 316.2 |
| Net other operating income | 2.3 | 5.3 | 1.8 | 1.4 | 0.4 | 1.6 | –0.3 | –4.4 | 658.0 | –10.1 | 662.2 | –6.2 |
| Result as of risk assumption | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 2 401.0 | 0.0 | 0.0 | 0.0 | 2 401.0 | 0.0 |
| **Operating result** | **21.2** | **92.8** | **10.9** | **23.2** | **–3.2** | **90.6** | **–1 678.7** | **11.3** | **1 782.3** | **–103.4** | **132.5** | **114.5** |
| Cost/income ratio in % | 61.7 | 53.5 | 55.3 | 51.8 | 53.5 | 34.3 | <0 | 70.4 | – | – | 49.3 | 47.2 |
| Return on equity in % | 3.1 | 14.4 | 5.1 | 11.4 | <0 | 26.1 | <0 | 4.0 | – | – | 11.1 | 9.4 |
| Average allocated equity | 677 | 644 | 213 | 204 | 370 | 347 | 185 | 282 | –254 | –259 | 1 191 | 1 218 |
| Total loan volume | 16 741 | 16 065 | 4 886 | 4 889 | 7 551 | 7 870 | 4 366 | 18 260 | 4 098 | 4 114 | 37 642 | 51 198 |
| Volume of new business | 4 630 | 4 577 | 1 412 | 1 299 | 3 804 | 5 270 | 283 | 1 168 | 1 664 | 498 | 11 793 | 12 812 |

The secondary reporting format is prepared according to the regional distribution of the locations of our branches or Group companies.

Secondary segment reporting format

| in € million | Germany 2007/08 | Germany 2006/07 | Rest of Europe 2007/08 | Rest of Europe 2006/07 | America 2007/08 | America 2006/07 | Head Office/ Consolidation 2007/08 | Head Office/ Consolidation 2006/07 | Total 2007/08 | Total 2006/07 |
|---|---|---|---|---|---|---|---|---|---|---|
| Net interest income | 305.7 | 352.6 | 181.2 | 181.6 | 35.8 | 73.2 | –72.8 | 65.7 | 449.9 | 673.1 |
| Provision for possible loan losses | 97.7 | 65.9 | 49.6 | 22.4 | 5.1 | 0.0 | 102.8 | 151.4 | 255.2 | 239.7 |
| **Net interest income after provisions for possible loan losses** | **208.0** | **286.7** | **131.6** | **159.2** | **30.7** | **73.2** | **–175.6** | **–85.7** | **194.7** | **433.4** |
| Net fee and commission income | 54.1 | 111.0 | 18.7 | 0.6 | –16.7 | –54.0 | –1.4 | –5.6 | 54.7 | 52.0 |
| Net income from financial instruments at fair value | –1 388.2 | –53.8 | –1 189.7 | 53.7 | –614.2 | –63.7 | 1 366.7 | 26.0 | –1 825.4 | –37.8 |
| Net income from investment securities | –322.7 | –16.7 | –609.3 | 0.2 | –11.0 | 0.0 | –36.9 | 4.1 | –979.9 | –12.4 |
| Net income from investments accounted for using the equity method | 0.5 | 1.7 | 0.0 | 0.0 | 0.0 | 0.0 | 1.2 | 0.0 | 1.7 | 1.7 |
| General administrative expenses | 231.4 | 238.5 | 57.6 | 40.6 | 6.0 | 5.0 | 81.5 | 32.1 | 376.5 | 316.2 |
| Net other operating income | 1.3 | 3.5 | 3.9 | 4.5 | –1.0 | –4.1 | 658.0 | –10.1 | 662.2 | –6.2 |
| Result as of risk assumption | 619.9 | 0.0 | 1 233.9 | 0.0 | 547.2 | 0.0 | 0.0 | 0.0 | 2 401.0 | 0.0 |
| **Operating result** | **–1 058.5** | **93.9** | **–468.5** | **177.6** | **–71.0** | **–53.6** | **1 730.5** | **–103.4** | **132.5** | **114.5** |
| Cost/income ratio in % | <0 | 59.9 | <0 | 16.9 | <0 | <0 | – | – | 49.3 | 47.2 |
| Total loan volume | 23 046 | 23 491 | 9 585 | 10 992 | 913 | 12 601 | 4 098 | 4 114 | 37 642 | 51 198 |

# Notes to Financial Instruments

## (57) Income according to holding category and reconciliation to the income statement

| 31 Mar 2008 in € million | Measurement according to IAS 39 | | | | | Finance lease receivables | Off-balance transactions | Result from financial instruments in the scope of IFRS 7 | Result from other financial instruments not in the scope of IFRS 7 | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| | Loans and receivables | Available for sale | Held for trading | Fair value option | Other financial liabilities | | | | | |
| **Net interest income** | **2 366.7** | **83.3** | **46.6** | **–173.6** | **–1 997.1** | **112.1** | **0.0** | **438.0** | **11.9** | **449.9** |
| Interest income | 2 366.7 | 83.3 | 363.1 | 340.6 | – | 210.5 | 0.0 | 3 364.2 | 62.4 | 3 426.6 |
| Interest expenses | – | – | 316.5 | 514.2 | 1 997.1 | 98.4 | 0.0 | 2 926.2 | 50.5 | 2 976.7 |
| **Net fee and commission income** | **45.0** | **0.0** | **0.0** | **–1.0** | **0.0** | **–1.5** | **0.0** | **42.5** | **12.2** | **54.7** |
| Fee and commission income | 54.8 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 54.8 | 12.2 | 67.0 |
| Fee and commission expense | 9.8 | 0.0 | 0.0 | 1.0 | 0.0 | 1.5 | 0.0 | 12.3 | 0.0 | 12.3 |
| **Net gains and losses** | **–1 277.5** | **44.1** | **–668.8** | **–1 156.6** | **666.2** | **–1.3** | **0.0** | **7.1** | **–4.4** | **2.7** |
| Net income from financial instruments at fair value | – | – | –668.8 | –1 156.6 | – | – | – | –1 825.4 | – | –1 825.4 |
| Net income from investment securities | –1 024.0 | 44.1 | – | – | – | – | – | –979.9 | – | –979.9 |
| Net interest income after provision for possible loan losses | 253.5 | – | – | – | – | 1.3 | 0.0 | 254.8 | 0.4 | 255.2 |
| Net other operating income | – | – | – | 0.0 | 666.2 | – | – | 666.2 | –4.0 | 662.2 |
| Result as of risk assumption | – | – | – | – | – | – | – | 2 401.0 | – | 2 401.0 |
| **Total** | **1 134.2** | **127.4** | **–622.2** | **–1 331.2** | **–1 330.9** | **109.3** | **0.0** | **487.6** | **19.7** | **507.3** |

| 31 Mar 2007 in € million | Measurement according to IAS 39 | | | | | Finance lease receivables | Off-balance transactions | Result from financial instruments in the scope of IFRS 7 | Result from other financial instruments not in the scope of IFRS 7 | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| | Loans and receivables | Available for sale | Held for trading | Fair value option | Other financial liabilities | | | | | |
| **Net interest income** | **2 579.4** | **86.0** | **101.9** | **–181.1** | **–2 005.8** | **91.3** | **0.0** | **671.7** | **1.4** | **673.1** |
| Interest income | 2 579.4 | 86.0 | 765.1 | 172.0 | – | 165.1 | 0.0 | 3 767.6 | 64.0 | 3 831.6 |
| Interest expenses | – | – | 663.2 | 353.1 | 2 005.8 | 73.8 | 0.0 | 3 095.9 | 62.6 | 3 158.5 |
| **Net fee and commission income** | **49.0** | **0.0** | **–3.9** | **–1.5** | **–0.1** | **0.0** | **–0.2** | **43.3** | **8.7** | **52.0** |
| Fee and commission income | 56.5 | 0.0 | 0.1 | 0.0 | 0.0 | 0.0 | 1.3 | 57.9 | 8.7 | 66.6 |
| Fee and commission expense | 7.5 | 0.0 | 4.0 | 1.5 | 0.1 | 0.0 | 1.5 | 14.6 | 0.0 | 14.6 |
| **Net gains and losses** | **–252.4** | **6.8** | **65.8** | **–103.6** | **0.0** | **1.0** | **0.0** | **–282.4** | **–13.7** | **–296.1** |
| Net income from financial instruments at fair value | – | – | 65.8 | –103.6 | – | – | – | –37.8 | – | –37.8 |
| Net income from investment securities | –19.2 | 6.8 | – | – | – | – | – | –12.4 | – | –12.4 |
| Net interest income after provision for possible loan losses | 233.2 | – | – | – | – | –1.0 | – | 232.2 | 7.5 | 239.7 |
| Net other operating income | – | – | – | 0.0 | 0.0 | – | – | 0.0 | –6.2 | –6.2 |
| Result as of risk assumption | – | – | – | – | – | – | – | – | – | – |
| **Total** | **2 376.0** | **92.8** | **163.8** | **–286.2** | **–2 005.9** | **92.3** | **–0.2** | **432.6** | **–3.6** | **429.0** |

The reconciliation to the income statement includes income and expenditure that is not covered by the scope of IFRS 7.

The income from financial assets disclosed in the net profit and/or loss includes gains and losses from the disposal and valuation of financial assets. In addition to profit from sales and disposals the fair value result also includes interest income from underlying and hedging transactions in the amount of € –16.9 million. Other operating income discloses income and expenditure generated from the repurchase of own issues. With the exception of hedge accounting interest income, the interest and dividend income is not included in the net profit and/or loss, but instead is disclosed in the interest income for all IAS 39 holding categories.

The income retained for the year from the assumption of risk by KfW Bankengruppe is reported within net profit as a separate item.

## (58) Classifying financial instruments in accordance with IFRS 7

The following table contains the carrying amounts of the financial instruments (before the deduction of risk provisions) according to IFRS reporting classes:

| IFRS 7 Financial Instruments: Disclosures | 31 Mar 2008 in € million | 31 Mar 2007 in € million |
|---|---|---|
| **Assets** | | |
| **Measured at fair value through profit or loss** | | |
| **Held for Trading** | **3 604.0** | **2 208.5** |
| Assets held for trading | 3 604.0 | 2 208.5 |
| **Fair value option** | **4 803.4** | **16 040.8** |
| Loans and advances to banks | 88.8 | 0.0 |
| Loans and advances to customers | 0.0 | 0.0 |
| Investment securities | 4 714.6 | 16 040.8 |
| **Receivables KfW Bankengruppe** | **1 829.7** | **–** |
| Other assets | 1 829.7 | – |
| **Hedging derivatives** | | |
| Assets held for trading | 33.7 | 0.0 |
| **Measured at fair value** | | |
| **Available for sale** | **1 709.1** | **2 106.1** |
| Investment securities | 1 709.1 | 2 106.1 |
| **Measured at amortised cost** | | |
| **Loans and receivables** | **36 208.7** | **41 700.2** |
| Loans and advances to banks | 2 761.5 | 4 441.9 |
| Loans and advances to customers (including hedge fair value adjustments) | 27 026.4 | 28 146.6 |
| Investment securities | 6 420.8 | 9 111.7 |
| **Finance lease receivables** | | |
| Loans and advances to customers | 1 842.5 | 1 538.4 |
| **Other financial assets which are not in the scope of IFRS 7** | | |
| Investments accounted for using the equity method | 14.7 | 13.3 |
| **Total** | **50 045.8** | **63 607.3** |
| **Liabilities** | | |
| **Measured at fair value through profit or loss** | | |
| **Held for Trading** | **5 345.3** | **1 164.7** |
| Liabilities held for trading | 5 345.3 | 1 164.7 |
| **Fair value option** | **5 349.6** | **7 839.8** |
| Liabilities to banks | 647.1 | 660.7 |
| Liabilities to customers | 1 222.9 | 1 872.4 |
| Securitised liabilities | 2 760.1 | 3 652.8 |
| Subordinated capital | 719.5 | 1 653.9 |
| **Hedging derivatives** | | |
| Liabilities held for trading | 65.6 | 0.0 |
| **Measured at amortised cost** | | |
| **Other financial liabilities** | **37 815.7** | **53 014.0** |
| Liabilities to banks | 16 802.2 | 13 251.8 |
| Liabilities to customers | 4 528.6 | 2 405.4 |
| Securitised liabilities (including hedge fair value adjustments) | 15 424.7 | 35 902.7 |
| Subordinated capital | 1 060.2 | 1 454.1 |
| **Total** | 48 576.2 | 62 018.5 |
| **Off-balance transactions** | | |
| Contingent liabilities | 1 482.5 | 1 012.5 |
| Other off-balance liabilities | 4 436.0 | 5 776.8 |
| **Total** | **5 918.5** | **6 789.3** |

## (59) 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. If there are no prices available, the fair value is determined by comparison with similar market transactions. If there are no comparable market transactions available, suitable valuation models (such as the discounted cash flow method and option pricing model) can be used to determine the fair value. 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, which are derived from observable market data. The fair values include interest accrued, in accordance with market practice.

The fair value of loans and advances to banks and customers reported at amortised cost is generally calculated according to the discounted cash flow method. As part of this, a risk-adjusted credit spread is created for each loan. Discounting is carried out over the different terms of the swap rates with risk-adjusted credit spreads. The swap rate is based on the current market conditions on the valuation date. The credit spread for the loan fluctuates according to changes in the measured standard risk costs, which are determined by the customer rating, the security situation and the remaining term of the loan on the valuation date. As a result, any changes to the fair values compared to the carrying values can be triggered by interest rates and credit ratings.

The fair value was not separately calculated for cash reserves, as well as for short-term loans and advances and current liabilities where the carrying amount represents a reasonable approximation of fair value.

Financial assets and trading assets or trading liabilities are valued on the basis of recognised valuation models if there are no prices quoted on active markets. In order to take account of the bid mid range, a simplified approach is applied for all derivatives and securities that are reported at fair value, as long as the bid or ask prices on the individual transactions have not already been included In this case, the average market listings for bid prices on active securities are used.

The valuation of the portfolio investment is shown in Note (6).

The fair value of liabilities to banks and customers is generally calculated according to the discounted cash flow method. Discounting is carried out using term-differentiated risk-free swap rates and market spreads. IKB's liabilities are factored in using models which use market spread as a significant influencing factor. Current senior liabilities are based on the spreads from reverse trading. Long-term senior liabilities and subordinated issues are based on CDS spreads. In the case of promissory note loans it is important to take into account the fact that the spreads are lower than for securitised liabilities, since the guarantee fund generally provides hedging. Senior issues take into account additional individual spreads, which describe structural differences in the issues. This method applies an ask discount on spreads. The global loans are discounted using the same method.

Profit participation rights and Tier 1 issues in the fair value option are initially valued at market prices. Unlisted transactions are recognised with interpolated spreads. For profit participation rights and Tier 1 transactions at amortised cost the forecast interest and redemption figures are discounted by the respective issue yields (for further details on reporting and valuing this transactions in accordance with IAS 39 AG8 see Note (6) and Note (45) *Liabilities to banks* and Note (54) *Subordinated capital*).

The following table compares fair values and their corresponding carrying values.

| | Fair value | | Carrying amount | | Difference | |
|---|---|---|---|---|---|---|
| in € million | 31 Mar 2008 | 31 Mar 2007 | 31 Mar 2008 | 31 Mar 2007 | 31 Mar 2008 | 31 Mar 2007 |
| **Assets** | | | | | | |
| **Loans and receivables** | **34 426.5** | **40 167.9** | **35 432.8** | **40 710.9** | **–1 006.3** | **–543.0** |
| Loans and advances to banks | 2 767.2 | 4 441.7 | 2 761.5 | 4 441.9 | 5.7 | –0.2 |
| Loans and advances to customers (including hedge fair value adjustments)* minus provision for possible loan losses | 25 448.7 | 26 766.0 | 26 250.5 | 27 157.3 | –801.8 | –391.3 |
| Investment securities | 6 210.6 | 8 960.2 | 6 420.8 | 9 111.7 | –210.2 | –151.5 |
| **Finance lease receivables** | **1 839.0** | **1 536.6** | **1 840.2** | **1 536.6** | **–1.2** | **0.0** |
| Loans and advances to customers minus provision for possible loan losses* | 1 839.0 | 1 536.6 | 1 840.2 | 1 536.6 | –1.2 | 0.0 |
| **Assets after provision for possible loan losses** | **36 265.5** | **41 704.5** | **37 273.0** | **42 247.5** | **–1 007.5** | **–543.0** |
| **Shareholders' equity and liabilities** | | | | | | |
| **Other financial liabilities** | **36 392.6** | **52 820.2** | **37 815.7** | **53 014.0** | **–1 423.1** | **–193.8** |
| Liabilities to banks | 16 593.8 | 13 149.9 | 16 802.2 | 13 251.8 | –208.4 | –101.9 |
| Liabilities to customers | 4 192.0 | 2 403.2 | 4 528.6 | 2 405.4 | –336.6 | –2.2 |
| Securitised liabilities (including hedge fair value adjustments) | 14 778.2 | 35 831.4 | 15 424.7 | 35 902.7 | –646.5 | –71.3 |
| Subordinated capital | 828.6 | 1 435.7 | 1 060.2 | 1 454.1 | –231.6 | –18.4 |
| **Shareholders' equity and liabilities** | **36 392.6** | **52 820.2** | **37 815.7** | **53 014.0** | **–1 423.1** | **–193.8** |

* The carrying amount of the *Loans and advances to customers* item is represented less specific allowances in the amount of € 778.2 million (PY: € 991.1 million).

The portfolio includes transactions which are valued using parameters that are not classed as observable market data. These parameters generally relate to correlations between interest rates. These correlations can be estimated indirectly using empirical time series, which are also used as a basis for the sensitivity limits applied here.

The parameters used to value the portfolio investments are illustrated in Note (6).

| in € million | Fair value | | Of which determined using valuation technique not based on market data | | | |
|---|---|---|---|---|---|---|
| | | | Volume | | Amount recognised in P&L during the period | |
| | 31 Mar 2008 | 31 Mar 2007 | 31 Mar 2008 | 31 Mar 2007 | 31 Mar 2008 | 31 Mar 2007 |
| **Assets** | | | | | | |
| **Measured at fair value through profit or loss** | | | | | | |
| **Held for Trading** | **3 604.0** | **2 208.5** | **6.5** | **0.0** | **–3.0** | **0.0** |
| Assets held for trading | 3 604.0 | 2 208.5 | 6.5 | 0.0 | –3.0 | 0.0 |
| **Fair value option** | **4 803.4** | **16 040.8** | **347.6** | **169.5** | **–0.3** | **0.4** |
| Loans and advances to banks | 88.8 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Loans and advances to customers | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Investment securities | 4 714.6 | 16 040.8 | 347.6 | 169.5 | –0.3 | 0.4 |
| **Receivables KfW Bankengruppe** | **1 829.7** | **–** | **1 829.7** | **–** | **0.0** | **–** |
| Other assets | 1 829.7 | – | 1 829.7 | – | 0.0 | – |
| **Hedging derivatives** | | | | | | |
| Assets held for trading | 33.7 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Measured at fair value** | | | | | | |
| **Available for Sale** | **1 709.1** | **2 106.1** | **0.0** | **14.3** | **0.0** | **0.0** |
| Investment securities | 1 709.1 | 2 106.1 | 0.0 | 14.3 | 0.0 | 0.0 |
| **Measured at amortised cost** | | | | | | |
| **Loans and receivables** | **34 426.5** | **40 167.9** | **27 803.9** | **27 414.2** | **–** | **–** |
| Loans and advances to banks | 2 767.2 | 4 441.7 | 2 290.3 | 856.0 | – | – |
| Loans and advances to customers (incl. hedge fair value adjustments) | 25 448.7 | 26 766.0 | 25 200.0 | 26 455.5 | – | – |
| Investment securities | 6 210.6 | 8 960.2 | 313.6 | 102.7 | – | – |
| **Finance lease receivables** | | | | | | |
| Loans and advances to customers | 1 839.0 | 1 536.6 | 1 839.0 | 1 536.6 | – | – |
| **Liabilities** | | | | | | |
| **Measured at fair value through profit or loss** | | | | | | |
| **Held for Trading** | **5 345.3** | **1 164.7** | **0.0** | **79.9** | **0.0** | **0.8** |
| Liabilities held for trading | 5 345.3 | 1 164.7 | 0.0 | 79.9 | 0.0 | 0.8 |
| **Fair value option** | **5 349.6** | **7 839.8** | **0.0** | **0.0** | **0.0** | **0.0** |
| Liabilities to banks | 647.1 | 660.7 | 0.0 | 0.0 | 0.0 | 0.0 |
| Liabilities to customers | 1 222.9 | 1 872.4 | 0.0 | 0.0 | 0.0 | 0.0 |
| Securitised liabilities | 2 760.1 | 3 652.8 | 0.0 | 0.0 | 0.0 | 0.0 |
| Subordinated capital | 719.5 | 1 653.9 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Hedging derivatives** | | | | | | |
| Liabilities held for trading | 65.6 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Measured at amortised cost** | | | | | | |
| **Other Financial Liabilities** | **36 392.6** | **52 820.2** | **7 806.1** | **8 177.5** | **–** | **–** |
| Liabilities to banks | 16 593.8 | 13 149.9 | 7 731.5 | 8 083.4 | – | – |
| Liabilities to customers | 4 192.0 | 2 403.2 | 74.6 | 94.1 | – | – |
| Securitised liabilities (incl. hedge fair value adjustments) | 14 778.2 | 35 831.4 | 0.0 | 0.0 | – | – |
| Subordinated capital | 828.6 | 1 435.7 | 0.0 | 0.0 | – | – |

Transactions reported at fair value on the basis of non-market parameters are undervalued by € 1.8 million (PY: € 4.5 million) if the parameters fluctuate positively. If the variation is negative the accumulated overestimate will amount to € 1.3 million (PY: € 13.5 million). The fair value of the KfW rescue package reported under other assets is calculated using correlations that are not observable on the market. Any variation in these parameters will result positively in an underestimate of the fair value amounting to € 0.9 million or negatively in an accumulated overestimate of € 4.0 million.

There were no transactions that resulted in a difference between the transaction price and the fair value calculated on a model basis.

The difference between the carrying value of financial liabilities as fair value and the redemption amount amounts to € –1,337.3 million (PY: € –1.7 million) and results from the following balance sheet items:

| | Carrying amount | | Difference between the carrying amount and the amount contractually required to pay on maturity | |
|---|---|---|---|---|
| in € million | 31 Mar 2008 | 31 Mar 2007 | 31 Mar 2008 | 31 Mar 2007 |
| Liabilities to banks | 647.1 | 660.7 | –34.9 | –1.0 |
| Liabilities to customers | 1 222.9 | 1 872.4 | –776.0 | –1.0 |
| Securitised liabilities | 2 760.1 | 3 652.8 | –99.6 | –2.0 |
| Subordinated capital | 719.5 | 1 653.9 | –426.8 | 2.3 |
| **Total** | **5 349.6** | **7 839.8** | **–1 337.3** | **–1.7** |

## (60) 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 2008 in € million | 31 Mar 2007 in € million after restatements | Change in % | 31 Mar 2008 in € million | 31 Mar 2007 in € million | 31 Mar 2008 in € million | 31 Mar 2007 in € million | 31 Mar 2008 in € million | 31 Mar 2007 in € million | Change in % |
| **Interest-rate derivatives** | **46 973.8** | **42 311.4** | **11.0** | **301.8** | **305.7** | **1 106.9** | **894.9** | **–805.1** | **–589.2** | **36.6** |
| Remaining term of up to 1 year | | | | 42.5 | 134.7 | 118.7 | 104.1 | –76.2 | 30.6 | >100.0 |
| Remaining term over 1 year to 5 years | | | | 93.5 | 52.4 | 179.4 | 176.6 | –85.9 | –124.2 | –30.8 |
| Remaining term more than 5 years | | | | 165.8 | 118.6 | 808.8 | 614.2 | –643.0 | –495.6 | 29.7 |
| **Credit derivatives** | **9 323.8** | **10 167.1** | **–8.3** | **2 926.5** | **125.3** | **4 083.7** | **124.8** | **–1 157.2** | **0.5** | **>100.0** |
| Remaining term of up to 1 year | | | | 1.1 | 1.5 | 5.4 | 0.0 | –4.3 | 1.5 | >100.0 |
| Remaining term over 1 year to 5 years | | | | 8.1 | 120.7 | 242.6 | 123.0 | –234.5 | –2.3 | >100.0 |
| Remaining term more than 5 years | | | | 2 917.3 | 3.1 | 3 835.7 | 1.8 | –918.4 | 1.3 | >100.0 |
| **Currency derivatives** | **7 551.2** | **8 200.4** | **–7.9** | **307.8** | **155.0** | **220.3** | **145.0** | **87.5** | **10.0** | **>100.0** |
| Remaining term of up to 1 year | | | | 253.0 | 113.1 | 97.3 | 53.6 | 155.7 | 59.5 | >100.0 |
| Remaining term over 1 year to 5 years | | | | 46.6 | 41.7 | 121.2 | 70.9 | –74.6 | –29.2 | >100.0 |
| Remaining term more than 5 years | | | | 8.2 | 0.2 | 1.8 | 20.5 | 6.4 | –20.3 | – |
| **Equity derivatives** | **–** | **–** | **–** | **0.5** | **0.0** | **–** | **0.0** | **0.5** | **0.0** | |
| Remaining term of up to 1 year | | | | – | – | – | – | – | – | |
| Remaining term over 1 year to 5 years | | | | 0.5 | – | – | – | 0.5 | – | |
| Remaining term more than 5 years | | | | – | – | – | – | – | – | |
| **Total** | **63 848.8** | **60 678.9** | **5.2** | **3 536.6** | **586.0** | **5 410.9** | **1 164.7** | **–1 874.3** | **–578.7** | **>100.0** |

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 reported include, in common with normal practice, accrued interest.

The breakdown of derivatives by counterparties is as follows:

| in € million | Fair values 31 Mar 2008 | | Fair values 31 Mar 2007 | |
|---|---|---|---|---|
| | Positive | Negative | Positive | Negative |
| OECD banks | 669.2 | 5 020.5 | 466.3 | 1 054.8 |
| Other OECD companies and OECD individuals | 2 867.3 | 381.4 | 119.2 | 105.8 |
| Non OECD | 0.1 | 9.0 | 0.5 | 4.1 |
| **Total** | **3 536.6** | **5 410.9** | **586.0** | **1 164.7** |

The credit derivative arising from the risk transfer agreement with KfW Bankengruppe is not included in this table.

## (61) Credit risks disclosures

The following table shows the maximum credit risk amount in accordance with IFRS 7.36 (a). The maximum credit risk comprises balance sheet and off-balance sheet financial instruments. Financial instruments reported on the balance sheet are recognised at their carrying value less risk provisions for possible loan losses; off-balance sheet transactions are included in the maximum utilisation after deduction of provisions for possible loan losses. Guarantees and other credit enhancements are not taken into account. The maximum credit risk amount includes to a lesser extent equities and similar equity instruments for which there is no credit risk.

As at 31 March 2008 maximum credit risk amount compared to the previous year was as follows:

| | Maximum credit risk exposure | | Neither past due nor impaired credit risk exposure | | Renegotiated credit risk exposure | | Past due but not impaired credit risk exposure assets | | Impaired credit risk exposure | |
|---|---|---|---|---|---|---|---|---|---|---|
| in € million | 31 Mar 2008 | 31 Mar 2007 | 31 Mar 2008 | 31 Mar 2007 | 31 Mar 2008 | 31 Mar 2007 | 31 Mar 2008 | 31 Mar 2007 | 31 Mar 2008 | 31 Mar 2007 |
| **Measured at fair value through profit or loss** | | | | | | | | | | |
| **Held for trading** | **3 604.0** | **2 208.5** | **3 604.0** | **2 208.5** | **0.0** | **0.0** | **0.0** | **0.0** | **–** | **–** |
| Assets held for trading | 3 604.0 | 2 208.5 | 3 604.0 | 2 208.5 | 0.0 | 0.0 | 0.0 | 0.0 | – | – |
| **Fair value option** | **4 803.4** | **16 040.8** | **4 803.4** | **16 040.8** | **0.0** | **0.0** | **0.0** | **0.0** | **–** | **–** |
| Loans and advances to banks | 88.8 | 0.0 | 88.8 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | – | – |
| Loans and advances to customers | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | – | – |
| Investments securities | 4 714.6 | 16 040.8 | 4 714.6 | 16 040.8 | 0.0 | 0.0 | 0.0 | 0.0 | – | – |
| **Receivables KfW Bankengruppe** | **1 829.7** | **–** | **1 829.7** | **–** | **0.0** | **–** | **0.0** | **–** | **–** | **–** |
| Other assets | 1 829.7 | – | 1 829.7 | – | 0.0 | – | 0.0 | – | – | – |
| **Hedging derivatives** | | | | | | | | | | |
| Assets held for trading | 33.7 | 0.0 | 33.7 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | – | – |
| **Measured at fair value** | | | | | | | | | | |
| **Available for sale** | **1 709.1** | **2 106.1** | **1 709.1** | **2 106.1** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** |
| Investment securities | 1 709.1 | 2 106.1 | 1 709.1 | 2 106.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Measured at amortised cost** | | | | | | | | | | |
| **Loans and receivables** | **35 432.8** | **40 710.9** | **32 673.4** | **38 119.7** | **223.5** | **194.2** | **1 312.2** | **1 445.4** | **1 223.7** | **951.6** |
| Loans and advances to banks | 2 761.5 | 4 441.9 | 2 761.5 | 4 441.9 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Loans and advances to customers (including hedge fair value adjustments) | 26 250.5 | 27 157.3 | 24 036.5 | 24 674.8 | 223.5 | 194.2 | 1 312.2 | 1 445.4 | 678.3 | 842.9 |
| Investments securities | 6 420.8 | 9 111.7 | 5 875.4 | 9 003.0 | 0.0 | 0.0 | 0.0 | 0.0 | 545.4 | 108.7 |
| **Finance lease receivables** | | | | | | | | | | |
| Loans and advances to customers | 1 840.2 | 1 536.6 | 1 825.4 | 1 524.3 | 0.0 | 0.0 | 0.0 | 0.0 | 14.8 | 12.3 |
| **Off-balance transactions** | | | | | | | | | | |
| Contingent liabilities | 1 482.5 | 1 012.5 | – | – | – | – | – | – | – | – |
| Other off-balance liabilities | 4 436.0 | 5 776.8 | – | – | – | – | – | – | – | – |
| Minus portfolio impairment | 83.0 | 103.6 | – | – | – | – | – | – | – | – |
| **Total** | **55 088.4** | **69 288.6** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** |

The maximum credit risk amount includes the rescue package provided by KfW. Both of the risk cover components have been reported together under Other assets and are recognised separately as “Receivables KfW Bankengruppe” in the maximum credit risk amount.

IKB has hedged against credit risks by obtaining collateral from borrowers that can be utilised or realised in the event of default. Collateral is generally accepted in the form of mortgages, transfers of ownership and sureties after appropriate checks have been carried out. Collateral is currently made up of sureties 36.3% (PY: 28.9%), mortgages 30.1% (PY: 37.4%), transfers of ownership 1.9% (PY: 7.7%) and other collateral 31.7% (PY: 26.0%). In addition to the collateral types mentioned above, credit derivatives and similar instruments also contribute to reducing the credit risk. Information on credit derivatives and similar instruments that are related to liabilities for which the fair value option has been exercised are shown in the following table:

| | Maximum exposure to credit risk | | Amount by which any related credit derivatives mitigate the maximum exposure to credit risk | | Amount of cumulative change in the fair value of any related credit derivatives or similar instrument since designated | | Amount of the change in the period in the fair value of any related credit derivatives or similar instrument | |
|---|---|---|---|---|---|---|---|---|
| in € million | 31 Mar 2008 | 31 Mar 2007 | 31 Mar 2008 | 31 Mar 2007 | 31 Mar 2008 | 31 Mar 2007 | 31 Mar 2008 | 31 Mar 2007 |
| Loans and advances to banks | 88.8 | 0.0 | 150.0 | 0.0 | 74.5 | 0.0 | 74.5 | 0.0 |
| Loans and advances to customers | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Total** | **88.8** | **0.0** | **150.0** | **0.0** | **74.5** | **0.0** | **74.5** | **0.0** |

The risk relief provided by collateral is dependent on the collateral type. At IKB individual parameters and standardised processes are used to value accepted collateral. In addition to the value on recognition, the sustainable value of collateral is also important. Long-term risk mitigation can only be provided by collateral, depending on type, if the collateral is monitored constantly, including periodic valuations and updates.

In addition to problem loans neither overdue nor impaired financial instruments are also subject to continuous review and reporting. IKB has defined the so-called credit volume for reporting. The credit volume is based on the IKB business model and is a suitable means of illustrating the credit risk. Financial instruments that are not included in the credit volume primarily consist of loans and advances to banks and mortgages. These mainly relates to counterparties, such as OECD banks and credit insurers with an investment grade rating. This item excludes a derivative in trading assets against the credit insurer FGIC Financial Guaranty Insurance Company (BB; Standard & Poor´s) in the amount of € 1,127.2 million (PY: € 0.0 million). The credit quality according to internal and external credit ratings is illustrated for the core segments of IKB, structured securities portfolios and portfolio investments in the risk report.

The loans with negotiated conditions shown in the table at the maximum credit risk amount are not overdue and are not subject to long-term impairment because of a confirmed debt service ratio or sufficient security. A more detailed review is necessary, however, since the agreements with the borrowers for these loans have been subsequently changed. This often occurs as part of restructuring measures. In general the interest and redemption structure is modified to ensure that the borrower is able to meet the obligations. These loans, as well as commitments in arrears by more than 90 days, are included with empirical loss ratios when calculating portfolio provisions.

As at 31 March 2008 the following financial assets were in arrears:

| 31 Mar 2008 in € million | Financial assets that are past due as at the reporting date but not impaired | | | | | | Total | Fair value of collaterals and other credit enhancements received as security for the related past due assets |
|---|---|---|---|---|---|---|---|---|
| | from 1 day up to 5 days | more than 5 days up to 30 days | more than 30 days up to 90 days | more than 90 days up to 180 days | more than 180 days up to 360 days | more than 360 days | | |
| **Measured at amortised cost** | | | | | | | | |
| **Loans and receivables** | **981.8** | **140.5** | **40.2** | **71.6** | **18.7** | **59.4** | **1 312.2** | **559.2** |
| Loans and advances to banks | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Loans and advances to customers (including hedge fair value adjustments) | 981.8 | 140.5 | 40.2 | 71.6 | 18.7 | 59.4 | 1 312.2 | 559.2 |
| Investment securities | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Finance lease receivables** | | | | | | | | |
| Loans and advances to customers | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Total** | **981.8** | **140.5** | **40.2** | **71.6** | **18.7** | **59.4** | **1 312.2** | **559.2** |

| 31 Mar 2007 in € million | Financial assets that are past due as at the reporting date but not impaired: from 1 day up to 5 days | more than 5 days up to 30 days | more than 30 days up to 90 days | more than 90 days up to 180 days | more than 180 days up to 360 days | more than 360 days | Total | Fair value of collaterals and other credit enhancements received as security for the related past due assets |
|---|---|---|---|---|---|---|---|---|
| **Measured at amortised cost** | | | | | | | | |
| **Loans and receivables** | **1 053.2** | **116.1** | **50.2** | **74.0** | **33.1** | **118.8** | **1 445.4** | **437.7** |
| Loans and advances to banks | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Loans and advances to customers (including hedge fair value adjustments) | 1 053.2 | 116.1 | 50.2 | 74.0 | 33.1 | 118.8 | 1 445.4 | 437.7 |
| Investment securities | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Finance lease receivables** | | | | | | | | |
| Loans and advances to customers | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Total** | **1 053.2** | **116.1** | **50.2** | **74.0** | **33.1** | **118.8** | **1 445.4** | **437.7** |

Financial instruments that are in arrears by one or more days are classed as overdue in accordance with IFRS 7. However, the first maturity range (1 to 5 days in arrears) should be classed as less meaningful due to delays in settlement on the part of the borrower. There is no impairment loss for the overdue financial instruments shown here.

The following financial assets are subject to a specific valuation allowance as at the balance sheet date:

| | Carrying amount of the impaired assets before impairment | | Amount of impairment | | Carrying amount of the impaired assets after impairment | | Fair value of collaterals and other credit enhancements received as security for the related impaired assets | |
|---|---|---|---|---|---|---|---|---|
| in € million | 31 Mar 2008 | 31 Mar 2007 | 31 Mar 2008 | 31 Mar 2007 | 31 Mar 2008 | 31 Mar 2007 | 31 Mar 2008 | 31 Mar 2007 |
| **Measured at amortised cost** | | | | | | | | |
| **Loans and receivables** | **2 966.3** | **1 960.2** | **1 742.6** | **1 008.6** | **1 223.7** | **951.6** | **642.9** | **798.4** |
| Loans and advances to banks | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Loans and advances to customers (including hedge fair value adjustment) | 1 454.2 | 1 832.2 | 775.9 | 989.3 | 678.3 | 842.9 | 642.9 | 798.4 |
| Investment securities | 1 512.1 | 128.0 | 966.7 | 19.3 | 545.4 | 108.7 | 0.0 | 0.0 |
| **Finance lease receivables** | | | | | | | | |
| Loans and advances to customers | 17.1 | 14.1 | 2.3 | 1.8 | 14.8 | 12.3 | 0.0 | 0.0 |
| **Total** | **2 983.4** | **1 974.3** | **1 744.9** | **1 010.4** | **1 238.5** | **963.9** | **642.9** | **798.4** |

During the year IKB generated collateral revenue in the amount of € 599.7 million (PY: € 708.4 million).

Detailed information about the risks associated with the Bank's activities can be found in the risk report, which is included in the Group Management Report.

# Other disclosures

## (62) 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 other commitments of IKB can be broken down as follows:

| | 31 Mar 2008 in € million | 31 Mar 2007 in € million | Change in % |
|---|---|---|---|
| Contingent liabilties | 1 482.5 | 1 012.5 | 46.4 |
| Guarantees, warranties, other | 1 329.1 | 842.9 | 57.7 |
| Assumptions of liabilities | 153.4 | 169.6 | –9.6 |
| Other commitments | 4 436.0 | 5 776.8 | –23.2 |
| Commitments for up to 1 year | 2 161.0 | 3 201.8 | –32.5 |
| Commitments for more than 1 year | 2 275.0 | 2 575.0 | –11.7 |
| **Total** | **5 918.5** | **6 789.3** | **–12.8** |

Contingent liabilities are generally matched with contingent assets in the same amount.

Other commitments comprised loan commitments to special purpose entities for a total amount equivalent to € 17.4 million (PY: € 933.3 million), which could be drawn upon by these entities in the case of short-term liquidity bottlenecks, or should default events (as defined in the relevant agreements) occur.

The figures presented reflect the amounts which would have to be paid out in case the customer fully draws on the relevant credit facility.

## (63) Leases

### Finance leases

| Receivables from leasing transactions | 31 Mar 2008 in € million | 31 Mar 2007 in € million | Change in % |
|---|---|---|---|
| Gross investment (maturities) | | | |
| up to 1 year | 579.2 | 532.3 | 8.8 |
| more than 1 year to 5 years | 1 247.5 | 1 124.3 | 11.0 |
| more than 5 years | 106.9 | 77.7 | 37.6 |
| **Total gross investment** | **1 933.6** | **1 734.3** | **11.5** |
| of which: | | | |
| Non-guaranteed residual values | 32.8 | 55.9 | –41.3 |
| Unrealised financial income (maturities) | | | |
| up to 1 year | 92.1 | 79.1 | 16.4 |
| more than 1 year to 5 years | 138.8 | 111.2 | 24.8 |
| more than 5 years | 7.1 | 5.6 | 26.8 |
| **Total unrealised financial income** | **238.0** | **195.9** | **21.5** |
| Net investment value (maturities) | | | |
| up to 1 year | 487.0 | 453.2 | 7.5 |
| more than 1 year to 5 years | 1 108.9 | 1 012.8 | 9.5 |
| more than 5 years | 99.7 | 72.4 | 37.7 |
| **Total net investment value** | **1 695.6** | **1 538.4** | **10.2** |
| Contingent rent recognised in profit or loss | 8.7 | 6.4 | 35.9 |
| Accumulated value adjustments for irrecoverable overdue minimum lease payments | 0.8 | –0.6 | |

Future minimum lease payments from non-cancellable finance leases can be broken down by maturities as follows:

| | 31 Mar 2008 in € million | 31 Mar 2007 in € million | Change in % |
|---|---|---|---|
| up to 1 year | 574.3 | 486.1 | 18.1 |
| more than 1 year to 5 years | 1 225.0 | 997.1 | 22.9 |
| more than 5 years | 101.2 | 75.0 | 34.9 |
| **Total** | **1 900.5** | **1 558.2** | **22.0** |

## Operating leases

Future minimum lease payments from non-cancellable operating leases can be broken down by maturities as follows:

| | 31 Mar 2008 in € million | 31 Mar 2007 in € million | Change in % |
|---|---|---|---|
| up to 1 year | 32.3 | 37.6 | –14.1 |
| more than 1 year to 5 years | 53.8 | 48.8 | 10.2 |
| more than 5 years | 0.4 | 0.3 | 33.3 |
| **Total** | **86.5** | **86.7** | **–0.2** |

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 € 2.2 million (PY: € 7.4 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.

The minimum lease payments to be made by IKB from non-cancellable operating leases can be broken down as follows:

| | 31 Mar 2008 in € million | 31 Mar 2007 in € million | Change in % |
|---|---|---|---|
| up to 1 year | 13.0 | 14.7 | –11.7 |
| more than 1 year to 5 years | 52.9 | 55.3 | –4.4 |
| more than 5 years | 172.2 | 185.5 | –7.2 |
| **Total** | **238.1** | **255.5** | **–6.8** |

IKB expects to receive rental payments from the sub-lease of parts of the administrative buildings to Group-external tenants totalling € 1.7 million p.a. (PY: € 1.7 million).

## (64) Disclosures related to collateral

### Dislosures related to collateral provided for own liabilities and contingent liabilities

IKB provides collateral above all for open market operations with Deutsche Bundesbank. Fixed-income securities totalling € 8.1 billion (PY: € 6.0 billion) have been pledged with Deutsche Bundesbank as collateral for the European Central Bank's tender and loan application process (collateral pool). Credit facilities of € 3.1 billion (PY: € 0.8 billion) had been utilised.

| in € million | Assets provided as collateral as part of refinancing activities with the Deutsche Bundesbank | |
|---|---|---|
| | 31 Mar 2008 | 31 Mar 2007 |
| **Assets held for trading** | | |
| Measured at fair value through profit or loss | 19.7 | 267.8 |
| **Investment securities** | | |
| Measured at fair value through profit or loss | 1 495.3 | 592.1 |
| Measured at fair value | 414.7 | 305.6 |
| Measured at amortised cost | 4 577.0 | 4 884.4 |
| **Receivables from customers** | | |
| Measured at amortised cost | 1 631.9 | 0.0 |
| **Total** | **8 138.6** | **6 049.9** |

IKB has provided banks with cash collateral in connection with credit derivative transactions, in the amount of € 294.7 million (PY: € 290.0 million).

We have provided cash collateral for interest rate derivatives as part of the Company's collateral management, in the amount of € 685.0 million (PY: € 262.3 million).

As collateral for payment obligations for security transactions, securities with a nominal value of € 3.5 million (PY: € 3.5 million) and € 7.0 million (PY: € 7.0 million) have been deposited with Clearstream Banking AG, Frankfurt and Clearstream Banking S.A., Luxemburg respectively.

Securities with a nominal value of € 20.0 million (PY: € 20.0 million) have been pledged with BHF-Bank AG, Frankfurt/ Main and Berlin, and with Citigroup, London, as part of futures trading on EUREX Deutschland to cover margin obligations.

USD 390.1 million in securities have been pledged to KfW Bankengruppe, as additional cover supporting joint business concepts, unchanged on the previous year.

Assets pledged as collateral do not grant any rights of resale including cash collateral.

## (65) Securities repurchase agreements

In the financial year 2007/08, IKB expanded its securities repurchase agreements business. As at the balance sheet date, IKB as borrower had financial assets with a carrying value of € 1,957.0 million (repo transactions). These assets included collateral that can be re-sold or re-pledged. The repo transactions resulted in liabilities to banks in the amount of € 1,589.3 million. In the financial year 2006/07, only one repo transaction was carried out. As at the reporting date 31 March 2007, this transaction resulted in the entering of a liability in the amount of € 75.2 million, since this repo transaction was concluded as the result of a reverse repo transaction with the same counterparty.

| | Repos and related agreements | | Corresponding liabilities (liabilities to banks) | |
|---|---|---|---|---|
| in € million | 31 Mar 2008 | 31 Mar 2007 | 31 Mar 2008 | 31 Mar 2007 |
| **Investment securities** | | | | |
| Measured at fair value through profit or loss | 334.8 | 0.0 | 264.1 | 0.0 |
| Measured at fair value | 236.4 | 0.0 | 201.8 | 0.0 |
| Measured at amortised cost | 1 385.8 | 0.0 | 1 123.4 | 75.2 |
| **Total** | **1 957.0** | **0.0** | **1 589.3** | **75.2** |

In addition, IKB received as lender government bonds with a fair value of € 229.5 million (PY: € 74.1 million) (reverse repo transactions) with an option for re-sale or re-pledging. As at the reporting date, this generated loans and advances to banks with a carrying value of € 230.8 million (PY: € 75.1 million). In respect of these government bonds the Bank has repayment obligations of the same amount on terms which are typical in the industry. These securities are used as further collateral in repo-transactions.

## (66) Statement of changes in non-current assets

Assets changed during the year under review as follows:

| in € million | Property and equipment: Leased assets from operating leases | Property and equipment: Land and buildings and buildings under construction, excluding investment property held for sale | Property and equipment: Operating and office equipment incl. low value assets | Property and equipment: Investment property held for sale | Intangible assets | Equity investments/ asssociates/ affiliated companies *) | Total |
|---|---|---|---|---|---|---|---|
| **Costs** | | | | | | | |
| Balance at 31 March 2007 | 175.7 | 99.2 | 60.5 | 10.1 | 75.2 | 300.1 | **720.8** |
| Changes in the scope of consolidation | – | – | – | – | – | – | **–** |
| Exchange differences | –0.1 | – | – | – | – | – | **–0.1** |
| Additions | 67.4 | 13.1 | 10.5 | – | 8.4 | 61.0 | **160.4** |
| Reclassifications | – | – | – | – | 6.5 | –0.1 | **6.4** |
| Disposals | 63.7 | – | 1.3 | 10.1 | 1.7 | 84.1 | **160.9** |
| Balance at 31 March 2008 | 179.3 | 112.3 | 69.7 | – | 88.4 | 276.9 | **726.6** |
| Cumulative changes from the application of the equity method | – | – | – | – | – | 21.6 | **21.6** |
| **Impairment and write-up** | | | | | | | |
| Balance at 31 March 2007 | 71.7 | 14.7 | 39.1 | 7.9 | 37.3 | 10.6 | **181.3** |
| Changes in the scope of consolidation | – | – | – | – | – | – | **–** |
| Exchange differences | –0.1 | – | – | – | – | – | **–0.1** |
| Depreciation and amortisation | 34.6 | 1.6 | 7.9 | – | 17.4 | – | **61.5** |
| Impairment | – | 12.7 | – | – | – | 74.3 | **87.0** |
| Write-ups | – | – | – | – | – | 18.3 | **18.3** |
| Reclassifications | – | – | – | – | 1.6 | – | **1.6** |
| Disposals | 39.1 | – | 0.6 | 7.9 | – | 20.3 | **67.9** |
| Balance at 31 March 2008 | 67.1 | 29.0 | 46.4 | – | 56.3 | 46.3 | **245.1** |
| Cumulative fair value changes | – | – | – | – | – | 3.5 | **3.5** |
| **Carrying amounts** | | | | | | | |
| Balance at 31 March 2007 | 104.0 | 84.5 | 21.4 | 2.2 | 37.9 | 278.1 | **528.1** |
| **Balance at 31 March 2008** | **112.2** | **83.3** | **23.3** | **–** | **32.1** | **248.7** | **499.6** |

*) Previous years' value adjusted due to changes in presentation in accordance with IAS 8

## (67) Contractual Maturity groupings for financial liabilities

The following table shows the liquidity risk in accordance with the requirements of IFRS 7.39(a). It records undiscounted cash flows for balance-sheet and off-balance sheet liabilities. Priority is given to the earliest termination date or the earliest utilisation date.

| | Contractual maturities of financial liabilities | | | | | Total |
|---|---|---|---|---|---|---|
| 31 Mar 2008 in € million | up to 1 month | more than 1 month up to 3 months | more than 3 months up to 1 year | more than 1 year up to 5 years | more than 5 years | |
| Liabilities to banks | 4 081.8 | 3 050.4 | 1 387.3 | 5 229.1 | 6 090.1 | 19 838.7 |
| Liabilities to customers | 164.0 | 956.0 | 1 920.7 | 2 165.5 | 2 443.7 | 7 649.8 |
| Securitised liabilities | 657.5 | 1 578.1 | 6 741.7 | 10 532.2 | 108.0 | 19 617.4 |
| Liabilities held for trading | 4 257.2 | 25.7 | 170.9 | 381.4 | –1 174.2 | 3 661.2 |
| Subordinated capital | 2.4 | 10.2 | 382.4 | 1 228.2 | 1 474.1 | 3 097.3 |
| **Total** | **9 162.9** | **5 620.3** | **10 603.0** | **19 536.5** | **8 941.7** | **53 864.4** |
| Off-balance transactions | 5 918.5 | 0.0 | 0.0 | 0.0 | 0.0 | 5 918.5 |

| | Contractual maturities of financial liabilities | | | | | Total |
|---|---|---|---|---|---|---|
| 31 Mar 2007 in € million | up to 1 month | more than 1 month up to 3 months | more than 3 months up to 1 year | more than 1 year up to 5 years | more than 5 years | |
| Liabilities to banks | 2 945.1 | 2 443.9 | 1 116.7 | 4 599.3 | 4 438.6 | 15 543.6 |
| Liabilities to customers | 127.9 | 605.1 | 1 466.0 | 1 661.5 | 1 874.9 | 5 735.4 |
| Securitised liabilities | 1 205.5 | 12 586.3 | 8 097.2 | 19 559.3 | 154.2 | 41 602.5 |
| Liabilities held for trading | 2 622.7 | 0.8 | 181.3 | 386.8 | –4.5 | 3 187.1 |
| Subordinated capital | 19.3 | 4.9 | 478.5 | 1 221.6 | 2 305.3 | 4 029.6 |
| **Total** | **6 920.5** | **15 641.0** | **11 339.7** | **27 428.5** | **8 768.5** | **70 098.2** |
| Off-balance transactions | 6 789.3 | 0.0 | 0.0 | 0.0 | 0.0 | 6 789.3 |

Trading liabilities only contain derivatives. The cash flows resulting from swaps are reported in the table for residual terms after settlement with cash inflows for each maturity range. All other derivatives are included in IDW ERS HFA 24 (Draft IDW Statement on the Issues of Financial Instrument Disclosures, 5 December 2007) with their fair values. IKB assumes that the fair value most closely reflects the cash flow generated from the conclusion of derivative positions. Fair values are classified into various maturity ranges based on agreed maturities. In contrast, the fair value of credit derivatives is allocated to the first maturity range.

Subordinated capital includes liabilities with an indefinite maturity the give the issuer an exclusive right to cancel. The resulting cash flows are allocated to the respective maturity ranges; the last maturity range reports the nominal value of the liabilities.

In contrast to agreed cash flows, IKB manages internal liquidity risk on the basis of expected values. Internal liquidity risk management is included in the risk report, which is included in this IKB Annual Report.

## (68) Foreign currency balances

The recognised foreign currency balances, translated into Euro, are shown in the following overview.

| | 31 Mar 2008 in € million | 31 Mar 2007 in € million | Change in % |
|---|---|---|---|
| Foreign currency assets | 4 230.7 | 18 652.4 | –77.3 |
| Foreign currency liabilities | 6 538.0 | 18 393.7 | –64.5 |

The exchange rates for the material currencies of IKB are presented in the following table.

| Exchange rates (for € 1) | 31 Mar 2008 in € million | 31 Mar 2007 in € million | Change in % |
|---|---|---|---|
| USD | 1.5812 | 1.3318 | 18.7 |
| CHF | 1.5738 | 1.6247 | –3.1 |

## (69) Average number of employees during the financial year

| | 2007/08 | 2006/07 | Change in % |
|---|---|---|---|
| Men | 1 139 | 1 056 | 7,9 |
| Women | 713 | 672 | 6,1 |
| **Total** | **1 852** | **1 728** | **7,2** |

## (70) Related party disclosures

KfW Bankengruppe holds an interest of 45.5% (PY: 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 Bankengruppe were exclusively carried out on an arm's length basis and within the scope of development programmes of the KfW Bankengruppe generally available for all banks.

As at 31 March 2008, liabilities to banks include individual refinancing transactions of € 4.6 billion (PY: € 4.0 billion) and global loans of € 1.8 billion (PY: € 1.7 billion).

As at 31 March 2008, KfW Bankengruppe had provided to IKB Private Equity GmbH 7 (PY: 10) guarantees, in a volume of € 10.5 million (PY: € 13.2 million), and to IKB Equity Capital Fund I GmbH & Co. KG, a subsidiary of IKB Private Equity GmbH, 6 guarantees in a volume of € 8.0 million (PY: € 9.2 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 Bankengruppe. 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 € 1.5 million (PY: € 2.1 million).

In addition, there is an individual investor's indemnity granted by KfW Bankengruppe in favour of IKB Private Equity GmbH amounting to € 3.9 million (PY: € 5.9 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 € 0.4 million (PY: € 0.8 million).

The following overview shows related party transactions with the Bank's executive bodies in the corporate lending business:

| | Close members of the family total loan volume (utilisation or amount of commitment) in € thousand | | Average maturity in years | | Average interest rate in % | |
|---|---|---|---|---|---|---|
| Group of persons including | 31 Mar 2008 | 31 Mar 2007 | 31 Mar 2008 | 31 Mar 2007 | 31 Mar 2008 | 31 Mar 2007 |
| Board of managing directors | – | – | – | – | – | – |
| Employee representative in Supervisory Board | 151 | 177 | 5.5 | 6.2 | 4.1 | 4.1 |
| Shareholder representative on the Supervisory Board | 100 | 400 | 0.3 | 1.3 | 6.3 | 5.3 |
| Companies controlled by shareholder representatives | 140 472 | 116 609 | 8.1 | 11.5 | 4.8 | 4.5 |
| **Total** | **140 723** | **117 186** | **8.1** | **11.5** | **4.8** | **4.5** |

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 0.4% (PY: 0.3%) 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 2008 | 31 Mar 2007 | 31 Mar 2008 | 31 Mar 2007 | 31 Mar 2008 | 31 Mar 2007 |
| Companies controlled by shareholder representatives | Securities held by IKB | – | 11 900 | – | 3.0 | – | 8.0 |
| Companies controlled by shareholder representatives | Interest-rate swaps | 1 500 | 11 500 | 1.8 | 3.1 | pays (variable): EURIBOR 6M receives: 3.25 | pays (variable): between EURIBOR 3M and 6M receives: 3.25 as well as EURIBOR 6M +/- base points |

IKB has prepared a subordinate status report in accordance with Section 312 of the German Stock Corporation Act (Aktiengesetz – 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."

### Directors' dealings within the meaning of Section 15a of the German Securities Trading Act (Wertpapierhandelsgesetz – WpHG)

Directors, particularly members of the Management Board and Supervisory Board of IKB and related persons, are obligated in accordance with Section 15a of the WpHG to disclose transactions with IKB shares or related financial instruments if the value of the transactions conducted by the Member or related person reaches or exceeds € 5,000 in any given calendar year.

During the year under review the following disclosures were made and published on the website of IKB (www.ikb.de):

| Name of Director | Position | Description of financial instrument | Trading day/ Stock exchange | Business type | Number | Price in € |
|---|---|---|---|---|---|---|
| Metzger, Jürgen | Management or supervisory body | IKB AG bearer shares o.N., ISIN/WKN of financial instrument: DE008063306 | 02 Aug 2007/Xetra | Sale | 792 | 15.31 |
| Wolfgang Bouché | Management or supervisory body | IKB AG bearer shares o.N., ISIN/WKN of financial instrument: DE008063306 | 03 Aug 2007/ Frankfurt | Buying | 500 | 11.85 |
| | | | 06 Aug 2007/ Frankfurt | Sale | 500 | 14.01 |

As at 31 March 2008, 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 to unconsolidated subsidiaries, associates and companies in which a participating interest is held, can be broken down as follows:

| **Receivables** | 31 Mar 2008 in € million | 31 Mar 2007 in € million | Change in % |
|---|---|---|---|
| **Loans and advances to banks** | **35.4** | **1.9** | **>100.0** |
| Subsidiaries | 2.0 | 0.2 | >100.0 |
| Associates and other investees | 33.4 | 1.7 | >100.0 |
| **Loans and advances to customers** | **211.9** | **242.0** | **–12.4** |
| Subsidiaries | 3.0 | – | |
| Associates and other investees | 208.9 | 242.0 | –13.7 |
| **Assets held for trading** | **–** | **–** | |
| Subsidiaries | – | – | |
| Associates and other investees | – | – | |
| **Bonds and other fixed-interest securities** | **101.0** | **203.6** | **–50.4** |
| Subsidiaries | – | – | |
| Associates and other investees | 101.0 | 203.6 | –50.4 |
| **Equities and other variable-interest securities** | **144.6** | **–** | |
| Subsidiaries | – | – | |
| Associates and other investees | 144.6 | – | |
| **Other assets** | **1 857.2** | **–** | |
| Subsidiaries | – | – | |
| Associates and other investees | 1 857.2 | – | |
| **Total** | **2 350.1** | **447.5** | **>100.0** |

The liabilities from unconsolidated subsidiaries, associates and companies in which a participating interest is held, can be broken down as follows:

| Liabilities | 31 Mar 2008 in € million | 31 Mar 2007 in € million | Change in % |
|---|---|---|---|
| **Liabilities to banks** | **8 566.3** | **5 848.0** | **46.5** |
| Subsidiaries | – | – | |
| Associates and other investees | 8 566.3 | 5 848.0 | 46.5 |
| **Liabilities to customers** | **4.8** | **6.7** | **–28.4** |
| Subsidiaries | 0.8 | 0.3 | >100.0 |
| Associates and other investees | 4.0 | 6.4 | –37.5 |
| **Securitised liabilities** | – | – | |
| Subsidiaries | – | – | |
| Associates and other investees | – | – | |
| **Liabilities held for trading** | – | – | |
| Subsidiaries | – | – | |
| Associates and other investees | – | – | |
| **Subordinated capital** | – | – | |
| Subsidiaries | – | – | |
| Associates and other investees | – | – | |
| **Other liabilities** | 5.8 | – | |
| Subsidiaries | – | – | |
| Associates and other investees | 5.8 | – | |
| **Total** | **8 576.9** | **5 854.7** | **46.5** |

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

## (71) Remuneration and loans to members of executive bodies

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

### Remuneration for members of the Board of Managing Directors

The total remuneration for Board members amounted to € 4,264,000. Of this, € 2,023,000 represented fixed compensation, € 2,044,000 represented variable compensation € 197,000 represented and benefits in kind.

### Former and retired Board members

The total remuneration for former and retired Board members and their surviving dependants amounted to € 3,822,000 (PY: € 5,622,000) for amounts paid out, personnel expenses and allowances in kind. A total amount of € 42,536,000 (PY: € 37,227,000) was provided for pension obligations to former members of the Board of Managing Directors and their surviving dependents.

### Remuneration for members of the Supervisory Board

The total remuneration for Board members amounted to € 561,000. Of this, € 37,000 was for the reimbursement of expenses.

### Remuneration of the Advisory Board

The members of the Advisory Board received € 361,000 (PY: € 403,000), including VAT.

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

As at 31 March 2008 the total amount of loans made to members of the Supervisory Board and the Advisory Board amounted to € 1.0 million (PY: € 1.4 million).

## (72) Corporate Governance Code

On 27 June 2007, 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 on 16 February 2008 submitted a revised Declaration of Compliance and made both permanently available to shareholders on the Company’s website.

## (73) Events after 31 March 2008

We refer to the Group Management Report for information on events after the balance sheet date of 31 March 2008 (Supplementary report).

## (74) Executive bodies

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

*a) their membership in other statutory supervisory boards;* and

*b) similar offices held in comparable governing bodies of German and foreign companies.*

### Supervisory Board

#### Chairman

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

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

*b) Henkel KGaA*

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

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

#### Deputy Chairman

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

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

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

*a) Börse Düsseldorf AG*

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

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

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

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

## Members

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

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

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

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

*b) German Financial Services Supervisory Authority*
*(Deputy Chairman)*

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

*a) Messe Düsseldorf GmbH*

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

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

*a) Leoni AG (until 2 May 2007)*

Wolfgang Bouché, Düsseldorf
Employee representative

Hermann Franzen, Düsseldorf
General Partner of
Porzellanhaus Franzen KG

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

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

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

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

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

*a) Carl Zeiss AG*

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

Jürgen Metzger, Hamburg
Employee representative

Roland Oetker, Düsseldorf
Managing Partner of
ROI Verwaltungsgesellschaft mbH

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

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

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

*a) Körber AG (Chairman)*

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

*a) E.ON Energie AG*
*Rodenstock GmbH*

Rita Röbel, Leipzig
Employee representative

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

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

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

Jochen Schametat, Düsseldorf
Employee representative

Dr Carola Steingräber, Berlin
Employee representative

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

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

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

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

Ulrich Wernecke, Düsseldorf
Employee representative

Andreas Wittmann, München
Employee representative

## Board of Managing Directors

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

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

Frank Braunsfeld
(until 15 October 2007)

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

Dr Volker Doberanzke
(until 7 August 2007)

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

Dr Dieter Glüder
(from 29 July 2007)

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

Dr Reinhard Grzesik
(from 15 October 2007)

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

Dr Markus Guthoff
(until 15 October 2007)

*a) Carl Zeiss Meditec AG*

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

Dr Andreas Leimbach
(from 1 April 2008)

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

Claus Momburg

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

Stefan Ortseifen
(until 29 July 2007)

*a) Coface Holding AG (until 30 July 2007)*

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

## Offices held by employees

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

Rolf Brodbeck
*Spiele Max AG*

Roland Eschmann
*Oechsler AG*

Stefan Haneberg
*MASA Aktiengesellschaft*

Frank Kraemer
*ae Group AG*

## (75) List of consolidated entities, 31 March 2008

| | Letter of comfort | Capital share in % | Financial year | Shareholders' equity in € thousand |
|---|---|---|---|---|
| **A. Consolidated subsidiaries** | | | | |
| **1. Foreign banks** | | | | |
| IKB International S.A., Luxemburg | x | 100 [1] | 1 Apr - 31 Mar | 192 165 |
| **2. Other domestic companies** | | | | |
| AIVG Allgemeine Verwaltungsgesellschaft mbH, Düsseldorf | x | 100 | 1 Jan - 31 Dec | 4 896 |
| ICCO Grundstücks-Vermietungsgesellschaft mbH & Co. KG, Düsseldorf | x | 100 [1] | 1 Apr - 31 Mar | 97 |
| ICCO Grundstücks-Vermietungsgesellschaft mbH, Düsseldorf | x | 100 [1] | 1 Apr - 31 Mar | 43 |
| IKB Autoleasing GmbH, Hamburg | x | 100 [1] | 1 Apr - 31 Mar | 14 000 |
| IKB Beteiligungen GmbH, Düsseldorf | x | 100 | 1 Apr - 31 Mar | 573 172 |
| IKB Credit Asset Management GmbH, Düsseldorf | x [5] | 100 | 1 Apr - 31 Mar | 40 000 |
| IKB Data GmbH, Düsseldorf | x | 100 | 1 Apr - 31 Mar | 20 000 |
| IKB Dritte Equity Suporta GmbH, Düsseldorf | | 100 | 1 Jan - 31 Dec | 3 018 |
| IKB Equity Capital Fund I GmbH & Co. KG, Düsseldorf | x | 100 [1] | 1 Apr - 31 Mar | 74 911 |
| IKB Equity Finance GmbH, Düsseldorf | | 100 [1] | 1 Apr - 31 Mar | 182 |
| IKB Erste Equity Suporta GmbH, Düsseldorf | | 100 [1] | 1 Apr - 31 Mar | 12 067 |
| IKB Grundstücks GmbH & Co. Objekt Degerloch KG, Düsseldorf | x | 100 | 1 Jan - 31 Dec | 6 675 |
| IKB Grundstücks GmbH & Co. Objekt Hamburg KG, Düsseldorf | x | 100 | 1 Jan - 31 Dec | 13 315 |
| IKB Grundstücks GmbH & Co. Objekt Holzhausen KG, Düsseldorf | x | 100 | 1 Jan - 31 Dec | 10 014 |
| IKB Grundstücks GmbH & Co Objekt Uerdinger Straße KG, Düsseldorf | x | 100 | 1 Jan - 31 Dec | 8 675 |
| IKB Grundstücks GmbH, Düsseldorf | x | 100 | 1 Jan - 31 Dec | 103 |
| IKB Immobilien Management GmbH, Düsseldorf | x | 75 | 1 Jan - 31 Dec | 1 788 |
| 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 | 45 000 |
| IKB Private Equity GmbH, Düsseldorf | x | 100 [1] | 1 Apr - 31 Mar | 90 000 |
| IKB Projektentwicklung GmbH & Co. KG, Düsseldorf | x | 100 | 1 Jan - 31 Dec | 33 826 |
| IKB Projektentwicklungsverwaltungsges. mbH, Düsseldorf | x | 100 | 1 Jan - 31 Dec | 27 |
| IMAS Grundstücks-Vermietungsges. mbH, Düsseldorf | x | 100 | 1 Apr - 31 Mar | 2 232 |
| ISOS Grundstücks-Vermietungsgesellschaft mbH & Co. KG, Düsseldorf | x | 100 [1] | 1 Apr - 31 Mar | 254 |
| ISOS Grundstücks-Vermietungsgesellschaft mbH, Düsseldorf | x | 100 [1] | 1 Apr - 31 Mar | 44 |
| ISTOS Beteiligungsverwaltungs- und Grundstücks-vermietungsges. mbH, Düsseldorf | x | 100 | 1 Jan - 31 Dec | 42 |
| ISTOS Erste Beteiligungsverwaltungs- und Grundstücks-vermietungsges. mbH & Co. KG, Düsseldorf | x | 100 | 1 Jan - 31 Dec | 46 |
| ISTOS Zweite Beteiligungsverwaltungs- und Grundstücks-vermietungsges. mbH & Co. KG, Düsseldorf | | 100 | 1 Jan - 31 Dec | 308 |
| ISTOS Dritte Beteiligungsverwaltungs- und Grundstücks-vermietungsges. mbH & Co. KG, Düsseldorf | | 100 | 1 Jan - 31 Dec | 189 |

| | Letter of comfort | Capital share in % | Financial year | Shareholders' equity in € thousand |
|---|---|---|---|---|
| **3. Other foreign companies** | | | | |
| IKB Capital Corporation, New York | | 100 | 1 Apr - 31 Mar | 33 034 |
| IKB Finance B.V., Amsterdam | x | 100 | 1 Apr - 31 Mar | 10 699 |
| IKB Funding LLC I, Wilmington, Delaware | x [2), 4)] | 100 | 1 Apr - 31 Mar | 75 042 |
| IKB Funding LLC II, Wilmington, Delaware | x [2), 4)] | 100 | 1 Apr - 31 Mar | 400 170 |
| IKB Leasing Austria GmbH, Salzburg | x | 100 [1)] | 1 Jan - 31 Dec | 512 |
| IKB Leasing ČR s.r.o., Prague | x | 100 [1)] | 1 Jan - 31 Dec | 4 070 |
| IKB Leasing France S.A.R.L., Marne | x | 100 [1)] | 1 Jan - 31 Dec | 1 203 |
| IKB Leasing Hungária Kft., Budapest | x | 100 [1)] | 1 Jan - 31 Dec | 1 584 |
| IKB Leasing Polska Sp.z o.o., Posen | x | 100 [1)] | 1 Jan - 31 Dec | 5 797 |
| IKB Leasing SR s.r.o., Bratislava | x | 100 [1)] | 1 Jan - 31 Dec | 2 019 |
| IKB Leasing SR srl, Bucharest | x | 100 [1)] | 1 Jan - 31 Dec | 954 |
| IKB Lux Beteiligungen S. à.r.l., Luxemburg | x | 100 | 1 Apr - 31 Mar | 59 266 |
| IKB Penzüdyi Lizing Hungaria Rt., Budapest | x | 100 [1)] | 1 Jan - 31 Dec | 1 447 |
| Still Location S.A.R.L., Marne | x | 100 [1)] | 1 Jan - 31 Dec | 9 766 |
| ZAO IKB Leasing, Moskau | x | 100 [1)] | 1 Jan - 31 Dec | 1 567 |
| **B. Joint ventures/affiliated companies** | | | | |
| Linde Leasing GmbH, Wiesbaden | | 30 [1)] | 1 Jan - 31 Dec | 22 106 |
| Movesta Lease and Finance GmbH, Düsseldorf | | 50 [1)] | 1 Jan - 31 Dec | 12 902 |
| **C. Special Purpose Entities in accordance with SIC-12** | | | | |
| ELAN Ltd., Jersey (three units) | | | | |
| Havenrock I Ltd., Jersey | | | | |
| Havenrock II Ltd., Jersey | | | | |
| Rhinebridge plc, Dublin | | | | |

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
5) Until 31 Mar 2008

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

The following list is an overview of the assets and liabilities, results and income of companies at equity in accordance with IFRS:

| **Name of companies at equity**<br>in € million | Assets | Liabilities | Result | Income |
|---|---|---|---|---|
| Linde Leasing GmbH, Wiesbaden | 461 | 428 | 1.5 | 24.1 |
| Movesta Lease and Finance GmbH, Düsseldorf | 186 | 176 | 5.4 | 92.3 |

Düsseldorf, 08. July 2008
IKB Deutsche Industriebank AG
Düsseldorf
The Management Board

Dr Günther Bräunig

Dr Dieter Glüder

Dr Reinhard Grzesik

Dr Andreas Leimbach

Claus Momburg

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

# Auditor’s Report

We have audited the consolidated financial statements prepared by the IKB Deutsche Industriebank AG, Düsseldorf, comprising the balance sheet, the income statement, statement of recognised income and expense, cash flow statement and the notes to the consolidated financial statements, together with the group management report for the business year from April 1, 2007, to March 31, 2008. The preparation of the consolidated financial statements and the group management report in accordance with the IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to § (Article) 315a Abs. (paragraph) 1 HGB (“Handelsgesetzbuch”: German Commercial Code) is the responsibility of the parent Company‘s Board of Managing Directors. 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 (Institute of Public Auditors in Germany) (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework 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 the entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the Company‘s Board of Managing Directors, 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 IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB 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.

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

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

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

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

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

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

Düsseldorf, July 8, 2008

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

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

# Responsibility statement according to § 297 para. 2 no. 4 and § 315 para. 1 no. 6 of the German Commercial Code (HGB)

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

Düsseldorf, 8 July 2008
IKB Deutsche Industriebank AG
Düsseldorf
The Board of Managaing Directors

Dr Günther Bräunig

Dr Dieter Glüder

Dr Reinhard Grzesik

Dr Andreas Leimbach

Claus Momburg

# 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 | 2007/08 | 2006/07 | 2005/06 | 2004/05* |
|---|---|---|---|---|
| Interest income | 3 426.6 | 3 758.5 | 2 681.9 | 2 664.5 |
| Interest expenses | 2 976.7 | 3 080.6 | 2 071.4 | 2 142.9 |
| Net interest income | 449.9 | 677.9 | 610.5 | 521.6 |
| Provision for possible loan losses | –255.2 | –259.0 | –318.6 | –313.8 |
| Net interest income after provision for possible loan losses | 194.7 | 418.9 | 291.9 | 207.8 |
| Net fee and commission income | 54.7 | 52.0 | 30.4 | 83.6 |
| Net income from financial instruments at fair value | –1 825.4 | –40.9 | –11.2 | – |
| Net income from investment securities | –979.9 | 6.9 | 13.1 | 135.7 |
| Personnel expenses | 181.2 | 185.8 | 162.8 | 139.6 |
| Other administrative expenses | 195.3 | 130.4 | 106.2 | 96.3 |
| Net other operating income | 662.2 | –6.2 | 115.8 | 9.3 |
| Operating result | 132.5 | 114.5 | 171.0 | 200.5 |
| Taxes | 164.4 | 76.6 | 62.2 | 45.1 |
| Net income for the year | –31.9 | 37.9 | 108.8 | 155.4 |
| Minority interests | –0.1 | –0.1 | 0.0 | –0.3 |
| Net income after minority interests | –32.0 | 37.8 | 108.8 | 155.1 |
| Earnings per share € | –0.36 | 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 |
|---|---|---|---|---|---|---|---|
| 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 |
| Current income from securities, investments and profit transfer agreements | 2.0 | 1.8 | 4.8 | 2.7 | 36.7 | 12.9 | 20.0 |
| 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 |
| Net interest income | 525.4 | 485.0 | 471.3 | 438.7 | 419.7 | 393.6 | 365.2 |
| Net commission income | 84.7 | 64.1 | 39.5 | 12.3 | 7.7 | 8.8 | 7.6 |
| Net result from financial operations | 3.2 | 0.8 | 1.9 | 2.5 | –2.6 | 6.6 | 8.1 |
| Personnel expenses | 146.8 | 137.8 | 133.4 | 117.2 | 107.2 | 87.4 | 82.5 |
| Other administrative expenses including depreciation of tangible fixed assets | 85.4 | 82.1 | 73.1 | 66.0 | 59.1 | 51.3 | 49.6 |
| Net other operating income/expenses | 11.2 | 20.2 | 29.3 | 91.8 | 77.8 | –3.5 | –8.1 |
| Risk provisioning balance | –211.7 | –183.4 | –175.2 | –187.2 | –165.5 | –88.4 | –78.7 |
| Result from ordinary activities | 180.6 | 166.8 | 160.3 | 174.9 | 170.8 | 178.4 | 162.0 |
| 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 |
| Net income | 104.8 | 85.8 | 83.1 | 85.9 | 75.5 | 91.0 | 76.4 |
| Earnings per share € | 1.19 | 0.98 | 0.94 | 0.98 | 0.86 | 1.03 | 0.87 |

**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 2008 | 31 Mar 2007 | 31 Mar 2006 | 31 Mar 2005* |
|---|---|---|---|---|
| Loans and advances to banks | –2 850 | 4 442 | 2 197 | 1 381 |
| Loans and advances to customers | 28 869 | 29 685 | 28 018 | 26 628 |
| Provision for possible loan losses | –861 | –1 095 | –1 412 | –1 378 |
| Assets held for trading | 3 638 | 2 209 | 586 | 766 |
| Investment securities | 12 845 | 27 265 | 23 174 | 10 757 |
| Property and equipment | 219 | 212 | 231 | 338 |
| Remaining assets | 2 111 | 820 | 468 | 1 011 |
| Liabilities to banks | 17 449 | 13 912 | 14 060 | 12 170 |
| Liabilities to customers | 5 752 | 4 278 | 2 546 | 1 982 |
| Securitised liabilities | 18 185 | 39 556 | 30 761 | 18 861 |
| Liabilities held for trading | 5 411 | 1 165 | 1 021 | 1 100 |
| Provisions | 84 | 60 | 303 | 254 |
| Income tax liabilities | 88 | 79 | 103 | 142 |
| Other liabilites | 163 | 271 | 264 | 850 |
| Subordinated capital | 1 780 | 3 026 | 2 910 | 2 834 |
| Shareholders' equity | 1 184 | 1 191 | 1 293 | 1 310 |
| Subscribed capital | 248 | 225 | 225 | 225 |
| Capital reserve | 598 | 568 | 568 | 568 |
| Retained earnings | 333 | 324 | 273 | 265 |
| Currency translation reserve | 7 | –15 | –7 | –11 |
| Revaluation reserve | 30 | 89 | 159 | 192 |
| Minority interests | 0 | 0 | 0 | 0 |
| Consolidated profit | –32 | 0 | 75 | 71 |
| **Total** | **50 245** | **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 Calendar

| | |
|---|---|
| General Meeting for the financial year 2007/2008 | 28 August 2008 |
| 3-month figures for the financial year 2008/2009 | 3 September 2008 |
| 6-month figures for the financial year 2008/2009 (Conference call) | 13 November 2008 |
| 9-month figures for the financial year 2008/2009 | 12 February 2009 |
| Preliminary figures for the financial year 2008/2009 (Conference call) | 14 May 2009 |
| 3-month figures for the financial year 2009/2010 | 13 August 2009 |
| General Meeting for the financial year 2008/2009 | 27 August 2009 |
| 6-month figures for the financial year 2009/2010 | 12 November 2009 |

If you have questions please contact:

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